LIQUOR DEPOT

LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Three and Twelve Months Ended December 31, 2010
As of March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores N.A. Ltd. (the "Company") for the year ended December 31, 2010. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "EBITDA", "distributable cash", "distributable cash before non-recurring items", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", "payout ratio" and other "Non-GAAP Measures". A description of these measures and their limitations are discussed on page 25 below under "Non-GAAP Measures".

See also "Risk Factors" on page 22 and "Forward-Looking Statements" on page 31 of this MD&A.

This MD&A is dated March 15, 2011.

Additional information relating to the Company, including the Company's Annual Information Form and other public filings, is available on SEDAR (www.sedar.com) and on the Company's website at www.liquorstoresna.ca.

RESULTS

Three Months Ended December 31, 2010

Sales for the three months ended December 31, 2010 and 2009 were $163.6 million and $155.5 million, respectively, up 5.2% or $8.1 million.

- Canadian same store sales for the three months ended December 31, 2010 and 2009 were $105.7 million and $100.9 million, respectively, up 4.8% or $4.8 million.
- US same store sales for the three months ended December 31, 2010 and 2009 were down marginally to US$17.8 million from US$17.9 million.
- Sales for the three months ended December 31, 2010 for the Company's Kentucky operation, acquired in the fourth quarter of 2009, and for a store opened in Alaska last year were US$21.8 million compared to US$18.0 million in the same period last year.

Operating margin before non-recurring expenses for the three months ended December 31, 2010 was $15.2 million, up $0.3 million from $14.9 million in 2009.

Twelve Months Ended December 31, 2010

Sales for the twelve months ended December 31, 2010 and 2009 were $579.7 million and $541.0 million, respectively, up 7.1% or $38.7 million.

- Canadian same store sales for the twelve months ended December 31, 2010 and 2009 were $370.7 million and $375.0 million, respectively, down 1.1% or $4.3 million.
- US same store sales for the twelve months ended December 31, 2010 and 2009, respectively, were US$66.7 million and US$67.9 million, down 1.8% or US$1.2 million.
- Other US stores include stores that were opened or acquired after December 31, 2008, including one store opened in Alaska, eight stores acquired in Kentucky in the fourth quarter of 2009 and a new store opened in Kentucky in 2010. These stores accounted for US$69.7 million in sales in 2010 compared to US$18.0 million last year.

Operating margin before non-recurring expenses for the twelve months ended December 31, 2010 was $44.0 million, down $3.7 million from $47.7 million in 2009.

As described under the heading "Alberta Mark Ups" below, the Company's response to mark up changes implemented by the Government of Alberta had a significant impact on the comparability of operating results. Excluding this impact, the Company reports:

- Canadian same stores sales for the three months ended December 31, 2010 increased by 4.8% and for the twelve months ended December 2010 decreased by 0.3% due primarily to the effect of inclement weather earlier in the year on customer counts.
- For the three months ended December 31, 2010 operating margin before non-recurring items was $15.2 million, down $0.8 million from $16.0 million last year.
- For the twelve months ended December 31, 2010, operating margin before non-recurring items was $44.3 million, down $3.4 million from $47.7 million last year.

UPDATE TO NOVEMBER 8, 2010 DISTRIBUTABLE CASH GUIDANCE

On November 8, 2010, the Company had provided guidance that distributable cash before non-recurring items was expected to be in the range of $1.62 to $1.66 per share for 2010. Actual distributable cash before non-recurring items for the year ended December 31, 2010 was $1.59 per share. (See "Update to Financial Outlook" on page 31)

ALBERTA MARK UPS

The Company's comparative results of operations for the second quarter of 2009 and subsequent quarters through to March 31, 2010 were affected by the Company's response to measures taken by the Government of Alberta in 2009 with respect to mark ups on alcoholic beverages that comprise a significant proportion of the cost to replenish inventory for Alberta liquor retailers. The decisions made by the Government of Alberta, the Company's response and the impact on the Company's operating results were:

The April 7, 2009 Government of Alberta Provincial Budget

In the April 7, 2009 Provincial budget, a measure was immediately implemented (but later reversed) to increase the mark up charged by the Province on its sales of alcoholic beverages by approximately 29%.

- Upon implementation, the cost for Alberta liquor retailers to replenish inventory increased by approximately 10%. The Company responded by increasing its retail prices for alcoholic beverages.

July 7, 2009 Announcement

On July 7, 2009, the Government of Alberta announced the reversal of the April 7, 2009 budget measure and the alcoholic beverage mark ups reverted to those in effect on April 6, 2009.

- The Company responded to this announcement by reducing its retail prices in Alberta to their former levels. However, inventory purchased between April 7, and July 7, 2009 was at costs that included the increased mark up.

Effect on Operating Results

The comparability of operating results as a consequence of the Company's response to the regulatory changes implemented by the Government of Alberta include:

- Canadian same store sales:
  - Of the 1.1% decrease in Canadian same store sales for the twelve months ended December 31, 2010 the Company estimates that 0.8% relates to retail price decreases subsequent to July 7, 2009.
- Gross margin, operating margin and distributable cash for the three quarters ended March 31,2010:
  - During the period the mark up increase was in effect, the cost to replenish inventory in the Company's Alberta stores increased by approximately 10%, and that inventory was charged to cost of sales during the three quarters ended March 31, 2010. As a consequence of the retail price decreases in the Company's Alberta stores that accompanied the decision of the Government of Alberta to revert to the mark up structure previously in effect on April 6, 2009, gross margin earned was reduced in the three quarters ending March 31, 2010.

- The Company estimates that the increased cost of goods sold during the three month periods ending September 30, 2009, December 31, 2009 and March 31, 2010 reduced reported gross margin, operating margin and distributable cash by $1.9 million, $1.1 million and $0.3 million, respectively.
- The effect on distributable cash per Unit for the three month periods ending September 30, 2009, December 31, 2009 and March 31, 2010 were reductions of $0.09, $0.05 and $0.01, respectively.

OUTLOOK

As expected, early results for 2011 compared to 2010 are encouraging. Alberta same stores sales have improved modestly in the early part of 2011 and, with the effects of the temporarily increased Alberta mark ups over, margin rates have returned to their norms comparable to those prior to the second quarter of 2009. Overall the growth in sales and improved margin rates are exceeding increases in labour, rent and marketing expenses.

The first quarter of 2010 included the effect of selling products at feature prices on products purchased during the second quarter of 2009 when mark ups charged by the Government of Alberta were temporarily increased. As a result, first quarter 2011 results are expected to compare favourably to those of 2010.

Although there have been no significant changes in economic conditions in British Columbia since the end of 2010, the Company expects that sales in the first quarter of 2011 may not see the same levels as the first quarter of 2010 when the Olympics were being held. Management also anticipates that consumer spending habits may be adversely affected as a result of the consumer response to the mid-2010 legislative changes imposing more stringent standards for criminal impaired driving charges, and the implementation of Harmonized Sales Tax in the province.

Operations in Alaska and Kentucky continue to meet expectations, but the strengthening Canadian dollar will impact results in the first quarter.

OVERVIEW OF THE COMPANY

On December 31, 2010, Liquor Stores Income Fund (the “Fund”) and the Company completed a Plan of Arrangement under the Canada Business Corporations Act (the “Arrangement”). Pursuant to the Arrangement, unitholders of the Fund and Liquor Stores Limited Partnership (the “LP”) each received one common share of the Company for each trust unit and each exchangeable LP unit and series 1 exchangeable unit of the LP that they held on December 31, 2010. The Company also assumed the Fund’s 6.75% convertible subordinated debenture.

As part of the Arrangement, the Fund’s assets were distributed to the Company. The trust conversion effected pursuant to the Arrangement was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and shareholders’ equity in the consolidated financial statements of the Company immediately before the conversion were the same as the carrying values of the Company immediately after the conversion. References to common shares, shareholders and dividends of the Company were formerly referred to as units, unitholders and distributions under the Fund. Comparative amounts in this MD&A are those of the Fund.

The Company was incorporated on November 8, 2010 under the laws of the Province of Alberta. The Company’s shares and 6.75 % convertible subordinated debentures trade on the TSX under the symbols LIQ and LIQ.DB, respectively. The Fund was established as an unincorporated open-ended trust under the laws of the Province of Alberta on August 10, 2004 and will be dissolved at a later date.

Stores and Operations (as of March 15, 2011)

	Alberta			British Columbia			Alaska	Kentucky		Total
	Edmonton[(1)]	**Calgary**[(1)]	**Other**[(2)]	**Lower Mainland**	**Vancouver Island**	**Interior**	**Anchorage**[(1)]	**Lexington**[(1)]	**Louisville**[(1)]	
Number of Stores	79	45	48	13	11	11	20	5	4	236

Notes:

(1) References to Edmonton, Calgary, Anchorage, Lexington and Louisville, respectively, are to stores located in or near those urban centres.

(2) Other communities served in Alberta include, by region, Northern (23), Southern (9), Central (14) and Resort communities (2).

Competitive Environment

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Company currently operates 172 liquor stores in Alberta where there are approximately 1,176 liquor stores and 92 agency stores [Source: Alberta Gaming and Liquor Commission].

The Company operates 35 stores in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 682 private stores and 197 government operated stores. There are also approximately 224 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch].

The Company currently operates 20 stores in the greater Anchorage area. In the state of Alaska there are approximately 397 retail liquor stores with 87 stores in the greater Anchorage area. There are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas [Source: Alaska's Alcoholic Beverage Control Board].

The Company operates 9 stores in Kentucky of which six are large format stores. Licenses have been approved allowing for the development and opening of an additional store, which will be a large format store in a formerly dry county. In the state of Kentucky there are no government owned or operated liquor stores. Liquor licenses are permitted based on the alcoholic status of each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell beer, wine and spirits. There are approximately 784 package retail license stores in Kentucky [Source: Kentucky's Alcoholic Beverage Control Board]. The Company currently operates five stores in Lexington (Fayette County) and four stores in Louisville (Jefferson County).

BUSINESS STRATEGY

Growth

The Company's strategy is to continue to grow through new store development and acquisitions and by attracting more customers to existing locations, and by increasing sales per customer. The Company explores opportunities to acquire and/or develop stores in Alberta, British Columbia, and the United States where regulatory regimes permit private liquor stores. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and shareholder value.

Competitive Differentiation

Management focuses on differentiating the Company's stores from the competition by promoting its broad selection of products, by emphasizing the in-store customer experience, and through marketing and brand development. Many of our stores offer customer education events and merchandise presentations.

Management will continue to concentrate marketing efforts on the Company's current brand structure: Liquor Depot, Liquor Barn (Canada and US) and Brown Jug full service stores.

DISTRIBUTABLE CASH

The Company views distributable cash as an important supplementary measure to assist shareholders in evaluating the Company's performance as the Company's objective is to provide a stable and sustainable flow of distributable cash to shareholders. Cash available for distribution is adjusted for cash required for maintenance capital expenditures, pre-opening costs for new stores, working capital reserve, and other reserves considered advisable by the Company, including provisions for the Company's deferred compensation plans. The policy allows the Company to pay stable monthly dividends to its shareholders based on estimates of annual distributable cash. The Company pays dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month.

The Company's dividend policy is based on annualized distributable cash flow; accordingly, the seasonality of the Company's individual quarterly results must be assessed in the context of annualized distributable cash flows. Historically, approximately 46% of the Company's sales have occurred in the first half of the year and 54% in the latter half. It is the Company's policy to pay consistent regular monthly dividends throughout the year based on estimated annual cash flows. The Company reviews its historic and expected results on a regular basis giving consideration to historical, current and expected future performance of existing and new stores, the competitive environment and economic conditions, including labour market trends. In the first half of the year, dividends typically exceed distributable cash and in the second half of the year, distributable cash typically exceeds dividends.

Dividends declared for the year ended December 31, 2010 were $36.6 million or $1.62 per share, consistent with 2009. Concurrent with the Company's conversion from an income trust, dividends are currently at $1.08 annually payable monthly at the rate of $0.09.

For the three months ended December 31, 2010, distributable cash before non-recurring items was $13.0 million or $0.58 per share, compared with $12.6 million or $0.56 per share for the same period in 2009. For the twelve months ended December 31, 2010, distributable cash before non-recurring items per share was $35.8 million or $1.59 per share compared to $40.9 million or $1.81 for the same period in 2009.

The following table provides a reconciliation of distributable cash to its nearest GAAP measure, which is cash provided by operating activities:

	Three months ended December 31,				Year ended December 31,			
(expressed in thousands of Canadian dollars)		2010		2009		2010		2009
Cash provided by operating activities	$	10,968	$	8,670	$	39,457	$	45,633
Net change in non-cash working capital		1,340		3,208		(4,921)		(5,849)
Provision for financing charges		(200)		(108)		(615)		(216)
Provision for non-growth property and equipment		(10)		(318)		(134)		(628)
Pre-opening costs		78		457		210		685
Distributable cash		12,176		11,909		33,997		39,625
Non-recurring items (note 1)		805		670		1,787		1,286
Distributable cash before non-recurring items	$	12,981	$	12,579	$	35,784	$	40,911
Weighted average shares outstanding	#	22,558,073	#	22,556,969		22,556,969	#	22,557,242
Distributable cash before non-recurring items per share	$	0.58	$	0.56	$	1.59	$	1.81
Distributable cash per share (note 2)	$	0.55	$	0.53	$	1.51	$	1.76
Dividends declared per share	$	0.41	$	0.41	$	1.62	$	1.62

(1) *Non-recurring items for the three and twelve months ended December 31, 2010 and 2009 include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund and severance provisions. Non-recurring items for the three and twelve months ended December 31, 2010 also include costs related to the Company's conversion from an income trust. For the twelve months ended December 31, 2010 non-recurring items include closure costs for stores and pubs closed during the second quarter less a refund following the settlement of a GST appeal and a recovery of store closure costs as result of landlords releasing the locations vacated by the Company.*

(2) *The GAAP measure comparable to distributable cash per unit is earnings per unit. Diluted earnings per share for the three months ended December 31, 2010 was $0.50 compared to diluted earnings per share of $0.32 in the same period of 2009. Diluted earnings per share for the twelve months ended December 31, 2010 were $1.00 compared to diluted earnings per share of $1.27 in the same period of 2009.*

Distributable cash is a non-GAAP measure. See Supplemental Liquidity Information on page 27 for a detailed discussion of distributable cash.

OPERATING RESULTS

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. In 2010, 20% (2009 - 20%) of annual same store sales occurred in the first quarter, 26% (2009 - 26%) in the second quarter, 26% (2009 - 26%) in the third quarter and 28% (2009 - 28%) in the last quarter.

Policy on Same Store Sales Comparisons

Comparable same store sales include sales for stores that have been open 12 full months at the beginning of the reporting period. Certain stores have been excluded as follows: stores which have significant wholesale business and stores which operate within close proximity to Liquor Depot stores opened in 2009. For the three and twelve months ended December 31, 2010, four stores located in close proximity to other Liquor Depot stores were excluded from the same store sales comparison. It is management's intention to continue to operate both the existing and new locations.

Three Months Ended December31, 2010 Operating Results

The following table summarizes the operating results for the three months ended December 31, 2010 and 2009.

	Three months ended December 31,			
	2010		2009	
	$	%	$	%
	(unaudited)		(unaudited)	
Sales (note 1)				
Canadian same stores (CAD$)	105,717	64.6	100,897	64.9
Canadian wholesale operations (CAD$)	13,046	8.0	13,166	8.5
Other Canadian stores (CAD$)	4,715	2.9	3,498	2.2
Total Canadian store sales (CAD$)	123,478	75.5	117,561	75.6
US same stores (US$)	17,789	10.9	17,902	11.5
Other US stores (US$)	21,771	13.3	18,015	11.6
Foreign exchange on translation to CAD$ of US store sales (note 2)	518	0.3	2,051	1.3
Total US store sales (CAD$)	40,078	24.5	37,968	24.4
Total sales (CAD$)	163,556	100.0	155,529	100.0
Adjusted gross margin (CAD$)	40,471	24.7	39,386	25.3
Adjusted operating and administrative expense (CAD$) (note 3)	26,099	16.0	24,959	16.0
Adjusted operating margin (CAD$) (note 4)	14,372	8.8	14,427	9.3
Non-recurring items (CAD$) (note 5)	805	0.4	519	0.3
Operating margin before non-recurring items (CAD$)	15,177	9.2	14,946	9.6

Notes:

(1) *The number of stores and corresponding results for the three months ended December 31, 2010 includes partial months of operations for one store (2009 - one) opened or acquired and two stores closed during the period. Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.*

(2) *Sales for US stores are expressed in US dollars. Foreign exchange on US sales is based on the average exchange rate for the three months ended December 31.*

(3) *For the three months ended December 31, 2010, adjusted operating and administrative expense excludes $0.1 million (2009 - $0.5 million) in pre-opening and acquisition costs charged to operating and administrative expense.*

(4) *Operating margin has been calculated as described under "Non-GAAP Measures".*

(5) *Non-recurring items for the three months ended December 31, 2010 and 2009 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund and severance provisions. Non-recurring items for 2010 also include costs related to the Company's conversion from an income trust less a recovery of store closure costs as a result of landlords releasing the locations vacated by the Company.*

Fourth Quarter 2010 Operating Results Compared to Fourth Quarter 2009

Sales

For the three months ended December 31, 2010 sales were $163.6 million, up 5.2% or $8.1 million from $155.5 million in the same period last year. Sales growth is attributable to the Company's US acquisitions late in 2009, an increase in Canadian same store sales and sales for Canadian stores opened subsequent to September 30, 2009.

- Same Store Sales
  - Canadian same store sales – up $4.8 million or 4.8%.
    - Canadian same stores sales benefitted from a stronger fourth quarter 2010 promotional campaign compared to the same period in 2009.
  - US same store sales in the Company's Alaska stores were down marginally compared to 2009.
- Other Sales
  - In the Company's lower margin wholesale business, sales for the three months ended December 31, 2010 were $13.0 million, down $0.2 million $13.2 million a year earlier reflecting the stabilization of this business following the Company's decision to abandon some marginally profitable wholesale accounts.
  - Other Canadian stores include stores that were opened or acquired after September 30, 2009, stores that have been closed and certain other stores excluded from same store sales. Stores in this category had sales of $4.7 million in 2010 compared with $3.5 million in 2009.
  - Other US stores include stores that were opened or acquired after September 30, 2009, including one store opened in Alaska, eight stores acquired in Kentucky in the fourth quarter of 2009 and a new store opened in Kentucky in 2010. These stores accounted for US$21.8 million in sales for the fourth quarter of 2010 compared to US$18.0 million in the same period last year.

Adjusted Gross Margin

For the three months ended December 31, 2010, adjusted gross margin was $40.5 million, up $1.1 million from $39.4 million for the same period last year.

Gross margin as a percentage of sales was 24.7% for the three months ended December 31, 2010 compared to 26.0% exclusive of the $1.1 million effect caused by Alberta mark up decisions made last year (25.3% inclusive of this effect) for the same period in 2009 due primarily to the more aggressive promotional campaign in the fourth quarter of 2010 compared to 2009.

Adjusted Operating and Administrative Expense

Adjusted operating and administrative expense for the three months ended December 31, 2010 was $26.1 million, up from $25.0 million a year earlier primarily due to an increase in the number of stores operated, increased marketing expenditures and rent increases as leases are renewed.

As a percentage of sales, adjusted operating and administrative expense for the period was 16.0% unchanged from the fourth quarter of 2009.

For the three months ended December 31, 2010, operating and administrative expenses included $0.8 million in non-recurring costs associated with the Company's conversion from an income trust to a corporation, professional fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund, and a severance provision, offset by a recovery of store closure costs as a result of landlords releasing the locations vacated by the Company. Non-recurring costs for the three months ended December 31, 2009 of $0.5 million relate to the Liquor Barn Income Fund litigation matters and a severance provision.

Operating Margin

Adjusted operating margin before non-recurring items was $15.2 million for the quarter ended December 31, 2010, down from $16.0 million, exclusive of the $1.1 million increase in cost of goods sold in 2009 as a result of Alberta mark up decisions on fourth quarter 2009 margins.

Adjusted operating margin before non-recurring items for the Company's Canadian operations for the fourth quarter of 2010 was $12.3 million (9.9% of sales) compared with $12.9 million (10.9% of sales), inclusive of the $1.1 million higher cost of goods sold, for 2009 ($11.8 million or 10.0% of sales inclusive of the higher cost of goods sold).

The US adjusted operating margin for the fourth quarter of 2010 was $2.9 million compared with $3.2 million for 2009 due primarily to year over year devaluation of the US dollar. As a percentage of sales, adjusted operating margin for the quarter ended December 31, 2010 was 7.2% compared to 8.4% last year due to the disparity in year over year exchange rates and reduced gross margin rates compared to 2009.

Income Taxes

In the quarter ended December 31, 2010, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets, which, together with a current tax expense of $0.1 million, resulted in an income tax recovery of $2.0 million, compared with a recovery of $1.6 million for the same period in 2009. Changes to future income tax estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings

Net earnings for the three months ended December 31, 2010 were $11.0 million, up $1.2 million from earnings of $9.8 million for the same period in 2009. Net earnings were up due to a $0.9 million increase in operating margin, a $0.4 million increase in income tax recovery and a $0.3 million increase in interest expense related to fees incurred in 2010 for the renewal of the Fund's credit facility and the fourth quarter 2009 acquisition of the Fund's Kentucky operation. Amortization expense increased by $0.8 million compared to 2009. For the three months ended December 31, 2010, a foreign exchange gain, including an unrealized gain of $0.1 million, and a gain on the sale of investments aggregated $0.2 million. For the three months ended December 31, 2009, the loss on foreign exchange, including a $0.5 million unrealized loss, was $0.6 million.

Twelve Months Ended December 31, 2010 Operating Results

The following table summarizes the operating results for the twelve months ended December 31, 2010 and 2009.

	Year ended December 31,			
	2010		**2009**	
	$	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales (note 1)				
Canadian same stores (CAD$)	370,671	63.9	374,957	69.3
Canadian wholesale operations (CAD$)	47,807	8.3	53,329	9.9
Other Canadian stores (CAD$)	20,812	3.6	16,584	3.1
Total Canadian store sales (CAD$)	439,290	75.8	444,870	82.2
US same stores (US$)	66,731	11.5	67,868	12.6
Other US stores (US$)	69,701	12.0	18,008	3.3
Foreign exchange on translation to CAD$ of US store sales (note 2)	3,978	0.7	10,303	1.9
Total US store sales (CAD$)	140,410	24.2	96,179	17.8
Total sales (CAD$)	579,700	100.0	541,049	100.0
Adjusted gross margin (CAD$) (note 3)	143,482	24.8	137,175	25.3
Adjusted operating and administrative expense (CAD$) (note 4)	101,286	17.5	90,568	16.7
Adjusted operating margin (CAD$) (note 5)	42,196	7.3	46,607	8.6
Non-recurring items (CAD$) (note 6)	1,787	0.3	1,136	0.2
Operating margin before non-recurring items (CAD$)	43,983	7.6	47,743	8.8

Notes:

(1) *The number of stores and corresponding results for the twelve months ended December 31, 2010 includes partial months of operations for one store (2009 – one) opened or acquired and three stores closed during the period.*

(2) *Sales for US Stores are expressed in US dollars. Foreign exchange on US sales is based on the average exchange rate for the twelve months ended December 31.*

(3) *Adjusted gross margin for 2009 excludes $0.16 million in respect of an inventory fair value adjustment related to the 2008 Brown Jug acquisition.*

(4) *For the twelve months ended December 31, 2010, adjusted operating and administrative expense excludes $0.2 million (2009 - $0.7 million) in pre-opening costs charged to operating and administrative expense.*

(5) *Operating margin has been calculated as described under "Non-GAAP Measures".*

(6) *Non-recurring items for the twelve months ended December 31, 2010 and 2009 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund and severance provisions. Non-recurring items for 2010 also include costs associated with the Company's conversion from an income trust. For the twelve months ended December 31, 2010, the non-recurring items were offset by a refund following the settlement of a GST appeal and a recovery of store closure costs as a result of landlords releasing the locations vacated by the Company.*

Twelve months ended December 31, 2010 Operating Results Compared to Twelve months ended December 31, 2009 Operating Results

Sales

For the twelve months ended December 31, 2010 sales were $579.7 million, up 7.1% or 38.7 million from $541.0 million in the same period last year. The increase was mainly attributable to growth in the US, where the Company made a significant acquisition of stores in the fourth quarter of 2009.

- Same Store Sales
    - Canadian same store sales – down $4.3 million or 1.1%.
        - Management estimates that of the 1.1% decline in Canadian same store sales, approximately 0.8% or $2.9 million relates to the reversal of temporary price increases in the Company's Alberta stores during the period between April 7 and July 7, 2009 when increased Alberta Provincial Government mark ups were in effect.
        - Poor weather conditions, primarily in Alberta, experienced in the second and third quarters of 2010 further reduced Canadian same store sales.
    - US same store sales for the Company's Alaska stores were down US$1.2 million due to the effect earlier in 2010 of access interference from municipal road construction, poor weather conditions and reduced tourism.
- Other Sales
    - In the Company's lower margin wholesale business, sales for the twelve months ended December 31, 2010 were $47.8 million, down $5.5 million or 10.4% from $53.3 million a year earlier due to the Company's strategy to reduce its exposure to this business. As expected, sales for this business stabilized in the fourth quarter of 2010.
    - Other Canadian stores include stores that were opened or acquired after December 31, 2008, stores that have been closed and certain other stores excluded from same stores sales. Stores in this category had sales of $20.8 million in 2010 compared with $16.6 in 2009.
    - Other US stores include stores that were opened or acquired after December 31, 2008, including one store opened in Alaska, eight stores acquired in Kentucky in the fourth quarter of 2009 and a new store opened in Kentucky in 2010. These stores accounted for US$69.7 million in sales for the fourth quarter of 2010 compared to US$18.0 million in the same period last year.
    - The year over year devaluation of the US dollar had a significant effect on sales; foreign exchange on US sales represented 0.7% of 2010 sales compared to 1.9% of sales last year.

Adjusted Gross Margin

For the twelve months ended December 31, 2010, adjusted gross margin was $143.5 million, up 4.6% from $137.2 million for the same period last year.

Gross margin as a percentage of sales was 24.8% for the twelve months ended December 31, 2010 compared to 25.3% last year. Typically, margin rates are lower in the US than in Canada and the increased proportion of sales to US customers in 2010 relative to 2009 was the principal reason for the decrease in the Company's overall margin rate.

Adjusted Operating and Administrative Expense

Adjusted operating and administrative expense for the twelve months ended December 31, 2010 was $101.3 million up from $90.6 million a year earlier primarily due to an increase in the number of stores operated, increased marketing expenditures and rent increases as leases are renewed.

For the twelve months ended December 31, 2010 operating and administrative expenses included $1.8 million in non-recurring consulting and professional fees for litigation related to the acquisition of Liquor Barn Income Fund in 2007, costs associated with the Company's conversion to a corporation and a severance provision offset by a recovery of store closure costs as a result of landlords mitigating damages by releasing the locations vacated by the Company and a refund related to the settlement of a

GST appeal. Non-recurring items in the twelve months ended December 31, 2009 of $1.1 million were largely related to the litigation related to the acquisition of Liquor Barn Income Fund in 2007 and a severance provision.

As a percentage of sales, adjusted operating and administrative expense for the year was 17.5% compared to 16.7% as a result of the increase in same store expenses as previously discussed.

Operating Margin

Adjusted operating margin before non-recurring items was $44.0 million for the twelve months ended December 31, 2010, down from $47.7 million in 2009.

Adjusted operating margin before non-recurring items for the Company's Canadian operations for the twelve months ended December 31, 2010 was $36.3 million (8.2% of sales) compared to $41.7 million (9.4% of sales), both exclusive of the effect of the Alberta mark up decisions made last year. In Canada, adjusted operating margin before non-recurring items as a percentage of sales was down 1.2% from 2009 due more intensive advertising campaigns in much of 2010 compared to 2009 and scheduled rent increases.

The US adjusted operating margin for the twelve months ended December 31, 2010 was $8.0 million compared with $6.0 million for 2009. As a percentage of sales, adjusted operating margin for the twelve months ended December 31, 2010 was 5.7% compared to 6.3% last year due to primarily to the devaluation of the US dollar.

Income Taxes

In the twelve months ended December 31, 2010, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property, plant and equipment, and intangible assets, which, together with a current tax expense of $0.2 million, resulted in a recovery of future income taxes of $0.5 million, compared with an recovery of $1.4 million for the same period in 2009. Changes to future income tax estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings

Net earnings were $22.8 million for the twelve months ended December 31, 2010, down from $29.0 million for the same period in 2009. Net earnings were down due to a $3.3 million decrease in operating margin, a $0.9 million decrease in income tax recovery and an increase in interest expense of $1.8 million due primarily to fees incurred in 2009 and 2010 for the renewals of the Company's credit facility and the fourth quarter 2009 acquisition of the Fund's Kentucky operation. Amortization expense for the twelve months ended December 31, 2010 was up $1.8 million compared to 2009. For the year ended December 31, 2010, a foreign exchange gain, including an unrealized gain of $0.7 million, and a gain on the sale of investments aggregated $0.9 million. For the year ended December 31, 2009, a foreign exchange loss, including an unrealized loss of $0.5 million, less a gain on the sale of an investment, resulted in a $0.6 million charge to earnings.

Condensed Annual Information

(expressed in thousands of Canadian dollars, except per Unit amounts)

	2010	2009	2008 [1]	2007 [1]	2006 [1]	2005 [1]
Balance Sheet						
Cash and cash equivalents	$ 2,815	$ 5,288	$ 3,530	$ 19,498	$ 3,397	$ 2,047
Total assets	495,915	509,809	488,256	449,006	186,325	140,324
Bank indebtedness	41,468	41,094	31,172	-	5,455	15,493
Total current liabilities	71,779	68,688	83,240	14,062	12,896	20,416
Long-term debt	100,417	100,126	51,742	74,014	-	11,352
Shareholders' equity	314,959	286,165	294,645	301,837	140,122	67,345
Non-controlling interest	285	45,576	48,013	50,461	33,307	41,511
Statement of Earnings						
# stores, end of year	237	236	223	195	105	70
Sales	579,700	541,049	482,915	383,063	221,997	157,444
Income tax (recovery) expense	(521)	(1,404)	2,194	7,990	28	40
Net earnings for the period	22,746	29,048	23,995	15,544	15,677	10,005
Basic earnings per share	$ 1.00	$ 1.29	$ 1.03	$ 0.69	$ 1.33	$ 1.03
Diluted earnings per share	$ 1.00	$ 1.27	$ 1.03	$ 0.69	$ 1.31	$ 1.00
Distributable cash per share	$ 1.51	$ 1.76	$ 1.76	$ 1.67	$ 1.39	$ 1.14
Distributable cash before non-recurring items per share	$ 1.59	$ 1.81	$ 1.72	$ 1.71	$ 1.39	$ 1.14
Dividends declared per share	$ 1.62	$ 1.62	$ 1.62	$ 1.49	$ 1.24	$ 1.05

(1) *Annual information for 2005 to 2008 has been restated in accordance with the adoption of CICA Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through and CICA Handbook Section 3064 – Goodwill and intangible assets (see note 3 to the 2009 Financial Statements).*

The driver of the year-over-year changes in the above information is the growth in the number of stores operated by the Fund. The following table summarizes the Fund’s store acquisitions, developments and closures for the past four years.

	Acquired	Built	Closed	Net Increase
2007	86	5	(1)	90
2008	24	11	(7)	28
2009	9	5	(1)	13
2010	1	4	(4)	1

Condensed Quarterly Information

(expressed in thousands of Canadian dollars, except per Unit amounts)

	2010				2009			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31 (1)	Sep 30 (1)	Jun 30 (1)	Mar 31 (1)
Balance Sheet								
Cash and cash equivalents	$ 2,815	$ 2,215	$ 919	$ 1,236	$ 5,288	$ 9,078	$ 1,338	$ 2,139
Total assets	495,915	493,502	502,064	493,407	509,809	474,583	474,963	470,646
Bank indebtedness	41,468	41,310	49,962	40,430	41,094	26,427	25,862	24,159
Total current liabilities	71,715	67,539	73,110	63,519	68,688	47,229	44,571	72,600
Long-term debt	100,417	100,594	100,278	100,022	100,126	85,563	85,188	52,056
Statement of Earnings								
# stores, end of period	237	237	237	236	236	225	224	224
Sales	163,555	$ 151,605	$ 148,742	$ 115,798	$ 155,529	$ 138,915	$ 140,253	$ 106,352
Income tax (recovery) expense	(2,003)	669	722	91	(1,600)	423	576	(803)
Net earnings for the period	10,896	7,042	4,754	54	9,836	7,466	10,091	1,655
Basic earnings per share	$ 0.50	$ 0.30	$ 0.20	$ 0.00	$ 0.45	$ 0.32	$ 0.44	$ 0.08
Diluted earnings per share	$ 0.50	$ 0.30	$ 0.20	$ 0.00	$ 0.43	$ 0.32	$ 0.44	$ 0.07
Distributable cash per share (note 2)	$ 0.55	$ 0.46	$ 0.41	$ 0.09	$ 0.53	$ 0.47	$ 0.59	$ 0.17
Distributable cash before non-recurring items per share	$ 0.58	$ 0.49	$ 0.44	$ 0.09	$ 0.56	$ 0.47	$ 0.60	$ 0.18
Dividends declared per share	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405

(1) *Net earnings have been restated in accordance with the adoption of CICA Handbook sections 1601 Consolidated Financial Statements and 1602 Non-Controlling Interests.*

(2) *Management estimates that the reversal of holding gains (see - "Alberta Mark Ups" on page 2) reduced distributable cash for the quarters ended December 31, 2009, December 31, 2009 and March 31, 2010 by $0.09, $0.05 and $0.01, respectively.*

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' Equity

As at March 15, 2011, 22,590,103 common shares of the Company were outstanding.

Capital Expenditures

The Company has two types of capital expenditures: growth and maintenance. Growth capital represents expenditures made to acquire or develop new stores or to add capacity to existing stores. Historically, growth capital has been financed by proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Company believes existing credit facilities are adequate to finance developments and acquisitions objectives for 2011. The Company would require additional capital or financing for a larger acquisition. Maintenance capital is provided by cash from operating activities and used for store renovations or for other capital assets used in the operation of existing stores.

During the twelve months ended December 31, 2010, the Company opened three new stores and acquired one store. These stores were funded with existing credit facilities.

The Company will continue to pursue opportunities to acquire or open stores.

Credit Facilities

The Company has a credit facility with a syndicate of banks, which is effective until June 26, 2012. There is a total of $143 million available under the facility, consisting of an available $95 million extendible revolving operating loan (the "Operating Line Facility") and a $48 million extendible revolving term loan (the "Term Loan Facility"). Pursuant to the terms of the credit facility, the company has the ability to request an additional $30 million (to be provided by the lenders on a best-effort basis). The Company also has a $5 million USD facility with a US bank.

At March 14, 2011 there was approximately $57 million drawn on the Operating Line Facility, and $46.5 million drawn on the Term Loan Facility, both available until June 26, 2012. The Company had $7.2 million in letters of credit issued against the Operating Line Facility.

The Company also has $57.5 million in 6.75% Debentures maturing on December 31, 2012.

The Company's indebtedness is subject to a number of financial covenants. Under the terms of the Company's credit facility, the following ratios are monitored on a quarterly basis: current ratio, Funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio.

Current ratio

Current ratio is the ratio of current assets to the current liabilities.

Funded debt to EBITDA ratio

Funded debt is all the Company's obligations, liabilities and indebtedness which would, in accordance with GAAP, be classified on a consolidated balance sheet of the Company as indebtedness for borrowed money of the Company, but excludes subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Company's business. EBITDA is defined as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, extraordinary and non-recurring losses to a maximum of $3.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, amortization of inventory fair value adjustments, and non-controlling interest. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Adjusted debt to EBITDAR

Adjusted debt is defined as the Company's debt plus seven times aggregate rent expense. EBITDAR is defined as EBITDA described above plus aggregate rent expense.

Fixed charge coverage ratio

Fixed charge coverage ratio is the ratio of EBITDAR less the aggregate amount of unfunded capital expenditures and cash taxes divided by the sum of all interest expense and scheduled repayment of debt for the relevant period, distributions and rent.

Ratio	Covenant	Company at December 31, 2010
Current	> or = 1.10:1.00	1.77:1.00
Funded debt to EBITDA	< 2.75:1.00	1.92:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.52:1.00
Fixed charge coverage	> or = 1.00:1.00	1.01:1.00

The Funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed of the Company including acquired stores.

Liquidity Risk

Liquidity ensures the Company has sufficient financial resources available at all times to meet its obligations. The Company manages liquidity risk by ensuring it has a variety of alternatives available to Company acquisitions, new store development and ongoing operations, which include cash provided by operations, bank indebtedness, issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependent upon capital market conditions and interest rate levels. The degree to which the Company is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to meet current operating and liquidity needs in the near term. Taking into consideration seasonal working capital requirements, the Company believes it has available credit of approximately $27 million to finance growth opportunities.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Company as at December 31, 2010, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $85.9 million.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 859	$ (859)
Increase (decrease) in net earnings before income tax	(859)	859

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's earnings before income tax of $0.04 on a per share basis.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with a major Canadian chartered bank. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results. The Company's foreign exchange exposure is limited to US intercompany management fees and interest payments which totalled approximately US$6.8 million for the twelve months ended December 31, 2010.

The Company's US subsidiaries are considered to be self-sustaining operations and the assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiaries currently operate 29 stores out of the Company's 236 stores.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

Contractual Obligations

The table below sets forth, as of December 31, 2010, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands of Canadian dollars)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 and thereafter**
Operating leases	19,553	17,625	15,349	11,809	8,462	19,874
Long-term debt	-	46,481	-	-	-	
Debentures	-	57,500	-	-	-	-
Total	19,553	121,606	119,330	11,805	8,462	19,874

OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2010 and March 15, 2011, the Company does not have any off balance sheet arrangements other than operating leases described above.

FINANCIAL INSTRUMENTS

The Company, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, foreign exchange currency contracts, bank indebtedness, accounts payable and accrued liabilities, dividends payable, and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as available for sale or loans and receivables. Financial liabilities are classified as other financial *liabilities (Refer to note 20 of the financial statements for further information).*

TRANSACTIONS WITH RELATED PARTIES

The Company has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the three and twelve months ended December 31, 2010, the Company incurred professional fees of $89,539 and $278,077, respectively, to a law firm of which a director of the Company, is a partner. Rent paid to companies controlled by the Executive Chairman of the Company amounted to $128,398 and $526,964 for the three and twelve months ended December 31, 2010. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties.

CRITICAL ACCOUNTING ESTIMATES

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level. The impairment test is done annually unless circumstances arise that would potentially impair the carrying value of goodwill. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in earnings.

The Company has completed its annual goodwill impairment test as at September 30, 2010 using the discounted cash flow method of assessing fair value. No impairment has been identified.

Amortization Policies and Useful Lives

The Company amortizes property, equipment and intangible assets over the estimated useful service lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Company takes into account industry trends and Company-specific factors, including changing technologies and expectation for the in-service period of these assets. The Company assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Company determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

Purchase Price Allocations

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. The Company uses independent valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are determined based on a calculation of fair values by management. A discounted cash flow analysis is typically prepared to determine these fair values. Goodwill is calculated based on the purchase price less the fair value of the net tangible and intangible assets acquired.

CHANGES IN ACCOUNTING POLICIES

Business combinations

The CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and IFRS. The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, early application is permitted. The Company adopted the revised standard effective January 1, 2010. The adoption of the standard was applied prospectively and; therefore, there is no impact on opening shareholders' equity. The early adoption of the standard resulted in approximately $67,000and $102,000 in legal and professional costs related to business acquisitions being recorded in operating and administrative expense for the three and twelve months ended December 31, 2010. Prior to the adoption of Section 1582, these costs would have been capitalized to goodwill.

Consolidated Financial Statements and Non-controlling Interests

The CICA issued Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests, which together replace the former consolidated financial statements standard. Under the revised standards, non-controlling interests are be classified as a component of equity, and earnings and comprehensive income will be attributed to both the parent and non-controlling interest. The revised standards are effective January 1, 2011; however early application is permitted. The Company adopted the revised standard effective January 1, 2010. The adoption of these standards was applied retrospectively, but only the presentation of certain items within the financial statements has been affected. There was no impact on opening shareholders' equity.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards

The Accounting Standards Board (“AcSB”) has confirmed that International Financial Reporting Standards (“IFRS”) will be mandatory Canadian GAAP for publicly accountable enterprises for fiscal periods on or after beginning January 1, 2011. The Company’s first annual IFRS financial statements will be for the year ended December 31, 2011and will include comparative period 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated interim financial information in accordance with IFRS including comparative figures for 2010.

The Company’s IFRS implementation plan consists of three phases:

Phase 1 – Diagnostic

This phase included an assessment of the differences between current Canadian GAAP and IFRS, with focus on areas that may have a significant impact on the Company.

Phase 2 - Evaluation and Design

This phase included a detailed review of all relevant IFRSs to identify differences with current accounting policies and practices under Canadian GAAP and development of solutions to address the differences identified. This included detailed analysis of alternatives available for the first-time adoption of IFRS (“IFRS 1”) and policy choices available following the implementation of IFRS. During this phase information systems, business processes and internal controls over financial reporting were analyzed to ensure they can adequately support required disclosures under IFRS.

Phase 3 - Implementation

This is the final phase of the implementation plan and includes the execution of changes to information systems and business processes identified in Phase 2, formal approval of accounting policies including exemptions under IFRS 1, and the development of training programs for impacted areas.

Phases 1 and 2 are complete with the exception of areas for which IFRSs are expected to change in 2011. As part of Phase 3, management has completed the assessment of information system changes required to support information requirements under IFRSs and is in the process of executing appropriate system and business process changes as well as assessing the impact on internal controls over financial reporting. Dual reporting requirements have been evaluated and processes are in place to deal with processing parallel transactions in 2010. Finance personnel have received training with respect to changes in accounting policies and ongoing training is being provided as necessary.

The transition to IFRS from Canadian GAAP is a significant change which may materially affect the Company’s reported financial position and results of operations. Based on the analysis performed to date, management expects the most significant impacts of IFRS conversion to relate to the assessment of alternatives available under IFRS 1, business combinations, property and equipment, and asset impairment. This list is not a complete list of changes that may result from transition to IFRS.

IFRS 1

This standard provides guidance for the initial adoption of IFRS and allows certain optional exemptions from retrospective application of certain standards as well as requires certain mandatory exceptions. The following are the IFRS 1 components applicable to the Company and the Company's elections as approved by the Audit Committee.

Election	Election Description	Company's Position
Business combinations	A first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to past business combinations. If an entity elects to not restate prior period acquisitions, the carrying value of assets and liabilities acquired and recorded under Canadian GAAP is the deemed cost under IFRS on transition date.	The Company will take the election and will not restate prior business acquisitions.
Cumulative translation differences	A first-time adopter does not need to identify cumulative translation differences at the date of transition to IFRS. If the election is taken, any cumulative translation differences are deemed to be zero at the date of transition.	The Company's current accounting treatment for cumulative translation differences under Canadian GAAP is consistent with IFRS. The Company will not take the election. There will be no impact on the financial statements.
Fair value or revaluation as deemed cost of property and equipment	Under IFRS 1, an entity can elect to use fair value or revaluation as deemed cost for property, plant and equipment, investment property and certain intangible assets. An entity may elect to use a previous GAAP revaluation of an item of property and equipment at, or before, the date of transition to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: 1. fair value; or 2. cost or depreciated cost in accordance with IFRS.	The Company will take the election and use previous GAAP revaluations of fixed assets as deemed cost for assets acquired through business combinations. The Company will use historic cost as deemed cost for all other property and equipment.
Non-controlling interest	Under International Accounting Standard (IAS) 27, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests.	The Company will apply the mandatory exemption. The Company early adopted CICA Handbook section 1602 Non-Controlling Interests at January 1, 2010 which is converged with IFRS. As a result, the exemption should not have an impact on the Company upon conversion to IFRS.

Business Combinations

There are significant differences in accounting for business combinations under IFRS compared with Canadian GAAP. Under IFRS, the Company will no longer capitalize acquisition costs or contingent consideration paid after the business acquisition. IFRS requires acquisition costs, such as legal and other professional fees, to be expensed. Contingent consideration must be recorded at fair value at the time of acquisition, regardless of likelihood of payment. Any adjustments to the contingent amount actually paid or not paid, are to be recorded in profit and loss. As well, under Canadian GAAP, the Company prospectively adjusted business combination purchase price allocations if the final allocation differed from a preliminary allocation disclosed in an earlier period. Under IFRS, the purchase price allocation must be recorded retrospectively with restatement of comparative figures.

The Company early adopted CICA Handbook section 1582 Business Combinations effective January 1, 2010. This standard is converged with IFRS 3 Business Combinations. The early adoption of this standard in conjunction with the Company's decision regarding the IFRS 1 business combination election is expected to eliminate any opening balance sheet differences for business combinations between Canadian GAAP and IFRS at January 1, 2010 as well as any differences during the 2010 comparative year.

Property and Equipment

Under Canadian GAAP, property and equipment is recorded at cost, which is amortized over the estimated useful lives of assets on a straight-line basis. IFRS allows an entity adopting IFRS to use either the cost method or revaluation method for asset valuation. IFRS also requires each component of property and equipment with a significant cost in relation to the total cost of asset to be evaluated with respect to useful life and, if appropriate, be depreciated separately, referred to as asset componentization. The Company has selected the cost method of asset valuation under IFRS. This, in conjunction with the fair value or revaluation as deemed cost election under IFRS 1, will minimize IFRS transition adjustments with respect to property and equipment for the Company.

Asset Impairment

Under IFRS, the impairment of assets, excluding financial assets, is tested and measured by comparing the carrying value of an asset or cash generating unit to its recoverable amount. The recoverable amount is measured as the higher of fair value less costs to sell or value-in-use based upon discounted cash flow methodology. Canadian GAAP uses a two step approach to first test for, and then subsequently measure, an impairment loss. Unlike Canadian GAAP, IFRS requires impairment reversals for assets, with the exception of goodwill. As a result, IFRS treatment has the potential to increase income statement volatility due to the potential for increased write-downs and reversals of write-downs. IFRS requires goodwill to be allocated to the cash generating units ("CGUs") that benefit from the expected synergies of the related business combination and tests that goodwill for impairment at the CGU or group of CGUs level. More than one CGU can be aggregated when allocating the goodwill from a business combination. This allocation under IFRS may be at a lower level than the allocation of goodwill under Canadian GAAP and as a result, some operating segments may have increased potential for impairment losses. The Company will be performing asset impairment testing as at January 1, 2010. It is unknown at this time if there will be any significant differences in the results from this test compared to testing performed with respect to the year ended December 31, 2009 under Canadian GAAP.

The AcSB may continue to issue Canadian accounting standards that are converged with IFRS prior to 2011, thus reducing the impact of adopting IFRS at the changeover date. As well, the Internal Accounting Standards Board ("IASB") is also expected to issue new accounting standards during the conversion period. Because of this, not all transition date financial statement adjustments are determinable at this time and the quantification of the impact of adoption of IFRS on the financial statements and operating performance measures cannot be finalized until closer to the changeover date.

Income Trust Structure

The Company is currently finalizing its analysis of certain differences between Canadian GAAP and IFRS relevant to its 2010 structure as an income trust. The most significant impacts deal with accounting for future income taxes and puttable financial instruments, which may result in an increase in future income tax liability and recognizing non-controlling interest as a liability. These areas would then be re-evaluated upon conversion to a corporate form on December 31, 2010.

INTERNAL CONTROLS AND PROCESSES

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate ICFR, as such term is defined in National Instrument 52-109. A material weakness in ICFR exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The chief executive and chief financial officers certified that disclosure controls and procedures and internal controls over financial reporting were effective for the year ended December 31, 2010. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three or twelve months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

RISK FACTORS

The Company's results of operations, business prospects, financial condition, dividends to Shareholders and the trading price of the Units are subject to a number of risks. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form, which is available at www.sedar.com and the documents incorporated by reference herein. Shareholders and potential Shareholders should consider carefully the information contained herein and, in particular, the following risk factors.

These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company, and the ability of the Company to pay dividends, could be materially adversely affected.

State of Economy

The Company's success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. The Company can provide no assurance that consumer spending patterns will not change. Adverse changes in consumer spending could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and operating margin, which in turn could adversely affect the availability of funds available for the payment of dividends.

Unpredictability and Volatility of Share Price

A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in the market environment and in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield of other financial instruments may also influence the price of Common Shares in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Common Shares.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations that have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Units.

Growth Strategy Restriction

As at March 15, 2011, the Company has capital and unused credit facilities available for growth and inventory in the amount of approximately $20 million, which Management believes will provide it with sufficient funds to complete additional acquisitions and/or new store development and financing for inventory.

However, the ability of the Company to make acquisitions beyond the amount of the current excess capital and unused credit facilities depends on the Company being able to raise additional financing in the future through equity and/or debt capital markets. If the Company is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to complete additional acquisitions, which could have an adverse effect on the future growth prospects of the Company.

Cash Dividends

The actual cash flow available for the payment of dividends to Shareholders can vary significantly from period to period for a number of reasons, including among other things: (i) our operational and financial performance; (ii) the amount of cash required or retained for debt service or repayment; (iii) amounts required to fund capital expenditures and working capital requirements. Certain of these amounts are, in part, subject to the discretion of the Board of Directors, which regularly evaluates Liquor Stores' dividend payout with respect to anticipated cash flows, debt levels, capital expenditures plans and amounts to be retained to fund acquisitions and expenditures. In addition, our level of dividend per Common Share will be affected by the number of outstanding Common Shares. Dividends may be increased, reduced or suspended entirely depending on our operations and financial performance. The market value of the Common Shares may deteriorate if we are unable to meet dividend expectations in the future, and that deterioration may be material

Government Regulation

The Company primarily operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky. Decisions by the Alberta Gaming and Liquor Commission (“AGLC”), British Columbia Liquor Control and Licensing Branch (“BCLCLB”), Alaska Alcoholic Beverage Control Board (“ABCB”), or Kentucky Department of Alcoholic Beverage Control (“KYABC”) or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of the Company both favourably and unfavourably. There is no assurance that new legislation, regulations, changes, current challenges to existing to existing legislation, new interpretations of existing legislation, or regulations or decisions of the AGLC, the BCLCLB, the ABCB, or the KYABC will not adversely affect the licensing, operations or distributable cash of Liquor Stores.

All of the Company’s Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually.

Similar to the policies in Alberta, all BC stores are operated pursuant to licences issued by the BCLCLB which be re-applied for annually. Since its inception in 2004, the Company has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked.

All of the Company’s Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually, and its Kentucky stores are operated pursuant to licenses issued by the KYABC, which are due for renewal on an annual basis.

The AGLC, the BCLCLB, ABCB and KYABC have certain discretion in the granting or revocation of a license to operate a liquor store.

Commodity Taxes

Changes in tax rates, and their corresponding effect on product pricing, could affect sales and or earnings. If taxes increase and the Company increases prices by the full amount of the tax, sales volumes could be adversely impacted. If the Company is not able to pass the full amount of the tax increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax rates in the future.

Competition

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky is both competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location, convenience, price and service.

In Alberta, the Company competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. Certain of these competitors have greater financial resources than the Company. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Any change in this regulatory regime could materially adversely affect the Company’s business and the results of its operations.

In British Columbia, the Company competes with government owned and operated liquor stores, local independent stores, and wine stores. In December 2009, the British Columbia government amended certain liquor control and licensing regulations which eliminated the requirement that a retail liquor store licensee also own and operate the related liquor-primary establishment. This amendment was followed by an amendment in February 2010 which increased the relocation distance such that a retail liquor store is not permitted to be relocated anywhere within 1.0 kilometre of an existing retail liquor store (or the site of an application to license a new retail liquor store). This arrangement limits the number of entrants who are able to enter the market.

In each of Alaska and Kentucky, the Company competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains (and in some instances in Kentucky, with U.S. national drug store chains who also offer alcoholic products for sale). Under the Alaska and Kentucky regulatory environments, stores purchase product directly from distributors and are able to negotiate large volume discounts with suppliers. Organizations with greater financial resources are able to maintain a competitive advantage over smaller operators.

Acquisition and Development Risks

Acquisitions have been a significant part of the Company's growth strategy. The Company expects to continue to selectively seek strategic acquisitions in both Canada and the US. The Company's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Company's resources and, to the extent necessary, the Company's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose the Company to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms, difficulties in maintaining uniform standards, controls, procedures and policies through all of the Company's stores; entry into markets in which the Company has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Company's ongoing business; and diversion of management time and resources.

The Company expects that new store development will also continue to be a significant part of the Company's growth strategy. The development of new stores is subject to many of the same risks as acquisitions including limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on the Company's resources. The rate of new store developments may be impacted by factors outside of the Company's control such as the availability of suitable site locations if real estate development declines or the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital based on Management's projections of future store performance, which may prove to be incorrect.

Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of the Company's liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where the Company's liquor stores are located could decline in the future including as a result of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that the Company enters into long-term leases for its store locations, the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Key Personnel

The Company's success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of the Company's key employees could significantly weaken the Company's management expertise and its ability to deliver its services efficiently and profitably.

Labour Costs and Shortages and Labour Relations

The success of the Company's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of the Company to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on the Company's results of operations.

The Company does not currently have any unionized staff; however, there is no assurance that some or all of the employees of the Company will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on the Company's results of operations. With respect to its US operations, any significant disruptions in the operations or product supply of major distributors may also have a material adverse effect on the operations of the Company.

Supply Interruption or Delay

The Company is dependent upon a limited number of distributors for a substantial majority of its products. Specifically, liquor store operators in Alberta are dependent on Connect Logistics Services ("CSL") warehouse and Brewers Distributor Ltd. ("BDL") for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. With respect to the Company's U.S. operations, a limited number of private distributors serve the jurisdictions in which the Company operates. Any significant disruptions in the operations of these companies (for example, an organized work stoppage) and a resulting interruption in supply may have a material adverse effect on liquor stores operations, including the operations of the Company and its subsidiaries.

Weather Conditions

Weather conditions in Canada and the United States play an important role in the Company's success. Prolonged poor weather conditions in both the summer and winter months reduce overall customer counts and consequently may have a material effect on the Company's operating results.

Importance of Information and Control Systems

Information and control systems play an important role in the support of the Company's core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. The Company's ability to maintain and regularly upgrade its information systems capabilities is important to its future performance.

Tax Related Risks

Income tax laws, such as the treatment of dividends, may in the future be changed or interpreted in a manner that adversely affects Liquor Stores and our Shareholders (both Canadian and U.S. Shareholders). Furthermore, tax authorities having appropriate jurisdiction over Liquor Stores or our Shareholders may disagree with how we calculate our income for tax purposes or could change administrative practises to our detriment or the detriment of our Shareholders (including, without limitation, the interpretation of certain cross-border tax rules).

Leverage and Restrictive Covenants

We currently have a credit facility in place that has an aggregate committed borrowing limit of $143 million and a maturity date of June 28, 2011 (with a further "term out" period of 364 days following the maturity date). Pursuant to the terms of the credit agreement Liquor Stores has the ability to request an additional $30 million (to be provided by the lenders on a best-efforts basis). As of March 14, 2011, approximately $103.5 million was outstanding under our credit facility. In the event that our credit facility is not extended or renewed before June 28, 2011, all outstanding indebtedness thereunder will be repayable 364 days later. There is also a risk that our credit facility will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect our ability to fund our ongoing operations and, as repayment of such indebtedness has priority over the payment of dividends to Shareholders, to pay cash dividends to Shareholders.

The degree to which Liquor Stores is leveraged could have important consequences to the holders of the Common Shares, including: (i) a portion of Liquor Stores' cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for the payment of dividends; (ii) certain of Liquor Stores' borrowings are at variable rates of interest, which exposes Liquor Stores to the risk of increased interest rates. Liquor Stores' ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

Our credit facility contains certain customary operating covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Liquor Stores to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of our credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness. If the indebtedness under our credit facility were to be accelerated, there can be no assurance that Liquor Stores' assets would be sufficient to repay in full that indebtedness.

NON-GAAP MEASURES

References to ''distributable cash'' are to cash available for distribution to shareholders in accordance with the dividend policies of the Company. Management believes that, in addition to income or loss, distributable cash is a useful supplemental measures of performance. Distributable cash of the Company is a measure used by certain Canadian public issuers as an indicator of financial performance. As one of the factors that may be considered relevant by shareholders and prospective investors is the dividend paid by the Company relative to the price of the Company's Common Shares, management believes that distributable cash of the Company is a useful supplemental measure that may assist shareholders and prospective investors in assessing an investment in the Company.

For a reconciliation of distributable cash to cash provided by operating activities please see "Distributable Cash".

Adjusted gross margin has been derived by adding back inventory fair value adjustments to gross margin as required under Canadian GAAP.

Operating margin for purposes of disclosure under "Operating Results" has been derived by adding interest expense, amortization of inventory fair value adjustments, pre-opening cost expense and amortization of property and equipment and intangibles to net earnings. Operating margin as a percentage of sales is calculated by dividing operating margin by sales. Operating margin before non-recurring items has been derived by adding non-recurring items to operating margin as described above.

Non-recurring items include costs incurred by the Company for expenses that are not part of on-going operations and that are not expected to recur. Among others, these include professional fees paid in respect of law suits that originated with regards to the Company's acquisition of Liquor Barn Income Fund in 2007, store and pub closure costs and a GST appeal refund.

"Payout ratio" is calculated by dividing dividends declared by distributable cash.

Operating margin, operating margin as a percentage of sales, distributable cash, payout ratio and same store sales are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales, distributable cash, payout ratio and same store sales should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's method of calculating operating margin, operating margin as a percentage of sales, distributable cash, payout ratio and same store sales may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, distributable cash, payout ratio and same store sales may not be comparable to similar measures presented by other issuers.

SUPPLEMENTAL LIQUIDITY INFORMATION

Distributable cash is a non-GAAP measure that provides an indication of the Company's ability to sustain dividendss while maintaining productive capacity. In addition to comparing distributable cash to its nearest GAAP measure, cash provided by operating activities, a comparison can be made to net earnings. The following table compares cash provided by operating activities, net earnings and distributable cash before non-recurring items to dividends declared combined with dividends in respect of non-controlling interests in the Company's subsidiaries.

	Three months ended December 31,	Year ended December 31,		
	2010	**2010**	**2009**	**2008**
(expressed in thousands of Canadian dollars)				
Cash flow provided by operating activities	$ 10,968	$ 39,457	$ 45,633	$ 35,747
Net earnings	10,896	22,746	29,048	23,995
Distributable cash before non-recurring items	12,981	35,784	40,911	38,673
Actual dividends declared relating to the period	(9,229)	(36,918)	(36,894)	(36,806)
Excess (deficiency) of cash provided by operating activities over dividends declared	$ 1,739	$ 2,539	$ 8,739	$ (1,059)
Excess (deficiency) of net earnings over dividends declared	$ 1,667	$ (14,172)	$ (7,846)	$ (12,811)
Excess of distributable cash before non-recurring items over dividends declared	$ 3,752	$ (1,134)	$ 4,017	$ 1,867

Approximately 20% of annual sales occur in the first quarter of the year and 26% in the second quarter. Sales are generally stronger in the latter part of the year making up approximately 54% of annual sales. Consequently in the first quarter, the Company typically reduces inventory levels resulting in increased cash flow provided by operating activities. As sales increase throughout the year and inventory levels rise accordingly, cash flow provided by operating activities typically declines.

Subsequent to the 2007 enactment of legislation concerning the taxation of income trusts, the Company's dividends have exceeded the GAAP measures of cash flow from operating activities and net earnings, with the exception of 2009. Taking into consideration the Company's continuing dividend policies and assuming future growth, dividends may exceed cash flow from operating activities and will exceed net earnings on an annualized basis.

Excess or Deficiency of Cash Flow from Operating Activities Over Dividends

For the reasons explained below, the Company believes distributable cash before non-recurring items provides a better indication of the Company's ability to sustain dividends while maintaining its productive capacity than does the GAAP measure cash provided by operating activities.

Net Change in Non-Cash Working Capital

The Company's investments in working capital relate to the Company's growth, commercial terms with the Company's suppliers of alcoholic beverages and seasonal fluctuations in inventory levels.

Between January 1, 2007 and December 31, 2010, the Company developed 25 stores. Under GAAP, the purchases of inventory to open these stores are treated as uses of cash from operating activities rather than as expenditures necessary for the Company's growth.

Under GAAP, significant investments in inventory following the acquisition of stores are also treated as a use of cash from operating activities rather than as expenditures necessary for the Company's growth. Between January 1, 2007 and December 31, 2010 the Company acquired 120 stores. With the exception of the Brown Jug and Kentucky stores, the majority of the stores acquired did not have sufficient inventory to meet the Company's operating standards related to selection and profitability.

The Company's major suppliers of alcoholic beverages in Canada require payment prior to delivery of inventory. As a consequence the Company has a strategy of financing inventory with the use of its credit facilities. Under GAAP, the use of the credit facilities to finance inventory is treated as a financing activity.

Inventory levels are subject to fluctuations related to the timing of opportunities to purchase inventory when favourable buying conditions arise. Historically, these opportunities have followed a seasonal pattern where inventory levels increase in the final quarter of the year and decrease in the first quarter of the year.

The acquisitions of the Brown Jug stores in Alaska in 2008 and the Kentucky stores in 2009 are a departure from the Company's historic experience regarding inventory financing. When the Brown Jug and Kentucky stores were acquired, no liabilities were assumed and no additional investment in inventory was required. In both Alaska and Kentucky trade terms are available and accounts payable finance a portion of inventory. Subsequent to the acquisitions, there was an increase in accounts payable related to the US operations.

Provision for Financing Charges

Financing fees represent charges incurred upon the renewal of the credit facility agreement. For GAAP, the fees relating to the Operating Facility and Term Loan Facility were netted against bank indebtedness and long-term debt respectively and the expense is recognized over the remaining credit facility term as a non-cash amortization charge under operating activities. The Company views these charges as cash costs and has deducted them from distributable cash.

The following table provides an analysis of the total expenditures on financing charges:

	Three months ended December 31,		**Twelve months ended December 31,**	
(expressed in thousands of Canadian dollars)	**2010**	**2009**	**2010**	**2009**
Amortization of financing charges related to:				
Operating Line Facility	$ 146	$ 85	$ 460	$ 169
Term Loan Facility	54	23	155	47
Total provision for financing charges	$ 102	$ 108	$ 615	$ 216

Provision for Non-Growth Property and Equipment

Maintenance of Productive Capacity

In order to maintain its productive capacity, the Company incurs expenses for routine maintenance and makes expenditures for the replacement of long lived assets ("non-growth property and equipment"). In the determination of distributable cash, provisions may be made for anticipated replacements of long lived assets not yet recorded in the accounts of the Company.

The following table provides an analysis of the total expenditures on property and equipment and the amounts reserved for further non-growth expenditures:

	Three months ended December 31,		**Twelve months ended December 31,**	
(expressed in thousands of Canadian dollars)	**2010**	**2009**	**2010**	**2009**
Purchase of property and equipment	$ 787	$ 2,621	$ 3.036	$ 5,429
Growth expenditures including amounts relating to developed stores	(699)	(2,563)	(2,237)	(5,061)
Purchase of non-growth property and equipment	88	58	799	368
Tenant inducements to relocate a store	(78)	-	(405)	-
Provision for further non-growth property and equipment expenditures	-	260	(260)	260
Total provision for non-growth property and equipment	$ 10	$ 318	$ 134	$ 628

Pre-Opening and Acquisition Costs

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. Acquisition costs represent advisory and legal fees incurred to effect a business combination. For GAAP, effective January 1, 2009, pre-opening costs are treated as uses of cash from operating activities rather than as investments in store growth. Effective January 1, 2010, acquisition costs are also treated as uses of cash from operating activities rather than as investments in store growth under GAAP. The Company views these costs as necessary for growth and has added them back for purposes of distributable cash.

The following table provides an analysis of the total expenditures on pre-opening and acquisition costs:

	Three months ended December 31,		Twelve months ended December 31,	
(expressed in thousands of Canadian dollars)	**2010**	**2009**	**2010**	**2009**
Pre-opening cost expenditures	$ 14	$ 415	$ 108	$ 685
Acquisition cost expenditures	64	(14)	102	-
Total provision for pre-opening and acquisition costs	$ 78	$ 401	$ 210	$ 685

Excess of Dividends Over Net Earnings

Net earnings include a number of non-cash charges which result in dividends exceeding net earnings. Non-cash charges include: vesting of awards under unit-based compensation plans, amortization of property and equipment, intangible assets, inventory fair value adjustments, non-cash interest and future income tax expense. These non-cash charges are added back in the determination of cash provided by operating activities.

Inventory Fair Value Adjustments

Inventory fair value adjustments arise from acquisitions. Valuation principles require that the element of profit related to inventory buying and associated activities be recognized in the cost of inventory at the date of acquisition. The Company amortizes inventory fair value adjustments over a three-month period, which represents the average time it takes for inventory to turn over. The amortization of the inventory adjustment has no impact on future cash flows of the Company as they are part of the purchase price allocation done at the time of acquisition.

Amortization of Property and Equipment

The Company does not believe that amortization of property and equipment, namely leasehold improvements, as reflected in its GAAP financial statements reflects the economic cost to sustain its operations. This belief is based on the results of independent appraisals conducted at the time the Company acquires stores. Generally, the result of these appraisals is that the values assigned to leasehold improvements at the time of acquisition exceed the carrying value of these assets in the accounts of the acquired business, indicating that amortization provided on a GAAP basis exceeds the economic cost of the assets consumed.

The principal reasons that amortization of property and equipment exceeds maintenance capital is that amortization of leasehold improvements is determined based on the initial term of the lease plus one lease renewal period. Leasehold improvements generally have an economic life longer than this period. Amortization of leasehold improvements represented a substantial portion of the Company's amortization of property and equipment during the period from January 1, 2006 to December 31, 2010.

Leases and Licenses

These items relate to fair value adjustments at the time the Company completes acquisitions.

Favourable and unfavourable leases represent market value rents for the term of the leases assumed by the Company. While rent escalations on renewal or for an option period have an impact on Company's earnings and cash flow from operations, the amortization of these items does not. The Company leases the locations for virtually all of its stores and lease renewals are staggered.

At the time of a store acquisition a fair value is assigned to the licenses acquired. The cost of definite life licenses is amortized over the life of the lease and all renewal terms.

Given the life of the favourable and unfavourable leases and the licenses, the amortization of these items has limited impact on the sustainability of current dividends and no impact on the Company's productive capacity in the foreseeable future.

Non-cash Interest

The non-cash interest relates to the Company's convertible subordinated debentures and primarily to the $57.5 million principal amount 6.75% Debentures issued by the Company in December 2007 and January 2008. The amount of the liability initially recorded in the Company's accounts with respect to the 6.75% Debentures was approximately $50.0 million. The issue costs and the value of the conversion feature comprise the difference between the amount recorded in the Company's accounts and the principal amount of the debentures. The non-cash interest represents the accretion of the debt balance to the amount owing at maturity.

The contractual requirement to repay the principal amount of the debentures is reflected in the table on page 17.

Future Income Taxes

The provisions for future income taxes in the Company's accounts are to provide an estimate of what the future tax liability is at December 31, 2010. These provisions do not result in cash taxes payable in the periods presented and no significant payments of current income tax are expected prior to February 2013.

It is expected that the foregoing non-cash charges will continue to cause dividends to exceed net earnings for the foreseeable future. The non-cash non-recurring items include: professional and consulting costs related to the Liquor Barn acquisition, store closure costs, rent obligations, amortization, a goodwill adjustment, foreign exchange gains resulting from the acquisition of Brown Jug stores, and other non-significant charges.

Non-recurring Items

In 2010, non-recurring items exclusive of costs to convert to a corporate structure decreased net earnings by approximately $1.8 million. The Company does not believe that this reduction is meaningful in evaluating the sustainability of its dividends.

UPDATE TO FINANCIAL OUTLOOK

The purpose of this Update to Financial Outlook is to compare the Company's actual performance to the Financial Outlook provided Shareholders, in the Company's MD&A dated November 8, 2010.

On November 8, 2010, the Company had provided guidance that distributable cash before non-recurring items was expected to be in the range of $1.62 to $1.66 per share for 2010. Actual distributable cash before non-recurring items for the year ended December 31, 2010 was $1.59 per share.

The following table sets forth actual results compared to the material assumptions related to the outlook provided on November 8, 2010.

Distributable cash before non-recurring items per share	Material Assumptions – November 8, 2010 Guidance	Actual Result
Distributable cash before non-recurring items per share in the range of $1.62 to $1.66 for the year ending December 31, 2010. The actual distributable cash before non-recurring items per share was $1.59.	• Canadian same store sales increasing in the range of 3.3% to 6.3% in the fourth quarter of 2010. • Adjusted gross margin as a percentage of sales ranging from 24.55% to 24.85% for the year. • Weather patterns in the fourth quarter of 2010 consistent with those of 2009. • No deterioration in economic conditions. • No regulatory changes to the liquor retail industry. • No assumptions were provided with respect to operating and administrative expenses for the fourth quarter of 2010.	• Canadian same store sales increased 4.8% in the fourth quarter of 2010. However, sales of the Company's other stores fell short of expectations. • Adjusted gross margin as a percentage of sales for 2010 was 24.75% for the year. • Weather patterns in the fourth quarter 2010 were consistent with those in 2009. • Other than the fourth quarter devaluation of the US dollar, economic conditions were consistent with expectations. • No regulatory changes occurred. • Fourth quarter 2010 operating and administrative expenses, particularly for promotional campaigns and rent exceeded management's estimates.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking information. All information other than statements of historical fact contained in this MD&A are forward-looking information, including, without limitation, statements regarding the future financial position and performance, dividends, distributable cash before non-recurring items, distributable cash before non-recurring items per share and the components thereof, business strategy, proposed or recent acquisitions and the benefits to be derived therefrom, budgets, litigation, projected costs and plans and objectives of or involving the Company. All information under the heading "Financial Outlook" is forward-looking information. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "forecasts' or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the dividends of the Company. There is no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur and such forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this MD&A. There is no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors". Specific forward-looking statements contained in this MD&A include, among others, the future payment and timing of dividends, the range of estimates related to sales, adjusted gross margin, provision for non-growth property and equipment, and management's expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

The information contained in this MD&A, including the information set forth under "Risk Factors" and under "Financial Outlook", identifies additional factors that could affect the operating results and performance of the Company.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A is made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities law.