

Liquor Stores N.A. Ltd.

Consolidated Financial Statements

December 31, 2012 and 2011

Management's Responsibility for Financial Reporting

The preparation and presentation of the accompanying consolidated financial statements of Liquor Stores N.A. Ltd., which have been prepared in accordance with International Financial Reporting Standards, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, Liquor Stores N.A. Ltd.'s financial position, financial performance and cash flows. The Company's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial information is reliable.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reports its findings to the Board of Directors for their consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

Signed "Jim Dinning"

Jim Dinning
Chairman of the Board of Directors and Interim CEO

Signed "Patrick de Grace"

Patrick de Grace
Senior Vice President & CFO

March 5, 2013



March 5, 2013

Independent Auditor's Report

To the Shareholders of Liquor Stores N.A. Ltd.

We have audited the accompanying consolidated financial statements of Liquor Stores N.A. Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Liquor Stores N.A. Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Liquor Stores N.A. Ltd.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	Note	December 31, 2012 \$	December 31, 2011 \$
Assets			
Current assets:			
Cash		5,130	1,707
Accounts receivable		3,622	845
Inventory	5	146,710	129,842
Prepaid expenses and deposits		6,715	3,921
		160,177	136,315
Deferred tax assets	12	1,703	1,610
Property and equipment	6	43,527	38,772
Intangible assets	7	44,221	46,145
Goodwill	8	281,459	280,305
		533,087	503,147
Liabilities			
Current liabilities:			
Bank indebtedness	9(a)	3,891	40,424
Accounts payable and accrued liabilities		38,464	24,423
Dividends payable to shareholders	11	2,063	2,040
Income tax payable		2,205	55
Derivative instrument	20	10	390
Current portion of long-term debt	9(b)	-	55,681
		46,633	123,013
Long-term debt	9(b)	146,566	46,469
Deferred tax liabilities	12	22,138	16,465
		215,337	185,947
Shareholders' Equity			
Equity attributable to shareholders		317,658	317,115
Equity attributable to non-controlling interest		92	85
		317,750	317,200
		533,087	503,147

Commitments (note 21)

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board of Directors:

Signed "Jim Dinning"
Jim Dinning
Director

Signed "Robert Green"
Robert Green
Director

Liquor Stores N.A. Ltd.
Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars)

	Attributable to Shareholders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income	Deficit			
	\$	\$	\$	\$	\$	\$	\$	\$
	(note 13)							
Opening balance - January 1, 2011	180,000	37	174,632	(4,342)	(36,425)	313,902	285	314,187
Net earnings for the year	-	-	-	-	24,463	24,463	339	24,802
Foreign currency translation adjustment	-	-	-	1,168	-	1,168	-	1,168
Comprehensive income for the year	-	-	-	1,168	24,463	25,631	339	25,970
Vested long-term incentive plan units	197	-	(197)	-	-	-	-	-
Share-based payments	-	-	432	-	-	432	-	432
Dividends declared	-	-	-	-	(24,426)	(24,426)	-	(24,426)
Dividend reinvestment plan issuance	1,075	-	-	-	-	1,075	-	1,075
Equity impact of acquisition (note 4)	-	-	-	-	501	501	(241)	260
Dividends declared by subsidiaries	-	-	-	-	-	-	(298)	(298)
Transactions with owners	1,272	-	235	-	(23,925)	(22,418)	(539)	(22,957)
Balance - December 31, 2011	181,272	37	174,867	(3,174)	(35,887)	317,115	85	317,200
Opening balance - January 1, 2012	181,272	37	174,867	(3,174)	(35,887)	317,115	85	317,200
Net earnings for the year	-	-	-	-	18,778	18,778	278	19,056
Foreign currency translation adjustment	-	-	-	(1,331)	-	(1,331)	-	(1,331)
Comprehensive income for the year	-	-	-	(1,331)	18,778	17,447	278	17,725
Share-based payments	-	-	190	-	-	190	-	190
Exercise of share options	2,439	-	(194)	-	-	2,245	-	2,245
Issuance of debentures (note 9)	-	3,328	-	-	-	3,328	-	3,328
Redemption of debentures (note 9)	30	(37)	37	-	-	30	-	30
Dividends declared (note 11)	-	-	-	-	(24,652)	(24,652)	-	(24,652)
Dividend reinvestment plan issuance (note 11)	1,955	-	-	-	-	1,955	-	1,955
Dividends declared by subsidiaries	-	-	-	-	-	-	(271)	(271)
Transactions with owners	4,424	3,291	33	-	(24,652)	(16,904)	(271)	(17,175)
Balance - December 31, 2012	185,696	3,328	174,900	(4,505)	(41,761)	317,658	92	317,750

The accompanying notes are an integral part of the consolidated financial statements.

Liquor Stores N.A. Ltd.

Consolidated Statements of Earnings and Comprehensive Income

Years ended December 31, 2012 and 2011

(in thousands of Canadian dollars, except for per share amounts)

	Note	2012 \$	2011 \$
Sales		630,106	591,502
Cost of sales		470,595	444,974
Gross margin		159,511	146,528
Operating and administrative expenses	17	113,840	100,629
		45,671	45,899
Amortization			
Property and equipment		7,341	6,468
Intangible assets		403	1,371
		37,927	38,060
Finance costs	10	9,718	10,449
Impairment loss	7	2,500	-
Litigation settlement	18	-	(4,920)
Earnings before income taxes		25,709	32,531
Income tax expense			
Current	12	2,205	-
Deferred	12	4,448	7,729
		6,653	7,729
Net earnings		19,056	24,802
Other comprehensive income (loss)			
Currency translation difference on foreign subsidiaries		(1,331)	1,168
Comprehensive income		17,725	25,970
Net earnings attributable to			
Owners of the parent		18,778	24,463
Non-controlling interest		278	339
		19,056	24,802
Comprehensive income attributable to			
Owners of the parent		17,447	25,631
Non-controlling interest		278	339
		17,725	25,970
Earnings per share			
Basic	14	0.82	1.08
Diluted	14	0.82	1.08

The accompanying notes are an integral part of the consolidated financial statements.

Liquor Stores N.A. Ltd.
Consolidated Statements of Cash Flow
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	2012 \$	2011 \$
Cash provided by (used in)			
Operating activities:			
Net earnings		19,056	24,802
Adjustments to reconcile net income to net cash flows from operating activities:			
Amortization of property and equipment		7,341	6,468
Amortization of intangible assets		403	1,371
Amortization of financing charges		292	520
Non-cash interest on convertible debentures		2,524	1,643
Gain on settlement	18	-	(920)
Impairment loss	7	2,500	-
Fair value adjustment on derivative instrument		(380)	390
Deferred income tax		4,438	7,713
Share-based payments		190	432
Cash provided by operating activities before changes in non-cash working capital		36,364	42,419
Net change in non-cash working capital items	19	(6,139)	(10,643)
		30,225	31,776
Investing activities:			
Business acquisitions	4	(2,530)	(778)
Purchase of property and equipment		(11,756)	(4,530)
Proceeds from disposal of property and equipment		-	102
Purchase of intangible assets		(1,227)	(490)
		(15,513)	(5,696)
Financing activities:			
Proceeds from bank indebtedness		3,684	-
Repayment of long-term debt		(1,220)	(1,475)
Redemption of convertible unsecured subordinated debentures	9(b)	(57,500)	-
Issuance of convertible unsecured subordinated debentures	9(b)	64,349	-
Dividends paid	11	(22,674)	(23,883)
Proceeds received on exercise of stock-options		2,247	-
Distributions paid to non-controlling interest		-	(484)
Dividends paid to non-controlling interest by subsidiaries		(271)	(298)
		(11,385)	(26,140)
Foreign exchange gain (loss) on cash held in foreign currency		96	(1,048)
Increase (decrease) in cash		3,423	(1,108)
Cash - Beginning of year		1,707	2,815
Cash - End of year		5,130	1,707

The accompanying notes are an integral part of the consolidated financial statements.

Liquor Stores N.A. Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

(in thousands of Canadian dollars except share data or unless otherwise specified)

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act on November 8, 2010 and is the successor entity to Liquor Stores Income Fund. The address of the Company's registered office is 300, 10508 - 82 Avenue, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB.A".

The Company's principal activity is the retailing of wines, beers and spirits. As at December 31, 2012, the Company operated 249 (2011 - 239) retail liquor stores, of which 181 (2011 - 174) were in Alberta, 36 (2011 - 35) were in British Columbia, 20 (2011 - 20) were in Alaska and 12 (2011 - 10) were in Kentucky. Of the stores operated, 207 (2011 - 204) were acquired and 42 (2011 - 35) were developed by the Company.

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on March 5, 2013.

2 Basis of preparation

a) Statement of compliance

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the Canadian Institute of Chartered Accountants ("CICA").

b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for derivative instruments, cash-settled share options, and the Directors' deferred share plan, which are measured at fair value.

c) Basis of consolidation

These financial statements include the accounts of the Company and its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-company balances, income and expenses and unrealized gains and losses resulting from inter-company transactions are eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties.

d) Critical accounting estimates and judgements

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of

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contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reported period. Actual results could differ from those estimates.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates:

i) Business combinations and valuation of goodwill and intangible assets

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 valuation specialists 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.

The Company reviews goodwill and intangible assets with indefinite lives at least annually, and other non-financial assets when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units ("CGU") have been determined using discounted cash flow models that require assumptions about future cash flows, margins and discount rates.

Refer to notes 7 and 8 for further details regarding estimation of recoverable amounts.

ii) 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 expectations 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.

iii) Deferred income taxes

Determining deferred income taxes involves a number of assumptions and variables that could reasonably change, including: the useful lives of recorded property and equipment and intangible assets that determine the amount of amortization recorded thereon, the amount of discretionary tax deductions the Company will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Company is taxable and the allocation of taxable income to those jurisdictions, and the acceptance of the Company's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet

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date, could result in changes in the recorded amount of deferred income taxes, and these changes could be material.

Critical Judgements:

No critical judgements in the application of the Company's accounting policies were necessary in 2012 or 2011.

3 Summary of significant accounting policies

a) Revenue recognition

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

b) Cash

Cash consists of cash on hand and deposits held with banks.

c) Inventory

Inventory consists primarily of liquor for resale and is valued at the lower of cost, determined using the weighted average method, and net realizable value. Net realizable value is the estimated selling price less applicable selling costs. Write downs to net realizable value may be reversed in a subsequent period if circumstances causing impairment no longer exist.

d) Property and equipment

Property and equipment is recorded at cost less subsequent amortization and any impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of assets. Land has an indefinite useful life and, as such, is not amortized. The Company will test its property and equipment for impairment when events and circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value. Impairment losses are reversed in subsequent periods if there is a change in the estimates used to determine the recoverable amount since the impairment loss was recognized.

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Operating equipment	10 years
Office equipment and fixtures	10 years
Computer equipment	5 years
Vehicles	5 years
Signage	10 years
Shelving and racking	10 years
Building	25 years
Leasehold improvements	Lesser of lease term and useful life

e) Intangible assets

Intangible assets, consisting of acquired customer relationships, retail liquor licenses and business permits, trade names, software and property leases acquired at less than market rates, are recorded at cost.

- i) Customer relationships have a finite useful life and are carried at cost less accumulated amortization. The amount attributed to customer relationships is amortized using the straight-line method over five years.
- ii) Amounts attributed to property leases are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the remaining terms of the leases ranging from one to 25 years.
- iii) Retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. These retail liquor licenses and business permits do not expire or require renewal.
- iv) Trade names have an indefinite life and are not amortized as there is no foreseeable limit on the period of time over which they are expected to contribute to the net cash flows of the Company.
- v) Software is comprised of acquired licenses which have definite lives are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the life of the license.

The Company assesses the carrying value of definite life intangible assets for impairment when events or circumstances warrant such a review. The Company assesses the carrying value of indefinite life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recorded when it is determined that the carrying amount of an asset is no longer recoverable and exceeds its fair value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Intangible assets that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

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Notes to the Consolidated Financial Statements

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f) Business combinations and goodwill

i) Acquisitions

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. Acquisition-related costs are recognized into net earnings as incurred. Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired.

ii) Goodwill

Goodwill is not amortized, but is assessed for impairment at least annually or when events and circumstances indicate that the carrying value may not be recoverable. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

g) Income tax

Current income tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of prior years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are presented as non-current.

h) Share-based payment transactions

The Company's share-based payments consist of share-based options for the benefit of certain of its employees and a deferred share plan for the benefit of the Company's directors. These plans are further described in note 15.

The Company accounts for equity-settled share-based payment transactions for employees by recognizing the fair value of the award at the grant date as an expense with a corresponding increase in equity, as the

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employees become entitled to the award. The fair value of cash-settled share-based payments payable to employees are recognized as an expense with a corresponding increase in liabilities as the employees become entitled to the payment and, at each balance sheet date and settlement date, the fair value of the liability is re-measured. The deferred share plan is also settled in cash and is accounted for as an employee benefit, the liability for which is revalued at each balance sheet date.

i) Financial instruments

The Company has designated its cash and accounts receivable as loans and receivables, which are measured initially at fair value, and subsequently at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, dividends payable, and long-term debt are classified as other financial liabilities and measured initially at fair value, and subsequently at amortized cost. Derivative instruments are recorded at fair value through profit and loss, whereby they are marked to market at each reporting period with changes in fair value reported in earnings.

Transaction costs related to the issuance of financial liabilities are capitalized on initial recognition and are recognized in income using the effective interest method.

j) Convertible debentures

The Company's convertible debentures have been classified as debt with a portion of the proceeds representing the value of the conversion option bifurcated. Transaction costs related to the convertible debenture issuance have been capitalized and are recognized in income using the effective interest method. Upon conversion, portions of debt and the conversion option are transferred into common shares.

k) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The results and financial position of the Company's foreign subsidiaries in the United States ("US"), which have a functional currency of United States dollars, are translated into Canadian dollars as follows:

- i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii) income and expenses are translated at average exchange rates for the respective period; and
- iii) all resulting exchange differences are recognized in other comprehensive income as currency translation differences.

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Transactions and balances

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at balance sheet date exchange rates are recognized in the statement of earnings.

l) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM is responsible for allocating resources and assessing performance of the generating segments and has been identified as the Chief Executive Officer of the Company.

m) Dividends

Dividends on common shares are recognized in the Company's financial statements in the period in which they are approved by the board of directors.

n) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding for the period.

Diluted EPS is calculated by adjusting basic EPS for the effect of dilutive instruments, which may include share options and convertible debentures.

o) Accounting standards and amendments issued but not yet effective

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and are expected to be relevant to the Company. The Company has not yet assessed the impact of these standards and amendments or, where applicable, determined whether it will early adopt them.

<i>International Accounting Standards (IAS / IFRS)</i>	<i>Effective for annual periods beginning on or after:</i>
IFRS 9 – Financial Instruments	January 1, 2015
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 1 – Presentation of Financial Statements	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2013

- i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and

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fair value through profit or loss. IFRS 9 also replaces the models for measuring investments in equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- ii) IFRS 13, *Fair Value Measurement* provides a single IFRS framework for measuring fair value. The standard defines fair value and sets out a fair value hierarchy that categorizes inputs used in valuation techniques into three levels: (1) quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date, (2) inputs other than quoted market prices included within level 1 that are either directly or indirectly observable and (3) unobservable inputs. The standard also outlines required disclosures regarding fair value measurements.
- iii) Amendments to IAS 1, *Presentation of Financial Statements – Items of Other Comprehensive Income* addresses requirements for entities to group items presented in other comprehensive income based on whether they can potentially be reclassified to profit or loss subsequently.
- iv) IAS 28, *Investments in Associates and Joint Ventures* (as amended in 2011) applies to entities that have joint control or significant influence over an investee. The standard sets out the requirements for applying the equity method to investments in joint ventures and associates.

The following standards and amendments are not yet effective and are not expected to be relevant to the Company.

<i>International Accounting Standards (IAS / IFRS)</i>	<i>Effective for annual periods beginning on or after:</i>
IFRS 1 – First-time Adoption of International Financial Reporting Standards	January 1, 2015
IFRS 7 – Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)	January 1, 2013
IFRS 10 – Consolidated Financial Statements (amendments)	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities (amendments)	January 1, 2013
IAS 19 – Employee benefits	January 1, 2013
IAS 27 – Separate Financial Statements (amendments)	January 1, 2013
IAS 32 – Financial Instruments: Presentation (amendments)	January 1, 2013

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(in thousands of Canadian dollars except share data or unless otherwise specified)

4 Business combinations

a) 2012 Acquisitions

During the year, the Company acquired three retail liquor stores (Canada – 2; US – 1). The Canadian retail liquor stores were acquired on June 5, 2012 and November 21, 2012; the US retail liquor store was acquired on January 30, 2012. These retail liquor stores were primarily acquired in areas where the Company only had a limited presence and to gain access to favourable locations. These business acquisitions have been accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the identifiable assets acquired at the effective date of the purchase.

The purchase prices allocated to the assets acquired in these acquisitions are as follows:

	Canada	US	Total
Purchase price:			
Cash paid during the year	1,929	601	2,530
Net assets acquired:			
Inventory	354	601	955
Goodwill	1,575	-	1,575
	1,929	601	2,530

Goodwill acquired arises from the efficiencies and synergies created between the existing business of the Company and the acquired assets. The goodwill acquired is expected to be deductible for tax purposes.

Since their acquisition, the Canadian businesses acquired had combined sales of \$480 and a loss before interest, taxes, depreciation, and amortization of \$58 during the year ended December 31, 2012. The business acquired in the US had sales of \$2,082 and earnings before interest, taxes, depreciation, and amortization of \$59 since its acquisition date to December 31, 2012. If the acquisitions had occurred on January 1, 2012, management estimates that sales would have been \$5,687 and earnings before interest, taxes, depreciation, and amortization for the same period would have been \$129. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition dates would have been the same if the acquisition had occurred on January 1, 2012.

b) 2011 Acquisitions

In July 6, 2011, the Company acquired the remaining 50% interest in a subsidiary that operates one retail liquor store in Canada, for cash consideration of \$778. As this transaction did not result in a change of control, the \$501 difference between the consideration paid and the \$1,280 carrying value of the non-controlling interest acquired was recognized in equity.

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5 Inventory

The cost of inventory recognized as an expense included in cost of sales for the year ended December 31, 2012 was \$470,977 (2011 - \$445,363). There were no write downs of inventory included in cost of sales in the current year or prior year. No inventory write-downs recognized in previous periods were reversed in the current year or prior year.

6 Property and equipment

	Year ended December 31, 2012				
	Opening net book value \$	Exchange differences \$	Net Additions \$	Amortization charge \$	Closing net book value \$
Leasehold improvements	25,459	(69)	5,138	(4,033)	26,495
Operating equipment	4,649	(23)	1,204	(692)	5,138
Office equipment and fixtures	2,203	(16)	2,024	(453)	3,758
Computer equipment	2,232	(12)	779	(1,326)	1,673
Vehicles	166	(1)	225	(89)	301
Signage	1,864	(4)	380	(340)	1,900
Shelving and racking	1,867	(11)	1,541	(393)	3,004
Buildings	332	-	-	(15)	317
Land	-	3	938	-	941
	38,772	(133)	12,229	(7,341)	43,527

During the year, the Company acquired a parcel of land which has been included in the US operating segment (note 22). Assets with a net book value of \$9 were disposed of during the year ended December 31, 2012 (2011 - \$37). Included in property and equipment are fully amortized assets with a cost of \$646 (2011 - \$547) that are still in use.

	December 31, 2012		
	Cost \$	Accumulated amortization \$	Net \$
Leasehold improvements	49,654	23,159	26,495
Operating equipment	7,688	2,550	5,138
Office equipment and fixtures	5,734	1,976	3,758
Computer equipment	7,057	5,384	1,673
Vehicles	564	263	301
Signage	3,646	1,746	1,900
Shelving and racking	4,932	1,928	3,004
Buildings	387	70	317
Land	941	-	941
	80,603	37,076	43,527

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	Year ended December 31, 2011				
	Opening net book value \$	Exchange differences \$	Net Additions \$	Amortization charge \$	Closing net book value \$
Leasehold improvements	26,961	(73)	2,095	(3,524)	25,459
Operating equipment	4,735	(34)	570	(622)	4,649
Office equipment and fixtures	1,785	(33)	790	(339)	2,203
Computer equipment	3,168	(16)	326	(1,246)	2,232
Vehicles	209	(2)	47	(88)	166
Signage	1,998	(6)	185	(313)	1,864
Shelving and racking	1,657	14	517	(321)	1,867
Buildings	347	-	-	(15)	332
	40,860	(150)	4,530	(6,468)	38,772

	December 31, 2011		
	Cost \$	Accumulated amortization \$	Net \$
Leasehold improvements	45,648	20,189	25,459
Operating equipment	6,519	1,870	4,649
Office equipment and fixtures	3,769	1,566	2,203
Computer equipment	7,256	5,024	2,232
Vehicles	660	494	166
Signage	3,300	1,436	1,864
Shelving and racking	3,424	1,557	1,867
Buildings	387	55	332
	70,963	32,191	38,772

No impairments were recognized on the property and equipment during the years ended December 31, 2012 and 2011. The Company's property and equipment are pledged as collateral by a general security agreement under the terms of the loan facility advance (note 9b).

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*(in thousands of Canadian dollars except share data or unless otherwise specified)***7 Intangible assets**

	Year ended December 31, 2012					
	Opening net book value \$	Exchange differences \$	Additions \$	Impairments \$	Amortization charge \$	Closing net book value \$
Finite life						
Customer relationships	100	(3)	-	-	(97)	-
Leases	940	(11)	175	-	(209)	895
Software	296	(1)	231	-	(97)	429
Indefinite life						
Retail liquor licenses	43,286	(233)	818	(2,500)	-	41,371
Trade names	1,523	-	3	-	-	1,526
	46,145	(248)	1,227	(2,500)	(403)	44,221

	December 31, 2012		
	Cost \$	Accumulated amortization \$	Net \$
Finite life			
Customer relationships	1,455	1,455	-
Leases	6,514	5,619	895
Software	603	174	429
Indefinite life			
Retail liquor licenses	41,371	-	41,371
Trade names	1,526	-	1,526
	51,469	7,248	44,221

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	Year ended December 31, 2011					
	Opening net book value \$	Exchange differences \$	Additions \$	Transfers \$	Amortization charge \$	Closing net book value \$
Finite life						
Customer relationships	325	-	-	-	(225)	100
Retail liquor licenses	3,776	1	-	(3,577)	(200)	-
Leases	1,814	9	-	-	(883)	940
Software	162	-	197	-	(63)	296
Indefinite life						
Retail liquor licenses	38,254	242	1,213	3,577	-	43,286
Trade names	1,523	-	-	-	-	1,523
	45,854	252	1,410	-	(1,371)	46,145

	December 31, 2011		
	Cost \$	Accumulated amortization \$	Net \$
Finite life			
Customer relationships	1,455	1,355	100
Leases	6,576	5,636	940
Software	372	76	296
Indefinite life			
Retail liquor licenses	43,286	-	43,286
Trade names	1,523	-	1,523
	53,212	7,067	46,145

Transfers relate to certain retail liquor licenses that were previously determined to have a definite life, however, have now been assessed as having an indefinite life as a result of a litigation settlement in 2011 (note 18).

Impairments

For the purpose of impairment testing, intangible assets with indefinite useful lives are allocated across multiple cash-generating units, typically at the level of an individual store, none of which are significant to the Company's total intangible assets. The Company performs its annual impairment tests as of October 1 each year.

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Key assumptions used in calculating the recoverable amount, which reflect past experience and current market expectations are:

	October 1, 2012	October 1, 2011
Weighted average growth rate	2.5%	2.0%
Pre-tax discount rate	10.0% - 12.0%	11.3% - 15.8%

The Company completed its annual impairment tests during the fourth quarter and identified that an impairment charge of \$2,500 was required for certain of its retail liquor licenses, which are classified as indefinite life intangible assets, related to five stores on Vancouver Island, British Columbia (Canadian operating segment). The impairment primarily related to a change in management's forecasted sales and profitability as a result of changing demographics and increased competition in the areas that these stores operate. The ability for the Company to relocate these retail liquor licenses to more favourable locations is limited due to licensing regulations that restrict where retail liquor stores can operate. No reversals of previously recorded impairment charges were recorded during the year (2011 - \$nil).

No impairments were recognized on the finite life intangible assets or the trade names during the years ended December 31, 2012 and 2011. The Company's intangible assets are pledged as collateral by a general security agreement under the terms of the loan facility advance (note 9b).

8 Goodwill

	December 31, 2012 \$	December 31, 2011 \$
Opening balance	280,305	279,878
Retail liquor store acquisitions	1,575	-
Foreign currency translation	(421)	427
Closing Balance	281,459	280,305

a) Impairment test for goodwill

Goodwill is allocated to the Company's cash-generating units identified according to operating segment, before aggregation into reportable segments. The Company's reportable segments are Canadian Operations and US Operations. There is one goodwill CGU in Canadian Operations and two in US Operations - Kentucky and Alaska.

The recoverable amount of a CGU is determined based on fair value less cost to sell calculations. These calculations use projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The

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growth rate does not exceed the long-term average growth rate for the retail liquor industry in which the CGU operates. The Company performs its annual impairment tests as of October 1 each year.

Goodwill has been allocated to the CGU's as follows:

	December 31, 2012 \$	December 31, 2011 \$
Canada	262,501	260,926
Kentucky	9,534	9,746
Alaska	9,424	9,633
Total	281,459	280,305

b) Key assumptions used for fair value calculations

	2012			2011		
	Canada \$	Kentucky \$	Alaska \$	Canada \$	Kentucky \$	Alaska \$
Weighted average growth rate	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%
Discount rate	10.0%	11.4%	11.0%	8.4%	9.9%	9.9%

An increase in the discount rate to approximately 12.0%, 15.0% and 16.0% in the fair value calculations for Canada, Kentucky and Alaska, respectively, would reduce the recoverable amount to the respective CGUs carrying amounts. Reasonably possible changes in other key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

Management determined the budgeted gross margins based on past performance and its expectations for market trends. The weighted average growth rates applied to gross margin are consistent with the forecasts included in industry reports. Growth rates applied to expenditures in the forecast ranged from 1.5% to 2.5%. The discount rates used reflect specific risks relating to the relevant segments.

The Company completed its review of goodwill for impairment for the year and determined that goodwill is not impaired for any CGU.

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9 Bank indebtedness and long-term debt

a) Bank indebtedness

The Company has a US\$5,000 demand line of credit with a US bank. Interest on the amount outstanding on the demand line of credit is payable at the lender's prime rate plus 0.5% per annum or LIBOR plus 1.75% per annum. The demand line of credit is secured by a \$5,000 standby letter of credit issued under the Company's credit facility (note 9b). At December 31, 2012, \$3,891 (2011 - \$nil) of the available line of credit was utilized.

Bank indebtedness of \$40,424 in 2011 was comprised of banker's acceptances and prime loans utilized on the Company's operating facility. As part of the amended and restated credit facility entered into on February 10, 2012 (note 9b) the maturity dates for all amounts in the operating facilities have been extended and, therefore, no amounts are current as at December 31, 2012.

b) Long-term debt

Long-term debt comprises the following:

	Maturity date	2012 effective rate %	December 31, 2012 \$	December 31, 2011 \$
Loan facility advance ⁽ⁱ⁾	February 10, 2015	3.41	86,321	46,591
5.85% debenture ⁽ⁱⁱ⁾	April 30, 2018	8.41	63,724	-
6.75% debenture ⁽ⁱⁱⁱ⁾	May 28, 2012	10.13	-	55,873
			150,045	102,464
Unamortized deferred financing costs ^(iv) :				
Loan Facility			(367)	(122)
Debentures			(3,112)	(192)
			146,566	102,150
Less: Current portion of long-term debt			-	55,681
			146,566	46,469

i) Loan facility advance

On February 10, 2012, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility available to the Company. Significant changes to the credit facility include an increase in the facility from \$143,000 to \$150,000 and an extension of the maturity date to February 10, 2015. Pursuant to the terms of the credit facility, the Company may request an increase in the available credit by \$50,000 to be approved by the lenders on a best-effort basis.

The Company's credit facility with a syndicate of Canadian banks is comprised of an extendible revolving \$150,000 operating facility ("Operating Facility") and a \$50,000 extendible revolving loan facility. The Company has the option to utilize its Operating Facility by requesting prime loan advances, US base rate advances, LIBOR advances, and banker's acceptance or letter of credit advances.

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Interest on bank indebtedness related to the Operating Facility is payable at the lender's prime rate plus 0.60% or the banker's acceptance discount rate plus a stamping fee of 1.85%. Interest on amounts outstanding on the Loan Facility is payable at the lender's prime rate plus 0.60% or the banker's acceptance discount rate plus a stamping fee of 1.85%. Standby fees for the Operating Facility and Loan Facility are charged at an annual rate of 0.37% payable monthly on undrawn portions of the facilities. Financing fees relating to the Operating Facility have been capitalized and are being amortized over the term of the credit facility using the effective interest method.

Fees and interest on borrowings under the credit facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio. Funded debt is defined in the agreement as debt plus seven times rent; EBITDA is defined in the agreement as net income for the period plus interest expense, income tax, long term incentive plan expenses not settled in cash, depreciation, amortization, deferred taxes, extraordinary and non-recurring losses, write down of goodwill, restructuring charges from store closures, deductions for non-controlling interest less and extraordinary and non-recurring gains from sales of property and equipment or swaps. As at December 31, 2012, the Company is in the third of four tiers of the pricing grid, with the third tier providing the second lowest rate of interest under the credit facility.

The long-term debt is collateralized by a general security agreement covering all present and after-acquired property of the Company and its affiliates and subsidiaries, a floating charge over all of the present and after acquired real property of Liquor Stores Limited Partnership and its direct and indirect subsidiaries and an assignment of the Company's insurance. Further, the Company's direct and indirect subsidiaries have provided the syndicate with unlimited guarantees of the credit facilities. The assets of the Company and its subsidiaries represent substantially all of the Company's assets.

At December 31, 2012, the Company had issued \$nil (2011 - \$2,000) in letters of guarantee for day-to-day inventory purchases in Canada and \$5,000 (2011 - \$5,000) to secure a \$5,000 USD demand line of credit with a US bank. These letters of guarantee reduce the total credit available on the facility.

The Company's credit facility agreements contain both objectively determinable and subjective covenants which, if the Company fails to comply, could accelerate repayment requirements.

In 2011, the Company entered into an interest rate swap, expiring December 14, 2015, to fix the effective interest rate on a notional \$60,000 of principal debt with a rate equivalent to 1.388% plus the applicable credit spread determined with reference to the credit facility. Fair value adjustments to the interest rate swap are included in finance costs in the statement of earnings. A gain of \$380 was recognized in 2012 (2011 - \$390 loss). This financial instrument has not been designated as a hedge for accounting purposes.

ii) 5.85% unsecured subordinated convertible debenture ("5.85% Debenture")

On April 23, 2012, the Company issued \$67,500 aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "2012 Debentures") at a price of \$1,000 per 2012 Debenture. The 2012 Debentures are subordinated, unsecured obligations of the Company and bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2012. The 2012 Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the "Conversion Price") of \$24.90 per share.

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The 2012 Debentures will not be redeemable prior to April 30, 2015. On and after April 30, 2015 and prior to April 30, 2017, the 2012 Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after April 30, 2017 and prior to the maturity date, the Company may, at its option, redeem the 2012 Debentures by way of cash payment or through the issuance of common shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

The value of the conversion feature, which was determined to be \$4,437, net of \$207 in transaction costs, has been recorded as equity with the remaining \$59,912 (net of \$3,151 in transaction costs) recorded as long-term debt. A deferred income tax liability of \$1,106 related to the conversion feature was recorded directly to the carrying amount of the equity component. The debentures are being accreted such that the liability at maturity will be equal to the face value of \$67,500.

iii) 6.75% unsecured subordinated convertible debentures ("6.75% Debentures")

On May 28, 2012, the Company redeemed the outstanding 6.75% Debentures with a maturity date of December 31, 2012, a principal amount of \$57,500, and accrued interest of \$1,459. When redeemed, the 6.75% Debentures had a carrying value of \$56,393 and accordingly an additional \$1,107 was charged to interest expense.

iv) Deferred financing costs

During the year ended December 31, 2012, financing fees of \$659 were incurred in connection with the amendments to the Loan Facility (2011 - \$nil) and \$3,151 were incurred in connection with the 5.85% Debentures. These fees have been recorded as deferred financing costs and are being amortized using the effective interest method over the term of the Loan Facility and the 5.85% Debentures.

Amortization of deferred financing costs and accretion of discount included in interest expense for the year ended December 31, 2012 was \$2,816 (2011 - \$2,163). Upon redemption of the 6.75% Debentures on May 28, 2012, the unamortized accretion and deferred financing costs related to the 6.75% Debentures of \$1,107 were expensed and included in interest expense.

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10 Finance costs

Finance costs comprise the following:

	2012	2011
	\$	\$
Interest expense		
Bank indebtedness	293	2,776
Long-term debt ⁽ⁱ⁾	2,977	1,961
Convertible debenture ⁽ⁱⁱ⁾	6,782	5,517
Change in fair value of interest rate swap	(380)	390
Net loss (gain) on foreign exchange from financing activities	46	(195)
	9,718	10,449

- i) Included in interest expense on long-term debt were amortization of deferred financing costs of \$292 (2011 - \$520).
- ii) Interest expense on the convertible debentures of \$6,782 (2011 - \$5,517) represents coupon interest of \$4,258 (2011 - 3,873) and \$2,524 (2011 - \$1,644) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

11 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance. During the year ended December 31, 2012, the Company declared monthly dividends of \$0.09 per share or \$24,652 (2011 - \$0.09 per share or \$24,426). Dividends of \$22,674 (2011 - \$23,883) were paid during the year, of which \$1,955 (2011 - \$1,075) was paid in shares pursuant to the Company's dividend reinvestment plan. Dividends of \$2,063 were payable as at December 31, 2012 (2011 - \$2040). Dividends are paid mid-month following the month of declaration.

Dividends were declared on January 15, 2013 and February 15, 2013 in the amount of \$0.09 per common share and were paid to the holders of common shares as at the close of the record dates of January 31, 2013 and February 28, 2013, respectively.

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12 Income tax

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority and taxable entity, resulting in the following presentation on the Statements of Financial Position:

	December 31, 2012 \$	December 31, 2011 \$
Deferred income tax liabilities	22,138	16,465
Deferred income tax assets	1,703	1,610
	20,435	14,855

The following are the major deferred tax balances recognized and movements thereon during the current and comparative year:

	Balance - January 1, 2012 \$	Charged to net earnings \$	Charged to equity attributable to shareholders \$	Exchange differences \$	Balance - December 31, 2012 \$
Deferred income tax liabilities					
Intangible assets	6,299	(224)	-	(10)	6,065
Property and equipment	3,009	367	-	(29)	3,347
Goodwill	6,176	2,229	-	(13)	8,392
Partnership income	5,415	2,534	-	-	7,949
Convertible debenture	455	(628)	1,106	-	933
	21,354	4,278	1,106	(52)	26,686
Deferred income tax assets					
Issue and financing costs	276	(259)	-	(2)	15
Deferred lease inducements	728	15	-	-	743
Long-term incentive plans	244	130	-	(2)	372
Non-capital losses	5,251	(56)	-	(74)	5,121
	6,499	(170)	-	(78)	6,251
	14,855	4,448	1,106	26	20,435

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	Balance - January 1, 2011 \$	Charged/ (credited) to net earnings \$	Exchange differences \$	Balance - December 31, 2011 \$
Deferred income tax liabilities				
Intangible assets	5,331	967	1	6,299
Property and equipment	1,094	1,916	(1)	3,009
Goodwill	3,743	2,438	(5)	6,176
Partnership income	-	5,415	-	5,415
Convertible debenture	867	(412)		455
	11,035	10,324	(5)	21,354
Deferred income tax assets				
Issue and financing costs	427	(151)	-	276
Deferred lease inducements	816	(91)	3	728
Long-term incentive plans	246	(3)	1	244
Non-capital losses	2,362	2,856	33	5,251
	3,851	2,611	37	6,499
	7,184	7,713	(42)	14,855

The above includes a net deferred income tax asset recorded by a wholly-owned US subsidiary of \$1,175 (2011 - \$1,126).

The Company has recognized deferred income tax assets related to non-capital losses of \$14,131 (2011 - \$16,100) available in subsidiaries to offset income taxes of future years. If not utilized, \$41 of non-capital loss carry forwards will expire in 2028, \$2,386 will expire in 2029, \$3,681 will expire in 2030, \$4,512 will expire in 2031, and \$3,511 will expire in 2032. Deferred income taxes are not recorded on \$103,746 of goodwill that is not deductible for tax.

The tax on the Company's earnings before income taxes differs from the amount that would arise using the weighted average tax rate applicable to the consolidated entities as follows:

	2012 \$	2011 \$
Earnings before income taxes at statutory rate of 25% (2011 - 26.5%)	6,427	8,621
Tax effects of		
Impact of difference between US and Canada tax rates	74	40
Non-temporary differences	114	(363)
Impairment loss not deductible for tax purposes	113	-
Impact of substantively enacted tax rates	-	(569)
Other	(75)	-
Income tax expense	6,653	7,729

The weighted average applicable rate was 25.0% (2011 - 26.5%). The decrease in rate is due to a previously legislated decrease in the federal statutory corporate income tax rate from fiscal 2011 to fiscal 2012.

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13 Share capital

a) Authorized:

An unlimited number of voting common shares are authorized to be issued.

b) Issued and outstanding:

	#	\$
Balance – January 1, 2011	22,577,088	180,000
Vested long-term incentive plan units	13,015	197
Shares issued under dividend reinvestment plan	75,799	1,075
Balance – December 31, 2011	22,665,902	181,272
Balance – January 1, 2012	22,665,902	181,272
Exercised share options	144,750	2,245
Transfer from contributed surplus for share options exercised	-	194
Shares issued under dividend reinvestment plan	112,887	1,955
Conversion of subordinated debentures	1,052	30
Balance – December 31, 2012	22,924,591	185,696

14 Earnings per share

	2012	2011
	\$	\$
Net earnings attributable to owners of the parent	18,778	24,463
	2012	2011
	#	#
Weighted average number of common shares outstanding – Basic	22,815,607	22,614,334
Effect of dilutive securities		
Equity-settled share-based payment awards	50,982	-
Weighted average number of common shares outstanding - Diluted	22,866,589	22,614,334
	2012	2011
	\$	\$
Basic earnings per share	0.82	1.08
Diluted earnings per share	0.82	1.08

For the year ended December 31, 2012, potential shares issuable in exchange for 274,500 equity-settled share options have been included in the diluted earnings per share calculation; the potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect.

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Due to their anti-dilutive effect, the potential shares issuable in exchange for convertible debentures and 537,750 equity-settled share options were not included in the diluted earnings per share calculation for the year ended December 31, 2011.

15 Share-based payments

a) Employee share-based payments

On March 24, 2011, 675,000 share options were granted to employees with an exercise price set at \$15.52 per share, which was the five day average trading price preceding the grant date. Of these awards, 598,500 were equity-settled share options and 76,500 were cash-settled share options. Share options vest over three years (1/3 at each of the first, second and third anniversaries of the grant date) and expire five years after the grant date.

For equity-settled share options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined.

The weighted average fair value of options granted during the period was \$1.53 per option. The significant weighted average inputs into the model were a share price of \$15.52, an exercise price of \$15.52, an expected life of five years, volatility of 24.50%, a dividend yield of 6.96%, and an annual risk-free interest rate of 2.70%.

Movements in the equity-settled share options are as follows:

	2012		2011	
	Share options #	Weighted average exercise price \$	Share options #	Weighted average exercise price \$
Outstanding – January 1	537,750	15.52	-	-
Granted	-	-	598,500	15.52
Exercised	(144,750)	15.52	-	-
Forfeited	(118,500)	15.52	(60,750)	15.52
Outstanding – December 31	274,500	15.52	537,750	15.52
Exercisable at December 31	34,500	15.52	-	-

For cash-settled share options, compensation expense is recognized with a corresponding increase in liabilities as the employees become entitled to the payment over the vesting period. The fair value of the liability of vested options is determined based on the difference between the exercise price and the five day weighted average price preceding the balance sheet date and is re-measured at each balance sheet date and settlement date.

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Movements in the cash-settled share options are as follows:

	2012		2011	
	Share options #	Weighted average exercise price \$	Share options #	Weighted average exercise price \$
Outstanding – January 1	69,750	15.52	-	-
Granted	-	-	76,500	15.52
Exercised	(23,250)	15.52	-	-
Forfeited	(4,500)	15.52	(6,750)	15.52
Outstanding – December 31	42,000	15.52	69,750	15.52
Exercisable at December 31	-	-	-	-

For the year ended December 31, 2012, share-based payment compensation expense for equity-settled awards was \$121 (2011 - \$432); share-based payment compensation expense for cash-settled awards was \$137 (2011 - \$nil) for cash-settled awards.

b) Directors deferred share plan (“DS Plan”)

The following table summarizes the status of the Plan:

	2012 #	2011 #
Unvested Units – January 1	37,096	42,204
Vested Units (settled in cash) Awards	(3,630) 13,879	(21,040) 15,932
Unvested Units – December 31	47,345	37,096

During the year ended December 31, 2012, awards accruing to DS Plan participants totalled \$320 (2011 - \$150), which was recorded as compensation expense in the year.

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16 Related party transactions

The following transactions were carried out with related parties:

- a) Operating and administrative expenses

	2012	2011
	\$	\$
Professional fees ⁽ⁱ⁾	105	326
Rent expense ⁽ⁱⁱ⁾	581	535
	686	861

(i) A Director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services.

(ii) The Company paid rent to entities controlled by a Director of the Company.

These operating and administrative expenses are incurred in the normal course of business at terms similar to those applicable to unrelated parties.

There was \$nil included in accounts payable and accrued liabilities (2011 – \$9) relating to these transactions.

- b) Compensation of key management

Key management includes the directors and executive officers of the Company.

	2012	2011
	\$	\$
Salaries and short-term benefits	2,485	2,355
Share-based payments	391	305
Other	2,291	-
	5,167	2,660

Other compensation of key management, which is included in operating and administrative expenses for the year ended December 31, 2012, relates to payments of \$2,291 made to the Company's former President and Chief Executive Officer upon his departure from his position effective August 31, 2012. Also included in operating and administrative expenses for the year ended December 31, 2012 are payments totalling \$93 to the Chairman of the Board for his services provided as Interim Chief Executive Officer. These expenses have been included in the Canadian operating segment (note 22).

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17 Expenses by nature

	2012 \$	2011 \$
Wages and employee benefits	53,030	46,750
Lease and premises costs	30,626	27,676
Advertising and promotion	4,736	4,031
Other	25,448	22,172
Total operating and administrative expenses	113,840	100,629

Included in operating and administrative expenses for the year are \$1,267 of costs associated with a store investment with a prospective partner that was not completed which have been included in the US operating segment (note 22). Wages and employee benefits for the year ended December 31, 2012 include payments of \$2,291 made to the Company's former President and Chief Executive Officer upon his departure from his position effective August 31, 2012 and are included in the Canadian operating segment (note 22).

18 Litigation settlement

Effective September 1, 2011, the Company entered into a settlement agreement with respect to litigation arising from the 2007 acquisition of Liquor Barn Income Fund. The settlement agreement provided for payments to the Company in the aggregate of \$4,000. In addition to the monetary component of the settlement, the Company obtained certain intangible assets with an incremental value of \$920.

The Company recorded a gain from the settlement totalling \$4,920 during the year ended December 31, 2011.

19 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	2012 \$	2011 \$
Accounts receivable	(2,774)	89
Inventory	(15,563)	(5,701)
Prepaid expenses and deposits	(2,805)	(101)
Accounts payable and accrued liabilities	15,003	(4,930)
	(6,139)	(10,643)

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Interest and income taxes paid are included in cash flows from operating activities in the Statement of Cash Flows.

	2012	2011
	\$	\$
Interest paid	7,236	7,854
Income taxes paid	71	66

20 Financial instruments

a) Financial instruments measured at fair value

The only instrument recognized at fair value is the interest rate swap, which is a level 2 measurement. There have been no transfers of instruments between levels in the hierarchy.

The fair values of interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date.

Fair value hierarchy

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

b) Financial instruments measured at other than fair value

Financial assets that are valued at other than fair value on the consolidated balance sheet include cash and accounts receivable. The carrying value less impairment provision of trade receivables approximates fair value at December 31, 2012 and December 31, 2011 due to the short-term nature of the instruments.

Financial liabilities that are valued at other than fair value are comprised of bank indebtedness, accounts payable and accrued liabilities, dividends payable to Shareholders and non-controlling interest, and long-term debt. Bank indebtedness, long-term debt and convertible debentures have been recorded initially at fair value and subsequently at amortized cost using the effective interest method.

The carrying value of trade payables approximates their fair value due to the short-term nature of the instruments. The carrying value of bank indebtedness and long-term debt approximates the fair value, as the

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interest rate affecting these instruments is at a variable market rate. The fair value of the debentures was \$71,550 (2011 - \$60,364) and was determined based on market trading values at the balance sheet date.

Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Company's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable.

The Company maintains its cash and cash equivalents with large financial institutions in Canada and the US. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers. Risk associated with respect to accounts receivable is mitigated by credit management policies.

The Company is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the hospitality industry.

The Company's receivables include \$151 in trade receivables, \$1,385 of lease inducements receivables and \$2,086 in other receivables. Substantially all of the Company's trade receivables are aged less than 60 days. An expense of \$17 (2011 - \$9) was recorded for bad debts or significant past due accounts. Management does not consider credit risk to be material to current operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change.

a) Interest rate risk

The Company is subject to cash flow interest rate risk as its credit facilities bear interest at variable rates.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Company, assuming an outstanding bank indebtedness and loan balance of \$90,212, adjusted for the \$60,000 interest rate swap discussed below.

	+1.00%	-1.00%
	\$	\$
Increase (decrease) in interest expense	302	(302)
(Decrease) increase in earnings	(227)	227

The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company is party to an interest rate swap with a Canadian Schedule I bank that matures December 14, 2015 whereby the interest paid by the Company on \$60,000 is equivalent to 1.388% plus the applicable credit spread determined with reference to the credit facility.

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b) 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 cash flow exposure is limited to US intercompany management fees and interest payments which totalled US\$7,278 (2011 - US\$7,071). A 5% weakening or strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of US\$364 (2011 - US\$354).

The Company also has exposure to foreign exchange risk through its US denominated demand line of credit. A 5% weakening or strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of \$194 (2011 - \$nil).

Liquidity risk

The Company's liabilities have maturities which are summarized below:

	Current \$	Non- current \$
Bank indebtedness	3,891	-
Accounts payable and accrued liabilities	38,464	-
Distributions payable to shareholders	2,063	-
Long-term debt (February 10, 2015 maturity)	-	86,321
Convertible debenture (April 30, 2018 maturity)	-	67,500

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they come due. As well, the degree to which the Company is leveraged may reduce its ability to obtain additional financing for working capital and to finance growth acquisitions.

To manage liquidity risk, the Company has historically renewed credit terms prior to maturity dates and maintains financial ratios that are conservative compared to financial covenants applicable to the credit facilities. In addition, a portion of the Company's short and long-term credit facilities remain undrawn. Management monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facility agreements.

Capital management

The Company views capital as the combination of its Loan Facility, convertible debentures and Shareholders' equity balances. In general, the overall capital of the Company is evaluated and determined in the context of its financial objectives when managing capital, which are to ensure the Company has capital and capacity to support its growth strategy, provide investors with stable returns and ensure the Company has the financial capacity to support its operations.

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The Company's capital structure reflects the requirements of a company focused on growth, both through the development of new stores and through acquisitions. Management continually monitors the adequacy of the Company's capital structure and adjusts the structure accordingly, either by accessing credit facilities, issuing debt instruments, or issuing new shares.

There were no changes to the Company's objectives, policies or processes for managing capital from the prior fiscal year.

The Company's credit facilities with a syndicate of Canadian banks are subject to a number of financial covenants. Management prepares financial forecasts to monitor its compliance with the financial covenants and to anticipate possible future issues. Under the terms of the Company's credit facility, the following ratios are monitored: current ratio, funded debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA"), adjusted debt to earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR"), and fixed charge coverage ratio. For the year ended December 31, 2012 and 2011, the Company is in compliance with all covenants.

With respect to equity, the current level of capital is considered adequate and in line with the operations and the strategic growth plan of the Company. The equity component of capital changes primarily based upon the income of the Company less distributions paid.

21 Commitments

The future minimum lease payments under non-cancellable operating leases for head office and retail store premises are as follows:

	\$
Not later than one year	23,056
Later than one year and not later than five years	56,431
Later than five years	23,066
	<hr/> 102,553

Total lease payments recognized as an expense in the year were \$21,667 (2011 - \$19,865).

Current lease terms vary from monthly to twenty-five years and expire between 2013 and 2025.

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22 Operating segments

The Company has two reportable segments: Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating margin, which is defined as earnings before amortization, finance costs and income tax expense (recovery), as included in the internal management reports that are reviewed regularly by the Company's Interim Chief Executive Officer (the Company's chief operating decision maker) and follow the organization, management and reporting structure of the Company. Operating margin is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating margin to earnings before income taxes, an earnings measure used in the Company's Consolidated Statement of Earnings and Comprehensive Income, has been included in the table below.

Operating margin is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, operating margin may not be comparable to similar measures presented by other issuers. Investors are cautioned that operating margin should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

	December 31, 2012		
	Canadian Operations \$	US Operations \$	Consolidated \$
Sales to external customers	481,081	149,025	630,106
Operating margin (note 16 & 17)	37,498	8,173	45,671
Property and equipment amortization			7,341
Intangible asset amortization			403
Impairment loss			2,500
Finance costs			9,718
Earnings before income taxes			25,709
Other information			
Expenditures for additions to			
Property and equipment	8,239	4,000	12,239
Intangible assets	1,228	47	1,275
Total assets at December 31, 2012	453,153	79,934	533,087

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	December 31, 2011		
	Canadian Operations \$	US Operations \$	Consolidated \$
Sales to external customers	452,390	139,112	591,502
Operating margin	37,955	7,944	45,899
Property and equipment amortization			6,468
Intangible asset amortization			1,371
Litigation settlement			(4,920)
Finance costs			10,449
Earnings before income taxes			32,531
Other information			
Expenditures for additions to			
Property and equipment	2,389	1,931	4,320
Intangibles	1,089	334	1,423
Total assets at December 31, 2011	428,535	74,612	503,147

23 Comparative figures

Certain of the comparative figures were reclassified from statements previously presented to conform to the current year presentation.