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, 2011
As of March 13, 2012

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, 2011. Unless otherwise stated, results are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"). The CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011 with retrospective restatement of 2010 comparative figures. Accordingly, the Company is reporting on this basis in these financial statements. In this MD&A, the term, "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS. 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", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other non-GAAP financial measures. A description of these measures and their limitations are discussed on page 24 under "Non-GAAP Financial Measures".

See also "Risk Factors" and "Forward-Looking Statements" on page 19 and 24 of this MD&A.

This MD&A is dated March 13, 2012.

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

HIGHLIGHTS

Three Months Ended December 31, 2011

- Same store sales increased 2.0% in Canada and 2.3% in the United States.
- Overall operating margin before non-recurring items increased by 6.0% to $15.7 million.
- Four new stores were opened in the fourth quarter (three stores in Alberta and one in Kentucky).

Consolidated sales were $168.2 million, representing an increase of 2.9% over the fourth quarter of 2010.

Canadian same-store sales strengthened by 2.0% to $112.2 million in the fourth quarter, compared with $110.0 million in fourth quarter of 2010. U.S. same store sales also improved, increasing by 2.3% in the fourth quarter, from US$39.4 million to US$40.3 million.

Overall gross margin, as a percentage of sales, increased to 24.9% for the fourth quarter from 24.7% last year. Operating margin, before non-recurring items increased 6.0% to $15.7 million for the fourth quarter of 2011, from $14.8 million in the fourth quarter of 2010.

Twelve Months Ended December 31, 2011

- Overall Canadian same store sales increased by 3.7% and U.S. same store sales increased by 1.6%. Same store sales increases in Alberta and Alaska were offset by marginal same store sales decreases in British Columbia and Kentucky.
- Operating margin before non-recurring items increased by 8.1% to $46.9 million.
- Consolidated sales for the year increased to $591.5 million, representing an increase of 2.0% from consolidated sales of $579.7 million in 2010.

Continued improvements in the Company's business resulted in very positive fourth quarter results, a quarter that exhibited many of the positive trends experienced throughout 2011. Consolidated sales increased by 2.9% to $168.2 million, and both Canadian and U.S. same store sales also increased, by 2.0% and 2.3%, respectively. Although not yet in force, Management believes sales in Alberta (the Company's largest market) were affected as a result of media attention surrounding the Government of Alberta's proposed new impaired driving legislation. The fourth quarter also saw improvements in overall gross margin as a percentage of sales, which increased to 24.9% in the quarter from 24.8% during fourth quarter 2010. Operating margin before non-recurring items, a key indicator of the Company's business, increased 6.0% to $15.7 million for the fourth quarter (compared to $14.8 in fourth quarter 2010). The overall strong results in Canada for the quarter were attributable, in part, to an enhanced advertising strategy, and further positive adjustments to the Company's purchasing strategies, category management and merchandising techniques. With respect to the United States, the results benefitted from a store refresh program and more aggressive print advertising.

The Company's results for the year-ended December 31, 2011 were also strong. Canadian same-store sales in 2011 increased by 3.7% and U.S. same store sales increased by 1.6% over the previous year. Strong same store sales in Alberta and Alaska were offset by marginal decreases in British Columbia and Kentucky. Although overall gross margin of 24.8% remained the same in 2011 vs. 2010, operating margin before non-recurring items improved by 8.1% to $46.9 million. Consolidated sales in 2011 increased to $591.5 million, from $579.7 million in 2010, representing a 2% increase from the preceding year.

OUTLOOK

The Company's fourth quarter 2011 results exhibited comparative increases in consolidated sales, same store sales and operating margin. Management expects first quarter 2012 results to have greater comparative increases in consolidated sales, same store sales, and operating margin over first quarter 2011 than the comparative increases experienced in fourth quarter 2011 over fourth quarter 2010. Although Management expects results throughout 2012 may be negatively affected by the continued pressure on consumer spending habits in Alberta as public awareness of the Government of Alberta's proposed new impaired driving legislation continues to garner media attention, early information in British Columbia indicates that consumer spending habits may be returning to the levels in place prior to the October 2010 implementation of similar new impaired driving laws in that province (which should help lessen the anticipated effect of the new Alberta legislation). Early operating results from the Company's U.S. operations demonstrate many of the trends experienced in the U.S. in fourth quarter 2011, with a further strengthening of U.S. operating margins.

OVERVIEW OF THE COMPANY

The Company was incorporated on November 8, 2010 under the federal laws of Canada. 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 debentures. 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. The Company operates 240 retail liquor stores. Management believes the Company is the largest liquor store operator in Alberta by number of stores and revenue.

Stores and Operations (as of March 13, 2012)

	Alberta			British Columbia			Alaska	Kentucky			Total
	Edmonton[(1)]	Calgary[(1)]	Other[(2)]	Lower Mainland	Vancouver Island	Interior	Anchorage	Lexington	Louisville	Danville	
Number of Stores	79	46	49	13	11	11	20	6	4	1	240

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres.
(2) Other communities served in Alberta include, by region, Northern (24), 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 174 liquor stores in Alberta where there are approximately 1,250 liquor stores and 94 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 and 266 manufacturer's stores. [Source: British Columbia Liquor Distribution Branch].

The Company currently operates 20 stores in the greater Anchorage, Alaska area. In the State of Alaska there are approximately 397 retail liquor stores with 87 stores in the greater Anchorage area. There are also approximately 20 seasonal retail liquor stores for golf courses and resort properties. Save for limited community liquor stores that are operated by certain municipal governments, 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's "Brown Jug" trade name is well recognized throughout the state as the leading alcoholic beverage retailer.

The Company operates eleven stores in Kentucky of which seven are large format stores. 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 830 package retail license stores in Kentucky with 246 in Jefferson County, 82 in Fayette County and six in Boyle County [Source: Kentucky's Alcoholic Beverage Control Board]. The Company currently operates six stores in Lexington (Fayette County), four stores in Louisville (Jefferson County) and one store in Danville (Boyle County).

BUSINESS STRATEGY

Growth

The Company's strategy is to continue to grow through new store development and acquisitions, 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 continued marketing and brand development of its well-known industry-leading brands. Management is also confident that its emphasis in Canada on establishing and maintaining convenient and high-traffic locations assists the Company in differentiating it from industry competitors.

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

Dividend Policy

The payment of dividends by the Company is subject to the discretion of the Board of Directors and may vary depending upon a variety of factors, including (but not limited to) the prevailing economic and competitive environment, the Company's results of operations and earnings, and fluctuations in working capital and ongoing capital requirements. Presently, the Board of Directors has approved a monthly dividend of $0.09 per share ($1.08 annually). For Canadian residents, the Company's dividends are considered to be eligible dividends for income tax purposes (subject to gross up and the enhanced dividend tax credit).

Cash Provided by Operating Activities before Changes in Non-cash Working Capital

In reviewing the Company's financial statements, investors should consider that the statement of comprehensive income includes significant provisions for amortization of property, plant and equipment and for intangible assets resulting from store acquisitions, deferred taxes and non-cash interest. Amortization and non-cash transactions have a major impact on the basic and diluted earnings per share calculation.

Cash provided by operating activities before changes in working capital is an additional GAAP measure which the Company believes provides useful information to investors and management by providing an indication of cash flow available for sustaining its current annual dividend of $1.08 per share, investment in working capital, replacement or purchase of new fixed assets, acquisitions, and debt repayment. Investors often compare basic and diluted earnings per share amounts to the Company's annual dividend. Basic and diluted earnings per share for the three months ended December 31, 2011 and 2010 are $0.35 and $0.69 respectively, and for the twelve months ended December 31, 2011 and 2010 are $1.08 and $1.08, respectively. The Company believes that cash provided by operating activities before changes in non-cash working capital provides a better indicator of the Company's ability to sustain its current annual dividend than basic and diluted earnings per share.

Cash provided by operating activities before changes in working capital and non-recurring items and the calculation of this measure and the additional GAAP measure on a per share basis are all non-GAAP financial measures (see Non-GAAP Financial Measures). Please refer to the Earnings per Share note 17 in the Company's Financial Statements for the most directly comparable measure calculated in accordance with GAAP.

The following table provides a reconciliation of cash provided by operating activities before changes in non-cash working capital and non-recurring items to its nearest GAAP alternative which is cash provided by operating activities before changes in non-cash working capital:

	Three months ended December 31,		Twelve months ended December 31,	
(expressed in thousands of Canadian dollars, except per share amounts)	**2011**	**2010**	**2011**	**2010**
Cash provided by operating activities before changes in non-cash working capital	$ 13,934	$ 11,973	$ 42,419	$ 34,120
Non-recurring items [1]	-	805	(2,971)	1,787
Cash provided by operating activities before changes in non-cash working capital and non-recurring items	$ 13,934	$ 12,778	$ 39,448	$ 35,907
Weighted average number of shares outstanding [2]	22,651,069	22,558,073	22,614,334	22,556,969
Per share amount [2]	**$ 0.62**	**$ 0.53**	**$ 1.88**	**$ 1.51**
Per share amount before non-recurring items [2]	**$ 0.62**	**$ 0.57**	**$ 1.74**	**$ 1.59**
Cash dividends per share [2]	$ 0.27	$ 0.41	$ 1.08	$ 1.62

(1) *Non-recurring items for the twelve months ended December 21, 2011 are related primarily to the cash proceeds on the settlement of litigation relating to the 2007 acquisition of Liquor Barn Income Fund less related costs. For the three months ended December 31, 2010 non-recurring items also include costs related to the conversion from an income trust to a corporation and store closure costs. For the twelve months ended December 31, 2010 non-recurring items include a refund of GST following the successful appeal of a reassessment.*

(2) *Prior to December 31, 2010 the Company was an income trust. References to" share" and "dividend" above should be read as "unit" and "distribution" for such prior periods.*

Seasonality

The retail liquor industry is subject to seasonal variations with respect to sales and consequently operating results and the Company's results regularly exhibit this seasonality. The Company's sales are typically lowest early in the year and increase in the latter half. In 2011, 19% (2010 - 20%) of annual same store sales occurred in the first quarter, 26% (2010 - 26%) in the second quarter, 27% (2010 - 26%) in the third quarter and 28% (2010 - 28%) in the last quarter. Over the course of a year, the Company expects that cash provided by operating activities before changes in non-cash working capital will exceed dividends.

Dividend Reinvestment Plan

In April 2011 the Company announced a Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Presently, shares issued pursuant to the DRIP are issued at a discount of 3% from the market price (as such term is defined in the Plan) and no brokerage or administration fees are charged by the Company for participating in the Plan.

As at February 29, 2012 shareholders enrolled in the DRIP held approximately 1.8 million shares.

Further information concerning the DRIP and enrolment forms for the Plan is available on the Company's website at www.liquorstoresna.ca.

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. Stores which have significant wholesale business have been excluded.

Three Months Ended December 31, 2011

The following table summarizes the operating results for the three months ended December 31, 2011 and 2010:

	Three months ended December 31,			
	2011		**2010**	
(Cdn $000's, unless otherwise stated)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales				
Canadian same stores	112,230	66.7%	109,994	67.2%
Canadian wholesale operations (1)	12,525	7.4%	13,046	8.0%
Other Canadian stores (2)	1,138	0.7%	438	0.3%
Total Canadian store sales	125,893	74.8%	123,478	75.5%
U.S. same stores (US$)	40,321	24.0%	39,404	24.1%
Other U.S. stores (US$) (3)	1,078	0.6%	156	0.1%
Foreign exchange on US store sales	952	0.6%	518	0.3%
Total U.S. store sales	42,351	25.2%	40,078	24.5%
Total sales	168,244	100.0%	163,556	100.0%
Gross margin	41,842	24.9%	40,471	24.7%
Operating and administrative expense	26,180	15.6%	26,504	16.2%
Operating margin	15,662	9.3%	13,967	8.5%
Non-recurring items(4)	-	-	805	0.5%
Operating margin before non-recurring items	15,662	9.3%	14,772	9.0%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from those stores.*

(2) *Sales for the three months ended December 31, 2011 and 2010 include those of 4 stores opened and 5 stores closed subsequent to September 30, 2010.*

(3) *Sales for the three months ended December 31, 2011 and 2010 include those of 2 stores opened in Kentucky subsequent to September 30, 2010.*

(4) *For the three months ended December 31, 2010 non-recurring items include costs related to the Liquor Barn litigation, conversion from an income trust to a corporation and store closure costs.*

Fourth Quarter 2011 Operating Results Compared to Fourth Quarter 2010 Operating Results

Sales

Sales for the three months ended December 31, 2011 and 2010 were $168.2 million and $163.6 million, respectively, up 2.9%.

Same Store Sales

- Canadian same store sales were up $2.2 million or 2.0%.
  - Overall same store sales increased by 1.9% in Alberta while same store sales for the Company's British Columbia stores increased 2.6%. This reversed the trend earlier in the year when British Columbia same store sales were adversely affected by more stringent impaired driving laws and the effect in the province of the imposition of HST on customer buying habits.
  - In Alberta same store sales increases in resource communities achieved sales growth in excess of 10%.
  - In the fall of 2011 the Government of Alberta announced that it intended to adopt legislation with more stringent standards concerning impaired driving. Although these laws are not yet in effect management believes that the media

coverage and increased public awareness of the prospective legislation may have had an effect on sales and same store sales in the Company's Alberta stores.

- U.S. same store sales were up US$0.9 million or 2.3% primarily because of a more aggressive promotional campaign in the Company's Alaska stores compared to the fourth quarter last year.

Other Sales

- Wholesale business sales for the three months ended December 31, 2011 were $12.5 million, down $0.5 million from 2010.
- Other Canadian stores include four stores opened in the fourth quarter this year and five stores that closed subsequent to September 30, 2010.
- Other U.S. stores include two Kentucky stores opened subsequent to September 30, 2010.

Gross Margin

For the three months ended December 31, 2011, gross margin was $41.8 million, up 3.4% from $40.5 million for the same period last year due to increased sales revenue.

Gross margin as a percentage of sales increased to 24.9% from 24.7% in 2010.

Operating and Administrative Expense

Operating and administrative expense for the three months ended December 31, 2011 was $26.2 million, up from $25.7 million (before non-recurring costs of $0.8 million) last year due to increases in payroll, rent and other expenses including those associated with opening five stores in the fourth quarter this year. Non-recurring expenses in 2010 included cost associate with the Liquor Barn litigation and those related to the Arrangement.

Operating Margin

Operating margin before non-recurring items was $15.7 million for the quarter ended December 31, 2011, up 6.0% from $14.8 million in 2010. As a percentage of sales, operating margin before non-recurring items was 9.3%, up from 9.1% a year earlier.

Operating margin before non-recurring items for Canadian operations for the fourth quarter of 2011 was $12.8 million or 10.1% as a percentage of sales compared with $12.0 million and 9.7% as a percentage of sales for 2010.

The U.S. operating margin before non-recurring items for the fourth quarter of 2011 was $2.9 million or 6.9% as a percentage of sales compared with $2.8 million and 7.1% as a percentage of sales last year.

Operating margin for the quarter ended December 31, 2011 was $15.7 million, up $1.7 million or 12.1% for the same period last year due to a significant increase in gross margin while expenses were relatively unchanged.

IFRS Implementation

Operating results for 2010 have been restated to reflect adjustments arising from the required implementation of IFRS. All of these adjustments relate to the period prior to the Company's conversion to a corporate structure from that of an income trust on December 31, 2010.

Due to the income trust structure in place during 2010, quarterly results for comparable periods in 2010 were subject to significant volatility, particularly with respect to finance costs and deferred income tax. For fiscal 2011 and periods thereafter, the Company does not currently expect the adoption of IFRS to create the same degree of volatility in reported results.

In 2010, rights to trust units, including exchangeable limited partnership units, the conversion feature on convertible subordinated debentures, and trust units reserved for issue pursuant to employee long term incentive plans, were all classified as liabilities and marked to market at the end of each reporting period. These items were included in equity under Canadian GAAP. Notwithstanding the foregoing, only the rights granted pursuant to the long term incentive plans have an impact on operating margins described above and the effects for 2010 were insignificant. Mark to market adjustments are reflected in finance costs with respect to the remaining items.

In addition, finance costs include distributions made to the holders of exchangeable limited partnership units, which under Canadian GAAP were not a charge against earnings.

Under the income trust structure, deferred income tax related to the Company's Canadian operations was provided for at the top marginal personal tax rate for an individual resident in the province of Alberta (39%) and no provision for deferred income tax was made with respect to the non-controlling interest represented by exchangeable limited partnership units.

With conversion to a corporate structure on December 31, 2010, all mark to market adjustments ceased, all trust units and exchangeable limited partnership units were converted to common shares of the Company on a one-for-one basis, and corporate tax rates were used to determine deferred income taxes. Additional details with respect to the Company's adoption of IFRS, including tables reconciling figures previously reported under Canadian GAAP to IFRS, can be found in the 2011 quarterly financial statements.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $2.1 million (2010: $1.9 million); non-cash interest of $0.5 million (2010: $0.6 million); foreign exchange gains of $0.1 million (2010: $0.2 million); and distributions to exchangeable unitholders and mark to market adjustments related to an interest rate swap, exchangeable units and the conversion feature of debentures totalling $0.4 million (2010: $2.8 million) in the quarter ended December 31, 2011.

Income Taxes

In the quarter ended December 31, 2011, 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 recovery of $0.1 million, resulted in an income tax expense of $3.1 million for the three months ended December 31, 2011, compared with an income tax recovery, arising largely from the conversion to a corporation from and income trust, of $7.1 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings

Net earnings for the three months ended December 31, 2011 were $7.9 million, compared to $12.7 million for the same period in 2010. Operating earnings before finance costs and income tax for the three months ended December 31, 2011 increased to $13.8 million from $10.9 last year. While interest expense was unchanged from 2010, the absence in 2011 of distributions to exchangeable interests and mark to market adjustments of the conversion feature on the convertible debentures and exchangeable interests led to a reduction in finance costs of $2.5 million. Income tax expense for the three months ended December 31, 2011 was $3.1 million compared to a recovery of $7.1 in the same period last year.

Twelve Months Ended December 31, 2011

The following table summarizes the operating results for the twelve months ended December 31, 2011 and 2010:

	Twelve months ended December 31,			
	2011		**2010**	
(Cdn $000's, unless otherwise stated)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales (1)				
Canadian same stores	398,443	67.4%	384,158	66.3 %
Canadian wholesale operations (1)	46,047	7.8%	47,807	8.2%
Other Canadian stores (2)	7,900	1.3%	7,325	1.3%
Total Canadian store sales	452,390	76.5%	439,290	75.8%
U.S. same stores (US$)	138,520	23.4%	136,276	23.5%
Other U.S. stores (US$) (3)	1,855	0.3%	156	-
Foreign exchange on U.S. store sales	(1,263)	(0.2%)	3,978	0.7%
Total U.S. store sales	139,112	23.5%	140,410	24.2%
Total sales	591,502	100.0%	579,700	100.0%
Gross margin	146,528	24.8%	143,482	24.8%
Operating and administrative expense	100,629	17.0%	101,846	17.6%
Operating margin	45,899	7.8%	41,636	7.2%
Non-recurring items (4)	1,029	0.1%	1,787	0.3%
Operating margin before non-recurring items	46,928	7.9%	43,423	7.5%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from those stores.*

(2) *Sales for the twelve months ended December 31, 2011 and 2010 include those of 8 stores opened and 8 stores closed subsequent to December 31, 2009.*

(3) *Sales for the twelve months ended December 31, 2011 and 2010 include those of 2 stores opened in Kentucky subsequent to December 31, 2009.*

(4) *Non-recurring items for the twelve months ended December 31, 2011 are related primarily to costs associated with the Liquor Barn litigation, a margin adjustment and severance. For the twelve months ended December 31, 2010 non-recurring items include costs related to the Liquor Barn litigation, the Arrangement and store closure costs less a refund related to a GST appeal.*

Twelve Months Ended December 31, 2011 Operating Results Compared to Twelve Months ended December 31, 2010 Operating Results

Sales

Sales for the twelve months ended December 31, 2011 and 2010 were $591.5 million and $579.7 million, respectively, up 2.0%. This occurred despite a $5.2 million decrease in the Canadian currency equivalent for U.S. sales as a result of foreign exchange rate differences.

Same Store Sales

- Canadian same store sales - up $14.3 million or 3.7%.
  - Canadian same store sales have benefitted from extended operational hours and enhanced customer service at the store level, a more aggressive promotional campaign in the first nine months of 2011 compared to the same period in 2010, and improved economic conditions in resource based communities. In British Columbia, same store sales were

adversely affected by more stringent impaired driving laws and the effect of the imposition of HST in the province on customer buying habits.

- U.S. same store sales - up US$2.2 million or 1.6% due in part to more aggressive promotional campaigns in the Company's Alaska stores.

Other Sales

- Wholesale business sales for the twelve months ended December 31, 2011 were $46.0 million, down $1.8 million or 3.7% from $47.8 million a year earlier.
- Other Canadian stores include stores that were opened, acquired or closed after December 31, 2009.
- Other U.S. stores include two Kentucky stores opened after December 31, 2009.

Gross Margin

For the twelve months ended December 31, 2011, gross margin was $146.5 million, up 2.1% from $143.5 million for the same period last year. Gross margin is up overall due to increased same store sales volumes.

Gross margin as a percentage of sales at 24.8% is unchanged from 2010.

Operating and Administrative Expense

Before non-recurring items, operating and administrative expense for the twelve months ended December 31, 2011 was $99.8 million, down 0.8% from $100.1 million a year earlier. Reductions in expenses following the closure of underperforming stores and pubs together with reduced exchange on U.S. expenses offset increases in payroll, rent and other expenses. For the twelve months ended December 31, 2011 there were non-recurring expenses of $0.8 million related to the Liquor Barn litigation and the costs of converting from an income fund to a corporation from and income fund compared to non-recurring expenses of $1.8 million in 2010.

Operating Margin

Operating margin before non-recurring items was $46.9 million for the twelve months ended December 31, 2011, up 8.1% from $43.4 million in 2010. As a percentage of sales, operating margin was 7.9%, up 0.3% from a year earlier.

Operating margin before non-recurring items for Canadian operations for the twelve months ended December 31, 2011 was $38.8 million or 8.6% as a percentage of sales compared with $35.6 million and 8.1% as a percentage of sales for 2010.

The U.S. operating margin before non-recurring items for the twelve months ended December 31, 2011 was $8.1 million or 5.8% as a percentage of sales compared with $7.8 million and 5.6% as a percentage of sales in 2010.

Operating margin for the twelve months ended December 31, 2011 was $45.9 million, up $4.3 million or 10.2% last year.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $8.1 million (2010: $7.6 million); non-cash interest of $2.1 million (2010: $2.1 million); foreign exchange gains of $0.2 million (2010: $0.9 million); and distributions to exchangeable unitholders and mark to market adjustments related to an interest rate swap, exchangeable units and the conversion feature of debentures totalling $0.4 million ($7.9 million: 2010) in the twelve months ended December 31, 2011 (See note 12 to the Financial Statements).

Litigation Settlement

In 2011, the Company entered in to a settlement agreement with respect to litigation arising from the 2007 acquisition of Liquor Barn Income Fund. The settlement agreement provided for (among other items) payments to the Company in the aggregate amount of $4.0 million as well as the transfer of certain intangible assets to the Company with an incremental value of $0.9 million. The Company has recorded a gain from the settlement totalling $4.9 million.

Income Taxes

In the twelve months ended December 31, 2011, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets. The result is a deferred income tax expense of $7.7 million in this quarter, compared to an income tax recovery, arising largely from the conversion to a corporation from an income trust, of $6.4 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings

Net earnings for the year ended December 31, 2011 were $24.8 million, compared to $20.3 million last year. Operating earnings before litigation settlement, finance costs and income tax for the year ended December 31, 2011 increased to $38.1 million from $30.6 last year. The settlement of the Liquor Barn litigation contributed $4.9 million in 2011. While interest expense increased by $0.6 million, the absence in 2011 of distributions to exchangeable interests and mark to market adjustments of the conversion feature on the convertible debentures and exchangeable interests led to a reduction in finance costs of $6.3 million. Income tax expense for the year ended December 31, 2011 was $7.7 million compared to a recovery of $6.4 in the same period last year.

Condensed Annual Information

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

	2011	2010 (1)(2)	2009 (2)	2008 (3)	2007 (3	2006 (3)
Statement of Financial Condition						
Cash and cash equivalents	$ 1,707	$ 2,815	$ 5,288	$ 3,530	$ 19,498	$ 3,397
Total assets	503,147	495,393	509,809	488,256	449,006	186,325
Bank indebtedness	40,424	41,468	41,094	31,172	-	5,455
Total current liabilities	123,013	71,839	68,688	83,240	14,062	12,896
Long-term debt	46,469	100,417	100,126	51,742	74,014	-
Total liabilities	185,947	181,206	178,068	145,598	96,708	12,896
Shareholders' equity	317,200	314,187	286,165	294,645	301,837	140,122
Non-controlling interest	85	285	45,576	48,013	50,461	33,307
Statement of Earnings						
# stores, end of year	239	237	236	223	195	105
Sales	591,502	579,700	541,049	482,915	383,063	221,997
Net earnings for the period	24,802	20,337	29,048	23,995	15,544	15,677
Basic earnings per share	$ 1.08	$ 1.08	$ 1.29	$ 1.03	$ 0.69	$ 1.33
Diluted earnings per share	$ 1.08	$ 1.08	$ 1.27	$ 1.03	$ 0.69	$ 1.31
Dividends declared per share	$ 1.08	$ 1.62	$ 1.62	$ 1.62	$ 1.49	$ 1.24

(1) *In the process of completing impairment models under IFRS, it was determined that goodwill in the Kentucky CGU was impaired by $2.4 million as of January 1, 2010 and as a consequence, deferred tax assets were understated by $0.9 million as at January 1, 2010. The information in this table includes the necessary adjustments in respect of goodwill, deferred tax assets and shareholders' equity.*

(2) *Information for 2010 has been restated in accordance with the adoption of International Financial Reporting Standards ("IFRS"). 2009 balances are prepared in accordance with Canadian GAAP before the adoption of IFRS. Prior to December 31, 2010 the Company was an income trust. References to" share" and "dividend" above should be read as "unit" and "distribution" for such prior periods.*

(3) *Annual information for 2006 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 Company. The following table summarizes the Company's store acquisitions, developments and closures for the past five 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
2011	-	5	(3)	2

Condensed Quarterly Information
(expressed in thousands of Canadian dollars, except per share amounts)

	2011 (1)				2010 (1)			
	Dec 31	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31 (2)**	**Sep 30 (2)**	**Jun 30 (2)**	**Mar 31 2)**
Statement of Financial Condition								
Cash and cash equivalents	$ 1,707	$ 895	$ 1,558	$ 2,106	$ 2,815	$ 2,215	$ 919	$ 1,236
Total assets	503,147	494,483	488,834	492,044	495,393	492,881	501,014	492,559
Bank indebtedness	40,424	39,605	47,706	54,075	41,468	41,310	49,962	40,430
Total current liabilities	123,013	62,150	70,327	75,503	71,839	67,802	73,370	63,826
Long-term debt	46,469	101,699	101,248	100,878	100,417	100,957	100,679	100,923
Total liabilities	185,947	177,742	182,530	173,005	181,206	242,340	249,812	249’664
Shareholders’ equity	317,200	316,742	306,304	319,039	314,187	250,541	251,202	242,924
Non-controlling interest	85	(15)	258	186	285	183	160	126
Statement of Earnings								
# stores, end of period	239	236	236	236	237	237	237	236
Sales	$ 168,244	$ 157,080	$ 150,210	$ 115,967	$ 163,555	$ 151,605	$ 148,742	$ 115,798
Operating margin before non-recurring items	15,662	13,660	12,390	5,216	14,772	13,146	11,505	4,000
Net (loss) earnings for the period	7,904	10,970	5,783	145	12,657	2,970	13,314	(8,604)
Basic earnings (loss) per Share	$ 0.35	$ 0.48	$ 0.25	$ 0.00	$ 069	$ 0.15	$ 0.71	$ (0.47)
Diluted earnings (loss) per Share	$ 0.35	$ 0.48	$ 0.25	$ 0.00	$ 0.69	$ 0.15	$ 0.71	$ (0.47)
Dividends declared per Share	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.405	$ 0.405	$ 0.405	$ 0.405

(1) *In the process of completing impairment models under IFRS, it was determined that goodwill in the Kentucky CGU was impaired by $2.4 million as of January 1, 2010 and as a consequence, deferred tax assets were understated by $0.9 million as at January 1, 2010. This adjustment was not included in quarterly filings in 2011. The information in this table includes the necessary adjustments in respect of goodwill, deferred tax assetsand shareholders equity.*

(2) *Information for the quarters in 2010 has been restated in accordance with the adoption of International Financial Reporting Standards (“IFRS”). Prior to December 31, 2010 the Company was an income trust. References to” share” and “dividend” above should be read as “unit” and “distribution” for such prior periods.*

(3) *See “IFRS Implementation” on page 6 for comments concerning volatility of 2010 quarterly net earnings.*

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' Equity

As at March 13, 2012, 22,684,915 common shares of the Company were outstanding.

Capital Expenditures

Historically, capital expansion has been financed by proceeds of equity and debt offerings or by utilizing existing credit facilities. The Company believes existing credit facilities are adequate to finance developments and acquisitions expected to occur in 2012. The Company would require additional capital or financing for a larger acquisition.

The Company opened four stores in the three and twelve months ended December 31, 2011.

Subsequent to December 31, 2011 the Company acquired one store in Lexington, Kentucky. The Company will continue to pursue acquisition opportunities and to open and develop new stores in 2012. The Company currently has commitments to open numerous new stores in Canada in 2012 with an estimated aggregate cost of $4.3 million. Management expects that these stores will open on various dates between May and October 2012, subject to, among other things, store opening delays which might occur as a result of the late delivery of such leased premises by the landlords that are constructing the stores.

Credit Facilities and Subordinated Debenture

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 agreement include more favourable pricing; an increase in the principal amount available to $150.0 million (in the form of an extendable, revolving operating facility) a change from the Company's previous facility which had a principal amount of $143.0 million consisting of a $95 million extendible revolving operating loan and a $48 million extendible revolving term loan; and an extension of the maturity date to February 10, 2015 from the original maturity of June 26, 2013. Pursuant to the terms of the credit facility, the Company may request an increase in the available credit by $50 million (to be provided by the lenders on a best-effort basis). The Company also has a US$5.0 million facility with a U.S. bank.

At March 12, 2012 there was $91.5 million drawn on the Canadian credit facility. The Company has Cdn$2.2 million and US$5.0 million in letters of credit issued against the credit facility.

The Company also has $57.5 million in 6.75% subordinated convertible debentures maturing on December 31, 2012. Commencing January 1, 2012, the 6.75% subordinated debentures are callable at par plus accrued interest on not more than 60 days or less than 30 days written notice to debenture holders. On redemption, the Company may, at its option, on not more than 60 and not less than 30 days written notice and subject to regulatory approval, elect to satisfy in whole or part its obligations to pay the applicable redemption price by issuing and delivering shares of the Company at 95% of the then current market price.

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: 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 of 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.

Adjusted debt to EBITDAR

Adjusted debt is defined as the Company's debt plus seven times aggregate rent expense. EBITDAR is defined as EBITDA 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, cash dividends and rent.

As at December 31, 2011, the Company was in compliance with all credit agreement financial covenants, as follows:

Ratio	Covenant (February 10, 2012 Agreement)	Covenant (June 28, 2011 Agreement)	Company at December 31, 2011
Current	Not Applicable	> or = 1.10:1.00	2.02:1.00
Funded debt to EBITDA	< 3.00:1.00	< 2.75:1.00	1.65:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	< 5.00:1.00	3.13:1.00
Fixed charge coverage	> or = 1.00:1.00	> or = 1.00:1.00	1.36:1.00

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, 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 fund 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. As at the date hereof, there is $57.5 million aggregate principal amount of 6.75% convertible unsecured subordinated debentures of the Company outstanding, such debentures maturing on December 31, 2012. Although Management expects the Company will be able to re-finance the convertible debentures on or before the maturity date, a change in the availability of credit, a weakening of macro-economic factors, and/or a change in the Company's business or financial results could adversely affect the Company's ability to obtain financing to pay down or redeem the convertible debentures, as the case may be, on satisfactory terms.

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 fund operating and liquidity needs in the near term. As at March 12, 2012, the Company believes it has available credit of approximately $55.5 million to finance operating requirements and 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 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 Cdn$60.0 million is equivalent to 1.388% plus the applicable credit spread determined with reference to the credit facility. At March 13, 2012, the fixed rate paid by the Company under the interest rate swap is 3.328%. The Company is not using hedge accounting for this swap and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming outstanding bank indebtedness of $87 million of which $60 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at December 31, 2011.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 270	$ (270)
Increase (decrease) in net earnings	(203)	203

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's net earnings of $0.01 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 but these transactions 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 U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to U.S. intercompany management fees and interest payments which totalled US$7.1 million for the twelve months ended December 31, 2011.

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. Other than as noted above, foreign currency transactions are generally not material.

Contractual Obligations

The table below sets forth, as of December 31, 2011, 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)	2012	2013	2014	2015	2016	2017 and thereafter
Operating leases	$ 20,645	$ 18,334	$ 14,543	$ 11,048	$ 7,816	$ 15,041
6.75% Debentures	57,500	-	-	-	-	-
Long-term bank indebtedness	-	46,500	-	-	-	-
Total	$ 78,145	$ 64,834	$ 14,543	$ 11,048	$ 7,816	$ 15,041

OFF BALANCE SHEET ARRANGEMENTS

As at March 13, 2012, the Company is party to a $60.0 million interest rate swap with a Canadian Schedule I bank that matures December 14, 2015 and 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, an interest rate swap, bank indebtedness, accounts payable and accrued liabilities, dividends payable and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as loans and receivables. Financial liabilities are classified as other financial liabilities, other than derivatives which are held for trading. Refer to "Liquidity and Capital Resources" for discussion of risks associated with financial instruments.

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 twelve months ended December 31, 2011, the Company incurred professional fees of $226 thousand to a law firm of which a director of the Company is a partner. Rent paid to companies controlled by a director (and former Executive Chairman) of the Company amounted to $535 thousand for the twelve months ended December 31, 2011. As well, during the twelve months ended December 31, 2011 the Company paid $100 thousand in real estate consulting fees to a company controlled by another director (and former Chairman) of the Company. Compensation for the Company's directors and key executive management for the twelve months ended December 31, 2011 was $2.660 million compared to $2.082 million in 2010. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (See note 19 to the Financial Statements).

CRITICAL ACCOUNTING ESTIMATES

Goodwill

Goodwill is not amortized and is assessed for impairment at the goodwill cash generating unit level ("CGU"). 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 recoverable amount of a CGU to its carrying value. If the recoverable amount of the CGU exceeds its carrying value, goodwill is considered not to be impaired. If the carrying amount of the CGU exceeds its recoverable amount, goodwill impairment has been identified and must be recorded. 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 completed its transitional impairment test at January 1, 2010 and its annual goodwill impairment test as at October 1, 2011 using the discounted cash flow method of assessing fair value. A $2.4 million impairment in the goodwill for the Kentucky CGU was identified at January 1, 2010.

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.

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.

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

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. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

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 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.

IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") was incorporated into Canadian GAAP for publicly accountable enterprises beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in accounting policies that were evaluated.

The transition to IFRS from Canadian GAAP is a significant change which has affected the Company's reported financial position and results of operations. The most significant impacts of IFRS conversion related to the assessment of alternatives available under IFRS 1, business combinations, property and equipment, and asset impairment, as well as issues related to the income trust structure in place in 2010.

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 made this election and did 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 did not take the election. There was no impact on the financial statements.
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 has applied 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 did not have an impact on the Company upon conversion to IFRS.

Business Combinations

The Company early adopted CICA Handbook section 1582 Business Combinations effective January 1, 2010. This standard 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 eliminated 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

IFRS allows an entity 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. No significant adjustments resulted from asset componentization.

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. Recoverable amount is measured as the higher of fair value less costs to sell or value-in-use based upon discounted cash flow methodology. 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. The Company has chosen to define the CGU at the individual store level for property and equipment and intangible assets and as a result, some operating segments may have increased potential for impairment losses in the future. The impact of the impairment test under IAS 36 as at January 1, 2010 resulted in a writedown of goodwill of $2.4 million, an increase in deferred income tax assets of $0.9 million and a corresponding decrease in shareholders' equity of $1.5 million in the consolidated statement of financial position. No other asset impairments were identified through the adoption of IFRS. See note 10 to the Financial Statements.

Income Trust Structure

The Company identified certain differences between Canadian GAAP and IFRS relevant to its 2010 structure as an income trust. The most significant impacts dealt with the accounting for deferred income taxes and puttable financial instruments. The result was an increase in the deferred income tax liability and in recognizing non-controlling interest and exchangeable units as a liability. These differences, including reconciliations of previously reported figures, are more fully explained in the Financial Statements.

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 GAAP. 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 properly designed and effective for the year ended December 31, 2011. 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, 2011 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 its shares and debentures 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

Liquor Stores' success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors 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 cash 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 Share will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common

Shares as compared to the annual yield on 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 sector price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

Restrictions on Potential Growth

The payout by Liquor Stores of a substantial amount of its operating cash flow makes additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Liquor Stores and its cash flow.

Cash Dividends

The actual cash flow available for the payment of cash 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. Cash 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

Liquor Stores 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”), the Liquor Control and Licensing Branch of the Province of British Columbia (“BCLCLB”), the Alcoholic Beverage Control Board (Alaska)(“ABCB”), and the Department of Alcoholic Beverage Control (Kentucky)(“KYABC”) and rules enacted by them or by other governmental authorities (including state, provincial, county, municipal or other local governments), new legislation, regulations, rules, or bylaws, or changes to existing legislation, regulations, rules, or bylaws, can materially impact the operations of Liquor Stores, both favourably and unfavourably. Changes in legislation, regulations, rules or bylaws may arise as a result of a multitude of factors, including but not limited to citizen referenda.

There is no assurance that the operations or licensing of Liquor Stores (or the amount of cash available to Liquor Stores for the payment of dividends) will not be adversely affected by: i) new legislation, regulations, rules, or bylaws; ii) changes and court challenges to existing legislation, regulations, rules, or bylaws; iii) new interpretations of existing legislation, regulations, rules or bylaws; or iv) decisions of the AGLC, the BCLCLB, the ABCB, the KYABC, or other governmental entities (including state, provincial, county, municipal, or other local governments) or applicable courts.

All of Liquor Stores’ Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Similar to the process in Alberta, all B.C. stores are operated pursuant to licenses issued by the BCLCLB, which must be re-applied for annually.

All of Liquor Stores’ 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.

Since its inception in 2004, Liquor Stores has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked.

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

Commodity Taxes & Government Mark-Ups

Changes in tax rates or government mark-ups, and their corresponding effect on product pricing could affect sales and or earnings. If taxes or government mark-ups increase and Liquor Stores increases prices by the full amount of the tax or mark-ups, as the case may be, sales volumes could be adversely impacted. If Liquor Stores is not able to pass the full amount of the tax or mark-up increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax or mark-up 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. Changes in the regulatory regime in a particular jurisdiction may increase competition which in turn could materially adversely affect Liquor Stores' business and results of its operations.

In Alberta, Liquor Stores competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. 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.

In British Columbia, Liquor Stores competes with government owned and operated liquor stores, local independent stores, and wine stores. In February 2010, the British Columbia government amended certain liquor control and licensing regulations, including an amendment that 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 (subject to certain "grandfathering" exceptions). This arrangement limits the number of entrants who are able to enter into the market.

In each of Alaska and Kentucky, Liquor Stores 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; as such, competitors 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 Liquor Stores' growth strategy. Liquor Stores expects to continue to selectively seek strategic acquisitions in both Canada and the U.S. Liquor Stores' 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 Liquor Stores' resources and, to the extent necessary, Liquor Stores' ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose Liquor Stores 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 Liquor Stores' stores; entry into markets or new store formats in which Liquor Stores has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Liquor Stores' ongoing business; and diversion of management time and resources.

Liquor Stores expects that new store development will also continue to be a significant part of Liquor Stores' growth strategy. The development of new stores is subject to many of the same risks as acquisitions including but not limited to limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on Liquor Stores' resources. The rate of new store developments may be impacted by factors outside of Liquor Stores' 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 Liquor Stores' 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 Liquor Stores' 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 Liquor Stores enters into long-term leases for its store locations, Liquor Stores' ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Weather

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

Key Personnel

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

Labour Costs and Shortages and Labour Relations

The success of Liquor Stores' 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 Liquor Stores to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Liquor Stores' results of operations.

Liquor Stores does not currently have any unionized staff; however there is no assurance that some or all of the employees of Liquor Stores will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on Liquor Stores' results of operations.

Supply Interruption or Delay

Liquor Stores is dependent upon a limited number of distributors for a substantial majority of its products. Specifically, liquor store operators in Alberta are dependent on the Connect Logistics Service warehouse and Brewers Distributor Ltd. 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 Liquor Stores' U.S. operations, a limited number of private distributors serve the jurisdictions in which Liquor Stores 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 Liquor Stores and its subsidiaries.

Importance of Information and Control Systems

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

Changes in Income Tax Legislation And Other Laws

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

On February 12, 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 facility include an increase in the principal amount available to $150,000,000 and an extension of the maturity date to February 10, 2015 as well as more favourable interest rate pricing. Pursuant to the terms of the credit agreement the Company also has the ability to request an increase in the available credit by $50,000,000 (to be provided by the lenders on a best-efforts basis). The Company also has a US$5,000,000 with a U.S. bank. As of March 12, 2012 there was approximately $91.5 million outstanding under our Canadian credit facility.

In the event that our Canadian credit facility is not extended past its current maturity date (or in the event the credit is renewed on different terms) it could adversely affect the Company's 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 Canadian 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.

Dilution and Future Sales of Common Shares

Liquor Stores is authorized to issue an unlimited number of Common Shares for the consideration and on terms and conditions as are established by the Board of Directors without the approval of any Shareholders. In the normal course of making capital investments to maintain and expand our business operations, additional Common Shares may be issued. Additionally, from time to time, we may issue Common Shares from treasury in order to reduce debt and maintain a more optimal capital structure. As well, additional new common shares are issued on a monthly basis pursuant to the Company's dividend reinvestment plan. Conversely, to the extent that external sources of capital, including the issuance of additional Common Shares, becomes limited or unavailable, our ability to make the necessary capital investments to maintain or expand our business operations will be impaired. To the extent that we are required to use additional cash flow to finance capital expenditures or acquisitions, or to pay debt service charges or reduce debt, the amount of cash dividends paid to Shareholders could be reduced. Any further issuances of Common Shares will also dilute the interests of existing Shareholders. Shareholders have no pre-emptive rights in connection with such future issuances.

Active Trading Market for the Common Shares and/or the Convertible Debentures

While there is currently an active trading market for the Common Shares, we cannot guarantee that an active trading market will be sustained. If an active trading market in the Common Shares is not sustained, the trading liquidity of the Common Shares will be limited and the market value of the Common Shares may be reduced.

Although the Convertible Debentures trade on the Toronto Stock Exchange, there is not currently an active trading market for the Convertible Debentures, and we cannot guarantee that an active trading market will develop. If an active trading market in the Convertible Debentures does not develop, the trading liquidity of the Convertible Debentures will remain limited and the market value of the Convertible Debentures may be adversely affected.

Conflicts of Interest

Certain directors of Liquor Stores are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Liquor Stores are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Liquor Stores. See "Conflicts of Interest"

NON-GAAP FINANCIAL MEASURES

Operating margin, operating margin as a percentage of sales, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, 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, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, 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, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, 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, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales may not be comparable to similar measures presented by other issuers.

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, 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, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Cash provided by operating activities before changes in working capital and non-recurring items is a non-GAAP financial measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. Investors are cautioned that this should not be construed as an alternative measure of profitability.

Operating margin for purposes of disclosure under "Operating Results" has been derived by subtracting Operating and Administrative expenses from Gross Margin. 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 and recoveries received by the Company that are not part of on-going operations and that are not expected to recur. Among others, these non-recurring items include professional fees paid in respect of lawsuits that originated following and arising from the Company's acquisition of Liquor Barn Income Fund in 2007 and the proceeds received on settlement of these matters.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements or information. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and performance of the Company, the Company's assessment of the impact of the transition to IFRS under the section "International Financial Reporting Standards", business strategy, projected store openings, costs, as well as plans and objectives of or involving the Company. 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 anticipated opening dates of new stores, and management’s general 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” 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.