Liquor Stores N.A. Ltd.

Annual Report 2012

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DEAR FELLOW SHAREHOLDERS

In 2012, Liquor Stores delivered strong financial results and a return on investment in excess of 30% for our shareholders including share price accretion and dividends distributed.

For the year ended December 31, 2012, Liquor Stores reported record sales of $630.1 million, a 6.5% increase over 2011, with same store sales increasing by 3.0% in Canada and 1.1% in the United States. Even as we faced a challenging consumer environment, we increased gross margin by 50 basis points to 25.3%.

We worked on building the Company in 2012; we opened ten new stores. That makes fifteen new stores since the beginning of Q4 2011. We launched two new big box stores in the Edmonton area. Wine and Beyond opened their doors to customers in late September with the largest selection of wine, beer and spirits in Canada. They have far exceeded our expectations and customer response has been excellent. Bowling Green, Kentucky is the site of our other new large-format store and it has been very well received by the community there.

We had a change of leadership in 2012. Our President and CEO Rick Crook retired from the Company in August 2012. We thank him for his 12 years of leadership of the Company. In early April 2013 we announced the appointment of a new leader with an impressive track record of retail success in Canada and the United States. Stephen Bebis becomes Liquor Stores' President and Chief Executive Officer on May 7, 2013. All of us at Liquor Stores are looking forward to his leadership as we build the Company's prospects for expansion and profitability in our current markets and as we look to grow in new markets in the United States.

On behalf of Liquor Stores' management and Board, our thanks to all our employees for their efforts and dedication this past year. To our shareholders, thank you for your continued ownership and support.

At Liquor Stores, we're proud of our achievements and excited about our future.

Jim Dinning
Chairman of the Board
Interim Chief Executive Officer
Liquor Stores N.A. Ltd.

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

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2012 is supplemental to, and should be read in conjunction with, the audited Consolidated Financial Statements and Notes thereto (the "financial statements") of Liquor Stores N.A. Ltd. (the "Company" or "Liquor Stores") for the years ended December 31, 2012 and 2011, and the unaudited interim consolidated financial statements for the periods ended March 31, 2012, June 30, 2012 and September 30, 2012. In this MD&A, all references to "we", "us", "our", and "the Company" refer to Liquor Stores N.A. Ltd. and its subsidiaries. All references to "Management" refer to the directors and senior officers of the Company.

Unless otherwise stated, financial information is expressed in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

Throughout this MD&A references are made to non-IFRS financial measures, including "operating margin", "operating margin as a percentage of sales", "adjusted operating margin", "adjusted net earnings", "adjusted earnings per share", "adjusting items" and "cash provided by operating activities before changes in non-cash working capital and adjusting items". A description of these measures and their limitations are discussed on page 33 under "Non-IFRS Financial Measures".

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors on a quarterly basis. The Board of Directors has approved this MD&A as of March 5, 2013.

Additional information relating to the Company, including our Annual Information Form ("AIF") and discussions of our 2012 quarterly results, is available on SEDAR (www.sedar.com) and on the Company's website at www.liquorstoresna.ca.

FORWARD LOOKING STATEMENTS

In the interest of providing current shareholders and potential investors with information regarding current results and future prospects, 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, 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 are 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.

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HIGHLIGHTS

Three months ended December 31, 2012

- Opened or acquired 5 convenience-focused stores in Canada (2011 – 4) and opened 1 large-format store in Kentucky (2011 - 1)
- Consolidated sales increased 6.6% to $179.4 million (2011 - $168.2 million)
- Same-store sales increased by 0.3% ($0.4 million) in Canada and decreased by 1.5% ($0.6 million) in the US
- Gross margin increased to 25.4% (2011 – 24.9%)
- Adjusted operating margin was $14.4 million (2011 - $15.7 million)

Year ended December 31, 2012

- Opened 2 new concept/large-format stores in Alberta ("Wine and Beyond"), opened or acquired 6 convenience-focused stores in Canada (2011 – 4), opened 1 large-format store in Kentucky (2011-1), and acquired 1 convenience-focused store in Kentucky
- Consolidated sales increased 6.5% to $630.1 million (2011 - $591.5 million)
- Same-store sales increased by 3.0% in Canada and 1.1% in the US
- Gross margin increased to 25.3% (2011 – 24.8%)
- Adjusted operating margin increased by 4.9% to $49.2 million (2011 - $46.9 million)

Our financial performance for the year ended December 31, 2012 was highlighted by strong increases in sales, gross margin and adjusted operating margin.

The 6.5% sales increase in 2012 compared to 2011 was attributable to same-store sales increases in both Canada and the United States, and growth in the Company's store count. The Company has recorded nine consecutive quarters of 'quarter-over-quarter' same-store sales increases in Canada as at Q4 2012.

The Company added a total of ten (10) new stores in Alberta, British Columbia and Kentucky in 2012 and has added fifteen (15) new stores since the beginning of Q4 2011. This significant increase in store count as compared to recent prior years (2011 – net 2 new stores; 2010 – net 1 new store) is the result of the successful execution of the Company's growth strategy.

The 10 new stores in 2012 included one (1) large-format Liquor Barn store in Kentucky that was opened in December 2012 and two (2) new concept/large-format liquor stores in Alberta branded as "Wine and Beyond" (each in excess of 17,000 square feet) that were opened during the last week of September 2012. Wine and Beyond are upscale stores that have a strong focus on wine and customer service. Management believes that these stores carry the largest selection of wines, spirits and beers in Canada. Fashioned similar to our large-format stores in the US, these destination-type stores complement the Company's convenience-focused Liquor Depot and Liquor Barn stores in Alberta. The financial results for the Wine and Beyond stores in the fourth quarter exceeded Management's expectations.

The 0.3% increase in Canadian same-store sales in the fourth quarter of 2012 as compared to 2011 was less than the increases recorded during the first three quarters of 2012. Management believes that fourth quarter Canadian same-store sales compared to 2011 were impacted by the following: (i) the success of Wine and Beyond drew customers away from our convenience-focused Liquor Depot/Liquor Barn stores in the greater Edmonton region due to their uniqueness in the market place and seasonal holiday shopping (although the decrease in the greater Edmonton region's same-store sales was more than offset by the sales recorded by Wine and Beyond), (ii) the unfavourable calendar shift experienced for the Christmas and New Year's Eve holiday season (mid-week in 2012 vs. on weekends in 2011), (iii) the delayed start of the 2012-2013 National Hockey League season, and (iv) the impact of Alberta's new impaired driving legislation, which took effect just prior to the fourth quarter of 2012. Management believes that Canadian same-store sales were impacted in Q4 2012 as compared to 2011 by approximately $2.0 million to $2.5 million as a result of opening Wine and Beyond.

Same-store sales in the United States in 2012 were primarily impacted (a decrease of 1.5% or $0.6 million) by certain counties in Kentucky going from 'dry' to 'wet' throughout 2012 (i.e. certain counties in close proximity to the Company's stores that did not previously permit retail package liquor sales are now permitting these sales) and, to a lesser extent, unfavourable weather in Kentucky during the month of November 2012. To counteract the impact of 'dry' to 'wet', the Company has been actively sourcing potential acquisitions or opportunities to develop new stores in counties that have gone 'wet' or in counties where we do not yet have a presence; late in the fourth quarter of 2012 the Company opened one large-format store in Bowling Green, Kentucky.

The year ended December 31, 2012 and the fourth quarter of 2012 were highlighted by continued strong increases in gross margin percentages. Consolidated gross margin increased from 24.8% to 25.3% for the year and 24.9% to 25.4% in Q4 2012 compared to 2011. The increase in Q4 2012 represents the fifth consecutive quarter that the gross margin has increased over the comparative quarter. Management attributes these positive results primarily to our focus on improved merchandising, category management and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products.

Adjusted operating margin for the three months ended December 31, 2012 decreased by $1.3 million to $14.4 million, primarily due to a decline in US same-store sales and the relatively flat increase in Canadian same-store sales, inflation of operating expenses, investments being made to the Company's information

technology infrastructure and head office staffing complement to support the Company's growth strategy, and pre-opening costs associated with new stores.

OUTLOOK

Management is extremely pleased with the successful execution of our strategic growth plan, which has resulted in ten (10) new stores being added during 2012 and fifteen (15) in the last 15 months. We continue to source new growth opportunities for 2013 and beyond. However, new store openings are contingent upon a number of factors, primarily the availability of prime commercial development opportunities and construction timing. We anticipate that the rate of store growth in 2013 will slow compared to 2012, and then accelerate in 2014. Neither the timing nor the degree of likelihood of success of developing new stores can be stated with any degree of accuracy.

Management expects sales in 2013 to increase compared with 2012 as a result of the maturation of the stores added in 2012 and an increase in the number of stores. However, our financial results in 2013 may face pressure from certain uncontrollable factors including: (i) the slower economic growth forecasted in 2013, with particular emphasis on Alberta as a result of the uncertainty in the energy sector, (ii) the continued impact of Alberta's impaired driving legislation, especially on the second and third quarters of 2013 compared to 2012, and (iii) increasing competition from retail liquor stores that open in counties in Kentucky that went from 'dry' to 'wet' throughout 2012. In addition to these factors, there is the potential for changes to the licensing regime in Kentucky during 2013, as further discussed in the '*Competitive Environment*' section on this MD&A, which could have a negative impact on the Company's operations and financial results in Kentucky (US operating segment) should these changes be implemented.

In 2013, the Company will continue to execute its growth strategy, which is discussed further in the '*Business Strategy*' section on this MD&A, and will pay particular attention to purchasing trends at the store level so that inventory selection and pricing can be adjusted accordingly to maintain sales growth and gross margins.

The execution of the Company's growth strategy, including the development of new large-format stores and sourcing expansion opportunities in new regions, requires upfront investment and new stores require time to achieve sales maturity. However, Management believes that cash flow from existing operations and its available credit are sufficient to finance expansion and sustain its dividends at the current level.

Update on the Search for a New Chief Executive Officer

The Company's Board of Directors is presently completing a formal search for a new Chief Executive Officer and anticipates a successful conclusion of this search in the second quarter of 2013. Until a candidate has been appointed by the Board, Jim Dinning, current Chairman of the Board (and Board member since 2004), will continue to serve as Interim Chief Executive Officer.

OVERVIEW OF THE COMPANY

The Company's principal activity is the retailing of wines, beers and spirits in Canada (Alberta and British Columbia) and the United States (Alaska and Kentucky). The Company was incorporated on November 8, 2010 under the Canada Business Corporations Act ("CBCA") and is the successor entity to Liquor Stores Income Fund, which became a publicly traded entity in September 2004. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols LIQ and LIQ.DB.A, respectively.

As at December 31, 2012, the Company operated 249 (2011 - 239) retail liquor stores. Management believes the Company is the largest liquor store operator in Alberta, Canada's largest private liquor retailer and North America's largest publicly-traded liquor retailer (based upon number of store and revenue).

The Company operates under the brand names "Liquor Depot", "Liquor Barn" and "Wine and Beyond" in Alberta, "Liquor Depot", "Liquor Barn", and "Wine Cellar" in British Columbia, "Brown Jug" in Alaska, and "Liquor Barn, The Ultimate Party Source" and "Liquor Barn Express" in Kentucky.

Stores and Operations

As of March 5, 2013, the Company had 247 stores in the following regions:

Alberta			British Columbia			Alaska	Kentucky			Total
Edmonton(1)	Calgary(1)	Other(2)	Lower Mainland	Vancouver Island	Interior	Anchorage	Lexington	Louisville	Other(3)	
82	46	51	13	11	12	20	6	4	2	247
179			36			20	12			

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres. Note that two underperforming stores in the Edmonton region were closed in early 2013.

(2) Other communities served in Alberta include, by region, Northern (25), Southern (9), Central (15) and resort communities (2).

(3) Other communities served in Kentucky include Danville and Bowling Green.

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 179 liquor stores in Alberta where there are 1,313 liquor stores and 93 agency stores [Source: Alberta Gaming and Liquor Commission, as at December 2012].

The Company operates 36 stores in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of 694 private stores and 195 government operated stores. There are also 224 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch, as at February 2013].

The Company currently operates 18 stores in the greater Anchorage, Alaska area and 2 stores in Wasilla, Alaska. In the state of Alaska there are 398 retail liquor stores with 92 stores in the greater Anchorage and Wasilla areas. 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, as at February 2013]. The Company's "Brown Jug" trade name is well recognized throughout the state as the leading alcoholic beverage retailer.

The Company operates 12 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 whether the sale of alcoholic beverages is allowed in 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 863 package retail license stores in Kentucky with 257 in Jefferson County, 79 in Fayette County, 8 in Boyle County, and 27 in Warren Count [Source: Kentucky's Alcoholic Beverage Control Board, as at February 2013]. The Company currently operates 6 stores in Lexington (Fayette County), 4 stores in Louisville (Jefferson County), 1 store in Danville (Boyle County), and 1 store in Bowling Green (Warren County).

A coalition of grocers in Kentucky were recently successful at the trial court level in a court challenge to the state statute which prohibits the sale of wine and distilled spirits within grocery stores and gas stations (these retailers are presently only permitted to sell beer). In August 2012 the United States District Court, Western District of Kentucky ruled that the state statute violates the equal protection clause of the United States Constitution and the Commonwealth of Kentucky Constitution. The decision is currently under appeal in the U.S. Court of Appeals and it is anticipated a decision in the matter will be released in the third or fourth quarter of 2013. In the event the appeal is unsuccessful, the Company anticipates there will be a rapid proliferation of grocers, gas stations and convenience store operators adding wine and distilled spirits to their product offerings, substantially increasing competition for retail liquor store operators. An unsuccessful appeal may have a material negative impact on the Company's operations and financial results in Kentucky.

BUSINESS STRATEGY

Growth

The Company has implemented a five-year growth strategy designed to drive sales, further improve profitability and deliver shareholder value by focusing on:

- Expanding geographically through new store development and/or acquisitions to capitalize on opportunities in new regions and to reduce the concentration risk of any particular region. Based on a proven track record of success, the Company will be investing significantly in large-format expansion in both Canada and the United States.

- Developing new destination-focused/large-format stores in our current regions to complement our existing convenience-focused store network and expand market share.

- Strategically investing in new square footage in our existing regions (Alberta, British Columbia, Alaska, and Kentucky) as a result of population growth and, in the case of Kentucky, capitalizing on opportunities as a result of certain counties going from 'dry' to 'wet'.

- Strengthening our retail proposition to attract more customers to existing locations and increase sales per customer through an improved in-store experience, having the right product assortment, and competitive pricing. This will include investments in employee training, including both at the manager and staff level, enhancing our marketing strategies, investing in our existing store portfolio to refresh our stores, and an investment to enhance our information systems to support the Company's growth plan.

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. Neither the timing nor the degree of likelihood of success of developing new stores can be stated with any degree of accuracy.

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 development of its well-known industry-leading brands. Management is also confident that its emphasis on establishing and maintaining a range of stores from large-format/destination-type stores (focus on product selection, customer experience, etc.) to convenience-focused stores (convenient and high-traffic locations) assists the Company in differentiating it from industry competitors. The introduction of Wine and Beyond to the Alberta marketplace was primarily for competitive differentiation.

Management will continue to concentrate marketing efforts on the Company's current brand structure: "Liquor Depot", "Liquor Barn" and "Wine and Beyond" in Alberta, "Liquor Depot", "Liquor Barn", and "Wine Cellar" in British Columbia, "Brown Jug" in Alaska, and "Liquor Barn, The Ultimate Party Source" and "Liquor Barn Express" in Kentucky.

DIVIDENDS

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).

Dividends are declared payable each month to the Company's Shareholders on the last business day of each month and are paid by the 15th of the following month. 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 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 non-cash working capital is an additional IFRS 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 and the year ended December 31, 2012 were $0.23 and $0.82, respectively (2011 - $0.35 and $1.08). 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 non-cash working capital and adjusting items and the calculation of this measure and the additional IFRS measure on a per share basis are all non-IFRS financial measures (see Non-IFRS Financial Measures). Please refer to the Earnings per Share note in the Company's financial statements for the most directly comparable measured calculated in accordance with IFRS.

The following table provides a reconciliation of cash provided by operating activities before changes in non-cash working capital and adjusting items to its nearest IFRS alternative, cash provided by operating activities before changes in non-cash working capital:

	Three months ended December 31,		**Year ended December 31,**	
(expressed in thousands, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Cash provided by operating activities	$ 17,799	$ 8,380	$ 30,225	$ 31,776
Changes in non-cash working capital [1]	5,806	(5,554)	(6,139)	(10,643)
Cash provided by operating activities before changes in non-cash working capital	11,993	13,934	36,364	42,419
Adjusting items [2]	372	-	3,568	(2,971)
Cash provided by operating activities before changes in non-cash working capital and adjusting items	$ 12,365	$ 13,934	$ 39,932	$ 39,448
Weighted average number of common shares outstanding - basic	22,911,068	22,651,069	22,815,607	22,614,334
Per share amount	0.52	0.62	1.59	1.88
Per share amount before adjusting items	0.54	0.62	1.75	1.74
Cash dividends per share	0.27	0.27	1.08	1.08

(1) *Changes in non-cash working capital is excluded from the calculation as Management believes that it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as timing of disbursements (such as the payment for large inventory purchases, income taxes, etc.). As well, significant increases in working capital are generally required when new stores are developed or acquired.*

(2) *See the 'Operating and Administrative Expense' sections on pages 12 and 16 for a description of the adjusting items for the three months and year ended December 31, 2012, respectively. For the year ended December 31, 2011, adjusting items include cash proceeds on the settlement of litigation relating to the 2007 acquisition of Liquor Barn Income Fund less related professional and consulting fees for litigation matters, margin adjustment and severance.*

The $1.6 million decrease in cash provided by operating activities before changes in non-cash working capital and adjusting items for the three months ended December 31, 2012 is primarily due to a decline in US same-store sales and the relatively flat increase in Canadian same-store sales, inflation of operating expenses, investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, and pre-opening costs associated with new stores.

The $0.5 million increase in cash provided by operating activities before changes in non-cash working capital and adjusting items for the year ended December 31, 2012 results primarily from an increase in adjusted operating margin for the year ended December 31, 2012, offset by approximately $2.2 million of current income tax expense for the year ended December 31, 2012.

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 2012, 20% (2011 - 19%) of annual same store sales occurred in the first quarter, 26% (2011 - 26%) in the second quarter, 27% (2011 - 27%) in the third quarter, and 27% (2011 - 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

The Company has 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 28, 2013, shareholders enrolled in the DRIP held approximately 1.9 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, a measure that is generally used by retailers, includes sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Stores which have significant wholesale business have been excluded. On an annual basis, as at January 1st, management reviews the classification of store locations to assess the significance of the wholesale business at each store location. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business.

ANALYSIS OF FINANCIAL RESULTS - THREE MONTHS ENDED DECEMBER 31, 2012

The following table summarizes the operating results for the three months ended December, 2012 and 2011.

	Three months ended December 31,			
	2012		2011	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	118,583	66.1%	118,207	70.3%
Canadian wholesale operations (1)	6,812	3.8%	6,548	3.9%
Other Canadian stores (2)	11,367	1.6%	1,138	0.7%
Total Canadian store sales	136,762	76.3%	125,893	74.8%
US same-stores (US$)	40,101	22.4%	40,714	24.2%
Other US stores (US$) (3)	2,865	1.6%	685	0.4%
Foreign exchange on US store sales	(370)	(0.2)%	952	0.6%
Total US store sales	42,596	23.7%	42,351	25.2%
Total sales	179,358	100.0%	168,244	100.0%
Gross margin	45,504	25.4%	41,842	24.9%
Operating and administrative expense	31,489	17.6%	26,144	15.6%
Operating margin	14,015	7.8%	15,698	9.3%
Adjusting items(4)	372	0.2%	-	-
Adjusted operating margin	14,387	8.0%	15,698	9.3%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from these stores. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business. The comparative sales figures have been adjusted to reflect the eleven stores that were reclassified from Canadian wholesale operations to Canadian same-stores.*

(2) *Sales for the three months ended December 31, 2012 and 2011 include those of 12 stores opened and 1 store closed subsequent to September 30, 2011.*

(3) *Sales for the three months ended December 31, 2012 and 2011 include those of 3 stores opened in Kentucky subsequent to September 30, 2011.*

(4) *Adjusting items for the three months ended December 31, 2012 primarily relate to fees paid to an executive recruiting firm that is assisting in the search for a new Chief Executive Officer for the Company.*

Fourth Quarter 2012 Operating Results Compared to Fourth Quarter 2011 Operating Results

Sales

Total sales increased by $11.1 million or 6.6% to $179.4 million in the fourth quarter of 2012 (2011 - $168.2 million). The increase is primarily the result of new store expansion in Canada and the United States (10 new stores opened in 2012), offset by a $1.3 million decrease in the Canadian currency equivalent for US sales as a result of foreign exchange rate differences.

Same-Store Sales

- Canadian same-store sales increased by $0.4 million or 0.3%.
  - Same-store sales for the three months ended December 31, 2012 compared to 2011 were negatively impacted by the success of the two Wine and Beyond stores opened in the greater Edmonton region during the last week of September 2012. In addition to drawing customers away from our competitors, these destination-type stores also drew customers away from our convenience-focused stores during the fourth quarter due to their uniqueness in the marketplace and for seasonal holiday shopping as a result of their larger selection of product.
  - Canadian same-store sales were, to a lesser extent, impacted by: (i) the unfavourable calendar shift experienced for the Christmas and New Year's Eve holiday season (mid-week in 2012 vs. on weekends in 2011), (ii) the impact of Alberta's new impaired driving legislation and (iii) the delayed start of the 2012-2013 National Hockey League season.
- US same store sales decreased by $0.6 million or 1.5%.
  - Same-store sales in the United States have continued to be negatively impacted by certain counties in Kentucky going from 'dry' to 'wet' throughout 2012 (i.e. certain counties in close proximity to the Company's stores that did not previously permit retail package liquor sales are now permitting these sales).
  - To a lesser extent, the decline was due to: (i) the unfavourable calendar shift experienced for the Christmas and New Year's Eve holiday season and (ii) unfavourable weather experienced in Kentucky during November 2012.

Other Sales

- Sales for the Canadian wholesale operations, which include sales to both licensee and retail customers from stores included in this segment, were $6.8 million for the three months ended December 31, 2012, which is an increase of $0.3 million or 4.0% from the prior year (2011 - $6.5 million) as a result of increases in both licensee and retail sales.
- Sales for the Other Canadian and US stores have increased compared to 2011 as a result of the ten (10) new stores opened in 2012, including the two Wine and Beyond stores opened in Canada during the last week of September 2012, and the five stores that were opened in the fourth quarter of 2011. Sales for these new stores have exceeded internal projections.

Gross Margin

For the three months ended December 31, 2012, gross margin was $45.5 million, up 8.8% from $41.8 million for the same period last year. Gross margin as a percentage of sales increased to 25.4% from 24.9% in 2011. The quarter over quarter increase in gross margin percentage represents the fifth consecutive quarterly increase. Gross margin as a percentage of sales has increased primarily as a result

of continued focus on merchandising techniques, category management and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products.

Operating and Administrative Expense

Operating and administrative expenses before adjusting items for the three months ended December 31, 2012 were $31.1 million, up 19.0% from $26.1 million a year earlier. Operating and administrative expense before adjusting items, as a percentage of sales, for the period increased to 17.4% compared to the prior year (2011 – 15.6%). This increase was attributable, in part, to pre-opening costs of approximately $0.3 million related to new stores opened in the period, higher overall costs associated with additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), rent escalations and increased marketing costs for existing stores, and as a result of investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy. The 2012 fourth quarter adjusting items primarily related to $0.3 million in costs associated with the Company's search for a new Chief Executive Officer.

Operating Margin

Adjusted operating margin was $14.4 million for the three months ended December 31, 2012, a decrease of 8.3% from $15.7 million in 2011. As a percentage of total sales, adjusted operating margin was 8.0%, down from 9.3%. Operating margin also decreased 10.7% from $15.7 million in the prior year.

Canadian operating margin before the $0.3 million in adjusting items referenced above was $11.5 million or 8.3% as a percentage of Canadian sales (2011 - $12.8 million or 10.1% as a percentage of sales). The US operating margin for the fourth quarter of 2012 was $2.9 million or 6.9% as a percentage of US sales compared with $3.2 million and 7.6% as a percentage of US sales for the comparable period in 2011.

The decrease in Canada was primarily due to the relatively flat increase in Canadian same-store sales, inflation of operating expenses, investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, and pre-opening costs associated with new stores. The decrease in the United States was primarily due to the decline in US same-store sales and inflation of operating expenses.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $1.9 million (2011 - $2.5 million); non-cash interest of $0.1 million (2011 - $0.5 million), an unrealized gain of $0.1 million as a result of mark-to-market adjustments related to an interest rate swap (2011 - $0.4 million loss), and foreign exchange gains of $nil (2011 - $0.1 million). Cash interest expense has declined compared to the comparative quarter primarily as a result of lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012 and on the new credit facility that was entered into in February 2012.

Impairment

During the three months ended December 31, 2012, the Company recorded a $2.5 million impairment loss (2011 - $nil) on retail liquor licenses, which are classified as indefinite life intangible assets, related to five stores on Vancouver Island, British Columbia (Canadian operating segment). The impairment primarily related to a change in Management's forecasted sales and profitability as a result of changing demographics and increased competition in the areas that these stores operate. The ability for the

Company to relocate these retail liquor licenses to more favourable locations is limited due to licensing regulations that restrict where retail liquor stores can operate.

Income Taxes

Income taxes for the fourth quarter of 2012 were $1.9 million (2011 - $3.1 million), which equates to an effective income tax rate of approximately 26% (the effective rate for the year ended December 31, 2011 was approximately 23%). The decrease in income taxes compared to the prior year was primarily a result of a decrease in earnings before tax, offset by an increase in the effective income tax rate. The increase in the rate is primarily related to a change in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year and an increase in non-temporary differences.

Net Earnings

Net earnings for the three months ended December 31, 2012 were $5.4 million compared to $7.9 million for the same period in 2011. The decrease in net earnings is primarily the result of the $2.5 million non-cash impairment loss related to indefinite life intangible assets, a decline in US same-store sales and the relatively flat Canadian same-store sales, inflation of operating expenses, adjusting items associated with the Company's search for a new Chief Executive Officer, investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, and pre-opening costs associated with new stores, offset by lower financing costs and income tax expense.

ANALYSIS OF FINANCIAL RESULTS - YEAR ENDED DECEMBER 31, 2012

The following table summarizes the operating results for the year ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012		2011	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores [1]	439,462	69.7%	426,574	72.1%
Canadian wholesale operations [1]	24,486	3.9%	24,088	4.1%
Other Canadian stores [2]	17,133	2.7%	1,728	0.3%
Total Canadian store sales	481,081	76.3%	452,390	76.5%
US same-stores (US$)	141,153	22.4%	139,638	23.6%
Other US stores (US$) [3]	8,011	1.3%	679	0.1%
Foreign exchange on US store sales	(139)	(0.0)%	(1,205)	(0.2)%
Total US store sales	149,025	23.7%	139,112	23.5%
Total sales	630,106	100.0%	591,502	100.0%
Gross margin	159,511	25.3%	146,528	24.8%
Operating and administrative expense	113,840	18.0%	100,629	17.0%
Operating margin	45,671	7.3%	45,899	7.8%
Adjusting items[4]	3,568	0.5%	1,029	0.1%
Adjusted operating margin	49,239	7.8%	46,928	7.9%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from these stores. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business. The comparative sales figures have been adjusted to reflect the eleven stores that were reclassified from Canadian wholesale operations to Canadian same-stores.*

(2) *Sales for the year ended December 31, 2012 and 2011 include those of 12 stores opened and 3 stores closed subsequent to December 31, 2010.*

(3) *Sales for the year ended December 31, 2012 and 2011 include those of 3 stores opened in Kentucky subsequent to December 31, 2010.*

(4) *See the 'Operating and Administrative Expense' section on page 16 for a description of the adjusting items for the year ended December 31, 2012. For the year ended December 31, 2011, adjusting items include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund, margin adjustment and severance.*

Year ended December 31, 2012 Operating Results Compared to Year Ended December 31, 2011 Operating Results

Sales

Total sales grew by $38.6 million or 6.5% to $630.1 million for the year ended December 31, 2012 (2011 - $591.5 million). The increase is primarily the result of new store expansion, same-store sales growth in both Canada and the U.S., and a $1.1 million increase in the Canadian currency equivalent for US sales as a result of foreign exchange rate differences.

Same-Store Sales

- Canadian same-store sales increased by $12.8 million or 3.0%.
  - The increases in same-store sales were primarily realized during the first three quarters of 2012. Management attributes these increases primarily to the continued success of the Company's expanded store hours program (with stores in selected markets open until 2 am) and continued management focus on the execution of operational initiatives related to merchandising techniques, category management and purchasing strategies.
- US same store sales increased by $1.5 million or 1.1%.
  - Both regions in the US had positive results during 2012, which Management believes were attributable primarily to continued focus on the execution of operational initiatives related to merchandising techniques, category management, purchasing strategies and the enhanced customer experience at the Alaska stores arising as a result of store renovations.
  - However same-store sales in the United States have continued to be negatively impacted by certain counties in Kentucky going from 'dry' to 'wet' throughout 2012 (i.e. certain counties in close proximity to the Company's stores that did not previously permit retail package liquor sales are now permitting these sales). To a lesser extent, US same-store sales were also negatively impacted by unfavourable weather conditions in Kentucky during the months of September and November 2012.

Other Sales

- Sales for the Canadian wholesale operations, which include sales to both licensee and retail customers from stores included in this segment, were $24.5 million for the year ended December 31, 2012, an increase of 1.7% from the prior year (2011 - $24.1 million) as a result of increases in both licensee and retail sales.
- Sales for the Other Canadian and US stores have increased compared to 2011 as a result of the ten (10) new stores opened in 2012, including the two Wine and Beyond stores opened in Canada during the last week of September 2012, and the five stores that were opened in the fourth quarter of 2011. Sales for these new stores have exceeded internal projections.

Gross Margin

For the year ended December 31, 2012, gross margin was $159.5 million, up 8.9% from $146.5 million for the same period last year. Gross margin as a percentage of sales increased to 25.3% from 24.8% in 2011. Gross margin as a percentage of sales has increased primarily as a result of continued focus on merchandising techniques, category management, and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products.

Operating and Administrative Expense

Operating and administrative expenses before adjusting items for the year ended December 31, 2012 were $110.3 million, up 10.7% from $99.6 million a year earlier. Operating and administrative expense before adjusting items, as a percentage of sales, for the period increased by 70 basis points to 17.5% compared to the prior year (2011 – 16.8%). This increase was attributable, in part, to pre-opening costs of approximately $1.0 million related to new stores opened in the period, higher overall costs associated with additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), rent escalations and increased marketing costs for existing stores, and as a result of investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy.

Adjusting items primarily related to a payment of $2.3 million made to the Company's former President and Chief Executive Officer upon his departure effective August 31, 2012 (of which $2.0 million has been classified as an adjusting item), $1.3 million expensed in the second quarter for costs associated with a store investment (with a prospective partner) that was not completed, and $0.3 million in fees paid to an executive search firm to assist the Company in finding a new Chief Executive Officer.

Operating Margin

Adjusted operating margin was $49.2 million for the year ended December 31, 2012, up 4.9% from $46.9 million in 2011. As a percentage of total sales, adjusted operating margin was 7.8%, down from 7.9% a year earlier. Operating margin was down 0.5% from $45.9 million in the prior period.

Canadian adjusted operating margin for the year ended December 31, 2012 was $39.8 million or 8.3% as a percentage of Canadian sales. Operating margin for Canadian stores for the year ended December 31, 2012 was $37.5 million or 7.8% as a percentage of Canadian sales compared with $38.0 million and 8.4% as a percentage of Canadian sales for the comparable period in 2011. US adjusted operating margin (US adjusting items were related to the $1.3 million in costs associated with a store investment that was not completed in the second quarter) for the year ended December 31, 2012 was $9.4 million or 6.5% as a percentage of US sales. The US operating margin for the year ended December 31, 2012 was $8.2 million or 5.6% as a percentage of US sales compared with $7.9 million and 5.7% as a percentage of US sales for the comparable period in 2011.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $7.7 million (2011 - $9.0 million); non-cash interest of $2.4 million (2011 - $1.6 million), an unrealized gain of $0.4 million as a result of mark-to-market adjustments related to an interest rate swap, and foreign exchange gains of $nil (2011 - $0.2 million). Non-cash interest expense increased by $1.2 million as compared to the comparative year primarily as a result of accelerating the accretion of the Company's 6.75% convertible unsecured subordinated debentures to their principal amount of $57.5 million as they were redeemed on May 28, 2012, which was in advance of their original maturity date. Cash interest expense has declined compared to the comparative year primarily as a result of lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012 and on the new credit facility that was entered into in February 2012. These savings were partially offset by higher interest expense as a result of carrying two debentures that overlapped for approximately one month during the second quarter.

Impairment

During the year ended December 31, 2012, the Company recorded a $2.5 million impairment loss (2011 - $nil) on retail liquor licenses, which are classified as indefinite life intangible assets, related to five stores on Vancouver Island, British Columbia (Canadian operating segment). The impairment primarily related to a change in Management's forecasted sales and profitability as a result of changing demographics and increased competition in the areas that these stores operate. The ability for the Company to relocate these retail liquor licenses to more favourable locations is limited due to licensing regulations that restrict where retail liquor stores can operate.

Income Taxes

Income taxes for the year ended December 31, 2012 were $6.7 million (2011 - $7.7 million), which equates to an effective income tax rate of approximately 26% (the effective rate for the year ended December 31, 2011 was approximately 24%). The increase in income taxes compared to the prior year was primarily a result of an increase in earnings before tax and the approximate 2% increase in the effective income tax rate. The increase in the rate is primarily related to a change in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year and an increase in non-temporary differences.

Net Earnings

Net earnings for the year ended December 31, 2012 was $19.1 million compared to $24.8 million for the same period in 2011. The decrease in net earnings is primarily the result of the 2011 adjusting items, which included proceeds from a litigation settlement of $4.9 million, expenses in 2012 of $2.0 million related to the departure of the Company's former President and Chief Executive Officer, $1.3 million of costs associated with a store investment not completed in Q2 2012, the $2.5 million non-cash impairment loss related to indefinite life intangible assets, inflation of operating expenses, investments being made to the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, and pre-opening costs associated with new stores, offset by higher gross margin from same-stores and new stores, and lower financing costs and income tax expense.

CONDENSED ANNUAL INFORMATION

(expressed in thousands of Canadian dollars, except per Share amounts and number of stores)

	2012	2011	2010	2009	2008	2007
Statement of Financial Position						
Cash and cash equivalents	$ 5,130	$ 1,707	$ 2,815	$ 5,288	$ 3,530	$ 19,498
Total assets	533,087	503,147	495,393	509,809	488,256	449,006
Bank indebtedness	3,891	40,424	41,468	41,094	31,172	-
Total current liabilities	46,633	123,013	71,839	68,688	83,240	14,062
Long-term debt	146,566	46,469	100,417	100,126	51,742	74,014
Total liabilities	215,337	185,947	181,206	178,068	145,598	96,708
Shareholders' equity	317,750	317,200	314,187	286,165	294,645	301,837
Non-controlling interest	92	85	285	45,576	48,013	50,461
Statement of Earnings						
# stores, end of year	249	239	237	236	223	195
Sales	630,106	591,502	579,700	541,049	482,915	383,063
Net earnings	19,056	24,802	20,337	29,048	23,995	15,544
Basic earnings per share*	$ 0.82*	$ 1.08*	$ 1.08	$ 1.29	$ 1.03	$ 0.69
Diluted earnings per share*	$ 0.82*	$ 1.08*	$ 1.08	$ 1.27	$ 1.03	$ 0.69
Dividends declared per share	$ 1.08	$ 1.08	$ 1.62	$ 1.62	$ 1.62	$ 1.49

**** Adjusted basic and diluted earnings per share were $1.02 for the year ended December 31, 2012 (2011 - $0.96). Adjusted basic and diluted earnings per share are non-IFRS measures; refer to the Non-IFRS Measures section of the MD&A for further discussion.***

The primary 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
2008	24	11	(7)	28
2009	9	5	(1)	13
2010	1	4	(4)	1
2011	-	5	(3)	2
2012	3	7	-	10

CONDENSED QUARTERLY INFORMATION

(expressed in thousands of Canadian dollars, except per Share amounts and number of stores)

	2012				2011 (1)			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Statement of Financial Position								
Cash and cash equivalents	5,130	1,825	765	1,725	1,707	895	1,558	2,106
Total assets	533,087	516,929	502,315	500,674	503,147	494,444	488,748	492,029
Current Bank indebtedness	3,891	-	96	2,178	40,424	39,605	47,706	54,075
Total current liabilities	46,633	28,121	29,483	79,687	123,013	62,150	70,327	75,503
Long-term debt	146,566	150,702	135,673	92,196	46,469	101,699	101,248	100,878
Total liabilities	215,337	199,603	183,608	187,291	185,947	177,641	182,408	185,448
Shareholders' equity	317,750	317,300	318,707	313,383	317,200	316,799	306,340	306,581
Non-controlling interest	92	26	83	38	85	(15)	258	186
Statement of Earnings								
# stores, end of period	249	243	241	240	239	236	236	236
Sales	179,359	164,490	159,621	126,636	168,244	157,080	150,210	115,967
Adjusted operating margin	14,387	14,588	13,330	6,934	15,662	13,648	12,390	5,216
Net earnings	5,403	6,481	4,766	2,406	7,904	10,970	5,783	145
Basic and diluted earnings per share*	$ 0.23*	$ 0.28*	$ 0.21	$ 0.10	$ 0.35	$ 0.48	$ 0.25	$ 0.00
Dividends declared per share	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27

**** Adjusted basic and diluted earnings per share were $0.33 for the three months ended December 31, 2012 (2011 - $0.35). Adjusted basic and diluted earnings per share are non-IFRS measures; refer to the Non-IFRS Measures section of the MD&A for further discussion.***

(1) As was previously disclosed in the Company's December 31, 2011 annual MD&A, in the process of completing impairment models under IFRS in Q4 2011, 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 assets and shareholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

Historically, capital expansion has been financed by cash provided from operating activities, proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Company believes existing credit facilities are adequate to finance new store developments and acquisitions expected to occur in 2013. The Company would require additional capital or financing for a larger acquisition.

The Company opened three convenience-format stores in Alberta and one large-format store in Kentucky and acquired one store in Alberta during the three months ended December 31, 2012; opened two large-format stores in Alberta during the three months ended September 30, 2012; acquired one store in Edmonton, Alberta during the quarter ended June 30, 2012; and one store in Lexington, Kentucky during the quarter ended March 31, 2012. The Company did not close any stores during the year ended December 31, 2012.

The Company will continue to pursue acquisition opportunities and to open and develop new stores in 2013. The Company currently has commitments to open a new store in US, which is expected to open for business in early Q2 2013, with an estimated aggregate cost of $1.0 million. The timing of the store opening is subject to, among other things, delays in the completion of store construction and/or fixturing.

As discussed in the 'Business Strategy' section of this MD&A, the Company will be investing in our current store portfolio through a store refreshment program and in our information systems. Management estimates that capital expenditures related to the store refurbishment program and information systems upgrade for 2013 will be approximately $5.1 million.

Credit Facilities and Subordinated Debentures

The Company has a credit facility with a syndicate of Canadian banks, which is effective until February 10, 2015 and consists of a $150 million extendible revolving operating loan, and a US$5.0 million facility with a U.S. bank. At March 4, 2013 there was approximately $100 million drawn on the Canadian credit facility and $nil drawn on the US credit facility. The Company has a US$5.0 million letter of credit that has been issued pursuant to the Canadian credit facility to secure the US credit facility. Pursuant to the terms of the Canadian credit facility, the Company has the ability to request an additional $50 million (to be provided by the lenders on a best-effort basis).

On April 23, 2012, the Company issued $67,500,000 aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "2012 Debentures"). The 2012 Debentures bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, which commenced on October 31, 2012. The 2012 Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $24.90 per share. The Company used a portion of the proceeds from the issue of the 2012 Debentures to redeem the outstanding 6.75% convertible unsecured subordinated debentures (the "2007 Debentures") with a principal amount of $57.5 million and accrued interest of approximately $1.5 million effective May 28, 2012.

The Company's Canadian credit facility is subject to a number of financial covenants. Under the terms of the Company's Canadian credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. There are no financial covenants attributable to the Company's convertible unsecured subordinated debentures due April 30, 2019 or the U.S. credit facility.

Funded debt to EBITDA ratio

Funded debt is all the Company's obligations, liabilities and indebtedness which would, in accordance with IFRS, be classified on a consolidated balance sheet of the Company as indebtedness for borrowed money of the Company, but excludes subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Company's business.

EBITDA is defined under the amended and restated credit facility 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.

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, 2012, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**As at December 31, 2012**
Funded debt to EBITDA	< 3.00:1.00	1.73:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.30:1.00
Fixed charge coverage	> or = 1.00:1.00	1.20:1.00

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.

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 4, 2013, the Company has available credit of approximately $50 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 rate paid by the Company on Cdn$60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At March 5, 2013, the fixed rate paid by the Company under the interest rate swap is 3.238% per annum. 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 an outstanding bank indebtedness of $100 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, 2012.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 400	$ (400)
Increase (decrease) in net earnings	(300)	300

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's net earnings of approximately one cent 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, however wholesale customer purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; however, primarily all 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$7.3 million for the twelve months ended December 31, 2012.

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, 2012, 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)	2013	2014	2015	2016	2017	2018 and thereafter
Operating leases	$ 23,056	$ 19,269	$ 15,797	$ 12,669	$ 8,697	$ 23,066
5.85% Debentures	-	-	-	-	-	67,500
Long-term bank indebtedness	-	-	86,321	-	-	-
Total	$ 23,056	$ 17,728	$ 102,118	$ 10,949	$ 10,949	$ 90,566

SHAREHOLDERS' EQUITY

At December 31, 2012, the Company had 22,924,591 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2012 were 22,815,607 and 25,866,589 respectively (compared to 22,614,334 and 22,614,334 for the comparative 2011 period). As at March 5, 2013, 22,942,765 common shares of the Company were issued and outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2012 and March 5, 2013, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

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.

RELATED PARTIES TRANSACTIONS

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 year ended December 31, 2012, the Company incurred expenses in the normal course of business for (i) professional fees of $105 thousand (2011 - $326 thousand) paid to a law firm of which a director of the Company is a partner and (ii) rent paid to companies controlled by a director (and former Executive Chairman) of the Company amounted to $581 thousand (2011 - $535 thousand). There was

$nil thousand included in accounts payable and accrued liabilities as at December 31, 2012 relating to these transactions (2011 - $9 thousand). The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

Compensation expensed for the Company's key executive management for the year ended December 31, 2012 was $5.2 million (2011 - $2.7 million). Included in the 2012 expense are payments of $2.3 million made to the Company's former President and Chief Executive Officer upon his departure effective August 31, 2012 and $0.1 million paid to the Chairman of the Board of Directors for his services provided as Interim Chief Executive Officer.

CRITICAL ACCOUNTING ESTIMATES

The Company's summary of significant accounting policies are contained in Note 3 to the audited consolidated financial statements.

The Company's financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Company's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgements, requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

The Company has:

- Continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

- Hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

- A mandate that includes ongoing development of procedures, standards and systems to allow staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's policies.

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect (i) goodwill and intangible assets at and subsequent to acquisition, (ii) amortization policies and useful lives, and (iii) deferred income taxes.

Business Combinations and Valuation of Goodwill and Intangible Assets

The Company accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, the Company may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount

rates, and earnings multiples. If the Company's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

At the date of the acquisition, the Company must estimate the value of acquired intangible assets that do not have a well-defined market value, such as the value of liquor licenses, leases, customer relationships, and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to the Company and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Subsequent to acquisition, goodwill and intangible assets with indefinite lives are not amortized, however they are periodically assessed for impairment. The Company reviews goodwill and intangible assets with indefinite lives at least annually, and other non-financial assets when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units have been determined using discounted cash flow models that require assumptions about future cash flows, margins and discount rates.

Although intangible assets with definite lives are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance.

At this time, the Company does not believe any goodwill or intangible assets have a book value in excess of their fair market value.

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.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

There are new IFRS pronouncements that have been issued but are not effective and may have an impact on the Company. See Note 3 to the audited financial statements as at and for the year-ended December 31, 2012 for further discussion.

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.

Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in National Instrument 52-109. A material weakness in internal controls over financial reporting 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, 2012. 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 months or year ended December 31, 2012 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

As at December 31, 2012, there are no material changes in the Company's risks or risk management activities since December 31, 2011. The Company's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Company's Shares are subject to a number of risks.

The following is a summary of certain risk factors relating to the affairs and business of the Company. 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 elsewhere in this MD&A, the Company's financial statements, and the Company's Annual Information Form for December 31, 2012 which is available at www.sedar.com or on the Company's website at www.liquorstoresna.ca. Shareholders and potential Shareholders (and other securityholders) 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 of these risks actually occur, the business, sales, financial condition, liquidity or results of operations of the Company could be materially adversely affected, with a resulting decrease in dividends paid on, and the market price of, the Common Shares.

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 other operating results, 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"), British Columbia Liquor Control and Licensing Branch ("BCLCLB"), Alaska Alcoholic Beverage Control Board ("ABCB"), and Kentucky Department of Alcoholic Beverage Control ("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.

Of particular note, a coalition of grocers in Kentucky were recently successful at the trial court level in a court challenge to the state statute which prohibits the sale of wine and distilled spirits within grocery stores and gas stations (these retailers are presently only permitted to sell beer). In August 2012 the United States District Court, Western District of Kentucky ruled that the state statute violates the equal protection clause of the United States Constitution and the Commonwealth of Kentucky Constitution. The decision is currently under appeal in the U.S. Court of Appeals and it is anticipated a decision in the matter will be released in the third or fourth quarter of 2013. In the event the appeal is unsuccessful, Liquor Stores' anticipates there will be a rapid proliferation of grocers, gas stations and convenience store operators adding wine and distilled spirits to their product offerings, substantially increasing competition for retail liquor store operators. An unsuccessful appeal may have a material negative impact on Liquor Stores' operations and financial results in Kentucky.

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" in the Company's Annual Information Form, which can be found at www.SEDAR.com or www.liquorstoresna.ca.

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 the mark-up, 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 development of 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 the Company's liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where 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

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 the 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 this credit facility were to be accelerated, there can be no assurance that Liquor Stores' assets would be sufficient to repay in full that indebtedness.

Credit Risk

Liquor Stores' financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Corporation maintains its cash and cash equivalents with a major Canadian chartered bank. Liquor Stores, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. Liquor Stores 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.

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, addition 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-IFRS FINANCIAL MEASURES

Operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items on a per share basis, and same-store sales are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that operating margin, operating margin as a percentage of sales, adjusted

operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items on a per share basis, and same-store sales should not replace net earnings or loss (as determined in accordance with IFRS) 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, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting 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, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in working capital and adjusting items on a per share basis, and same-store sales may not be comparable to similar measures presented by other issuers.

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.

Adjusted operating margin represents operating margin adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the *Highlights* and *Analysis of Financial Results* sections. Adjusted net earnings is calculated as net earnings less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Adjusted basic and diluted earnings per share is calculated as adjusted net earnings divided by basic or diluted weighted average number of common shares outstanding. Management believes the presentation of adjusted operating margin, adjusted net earnings, and adjusted basic and diluted earnings per share provides for useful information to investors and shareholders as it provides increased transparency and predictive value. Management uses adjusted operating margin to set targets and assess performance of the Company.

Cash provided by operating activities before changes in non-cash working capital and adjusting items is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS 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.

EBITDA and EBITDAR, which are used by Management only with reference to the calculation of covenants under the Company's credit facility, have been defined in the *Liquidity and Capital Resources* section of this MD&A.

MANAGEMENT'S RESPONSBILITY FOR FINANCIAL REPORTING

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

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

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

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

Signed "Jim Dinning"
Jim Dinning
Chairman of the Board of Directors and Interim CEO

Signed "Patrick de Grace"
Patrick de Grace
Senior Vice President & CFO

March 5, 2013

INDEPENDENT AUDITOR'S REPORT

March 5, 2013

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

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants

Liquor Stores N.A. Ltd.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

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

Commitments (note 21)

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

Approved on behalf of the Board of Directors:

Signed "Jim Dinning"
Jim Dinning
Director

Signed "Robert Green"
Robert Green
Director

Liquor Stores N.A. Ltd.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

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

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

Liquor Stores N.A. Ltd.

Consolidated Statements of Earnings and Comprehensive Income

Years ended December 31, 2012 and 2011

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

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

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

Liquor Stores N.A. Ltd.

Consolidated Statements of Cash Flow
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

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

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

1 Nature of the business

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

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

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

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Basis of consolidation

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

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

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

d) Critical accounting estimates and judgements

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

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

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

Estimates:

i) Business combinations and valuation of goodwill and intangible assets

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

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

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

ii) Amortization policies and useful lives

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

iii) Deferred income taxes

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

Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of deferred income taxes, and these changes could be material.

Critical Judgements:

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

3 Summary of significant accounting policies

a) Revenue recognition

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

b) Cash

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

c) Inventory

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

d) Property and equipment

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

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

e) Intangible assets

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

i) Customer relationships have a finite useful life and are carried at cost less accumulated amortization. The amount attributed to customer relationships is amortized using the straight-line method over five years.

ii) Amounts attributed to property leases are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the remaining terms of the leases ranging from one to 25 years.

iii) Retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. These retail liquor licenses and business permits do not expire or require renewal.

iv) Trade names have an indefinite life and are not amortized as there is no foreseeable limit on the period of time over which they are expected to contribute to the net cash flows of the Company.

v) Software is comprised of acquired licenses which have definite lives are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the life of the license.

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

f) Business combinations and goodwill

i) Acquisitions

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

ii) Goodwill

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

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

g) Income tax

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

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

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

h) Share-based payment transactions

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

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

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

i) Financial instruments

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

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

j) Convertible debentures

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

k) Foreign currency translation

Functional and presentation currency

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

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

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses are translated at average exchange rates for the respective period; and

iii) all resulting exchange differences are recognized in other comprehensive income as currency translation differences.

Transactions and balances

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

l) Segment reporting

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

m) Dividends

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

n) Earnings per share

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

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

o) Accounting standards and amendments issued but not yet effective

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

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

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

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

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

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

ii) IFRS 13, *Fair Value Measurement* provides a single IFRS framework for measuring fair value. The standard defines fair value and sets out a fair value hierarchy that categorizes inputs used in valuation techniques into three levels: (1) quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date, (2) inputs other than quoted market prices included within level 1 that are either directly or indirectly observable and (3) unobservable inputs. The standard also outlines required disclosures regarding fair value measurements.

iii) Amendments to IAS 1, *Presentation of Financial Statements – Items of Other Comprehensive Income* addresses requirements for entities to group items presented in other comprehensive income based on whether they can potentially be reclassified to profit or loss subsequently.

iv) IAS 28, *Investments in Associates and Joint Ventures* (as amended in 2011) applies to entities that have joint control or significant influence over an investee. The standard sets out the requirements for applying the equity method to investments in joint ventures and associates.

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

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

4 Business combinations

a) 2012 Acquisitions

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

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

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

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

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

b) 2011 Acquisitions

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

5 Inventory

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

6 Property and equipment

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

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

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

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

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

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

7 Intangible assets

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

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

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

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

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

Impairments

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

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

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

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

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

8 Goodwill

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

a) Impairment test for goodwill

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

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

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

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

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

b) Key assumptions used for fair value calculations

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

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

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

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

9 Bank indebtedness and long-term debt

a) Bank indebtedness

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

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

b) Long-term debt

Long-term debt comprises the following:

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

i) Loan facility advance

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

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

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

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

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

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

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

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

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

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

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

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

iii) 6.75% unsecured subordinated convertible debentures (“6.75% Debentures”)

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

iv) Deferred financing costs

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

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

10 Finance costs

Finance costs comprise the following:

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

i) Included in interest expense on long-term debt were amortization of deferred financing costs of $292 (2011 - $520).

ii) Interest expense on the convertible debentures of $6,782 (2011 - $5,517) represents coupon interest of $4,258 (2011 – 3,873) and $2,524 (2011 – $1,644) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

11 Dividends

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

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

12 Income tax

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

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

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

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

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

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

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

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

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

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

13 Share capital

a) Authorized:

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

b) Issued and outstanding:

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

14 Earnings per share

	2012 $	2011 $
Net earnings attributable to owners of the parent	18,778	24,463

	2012 #	2011 #
Weighted average number of common shares outstanding – Basic	22,815,607	22,614,334
Effect of dilutive securities		
Equity-settled share-based payment awards	50,982	-
Weighted average number of common shares outstanding - Diluted	22,866,589	22,614,334

	2012 $	2011 $
Basic earnings per share	0.82	1.08
Diluted earnings per share	0.82	1.08

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

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

15 Share-based payments

a) Employee share-based payments

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

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

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

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

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

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

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

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

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

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

The following table summarizes the status of the Plan:

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

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

16 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

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

(i) A Director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services.
(ii) The Company paid rent to entities controlled by a Director of the Company.

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

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

b) Compensation of key management

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

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

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

17 Expenses by nature

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

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

18 Litigation settlement

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

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

19 Supplementary disclosure of cash flow information

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

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

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

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

20 Financial instruments

a) Financial instruments measured at fair value

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

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

Fair value hierarchy

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

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

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

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

b) Financial instruments measured at other than fair value

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

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

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

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

Credit risk

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

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

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

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

Market risk

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

a) Interest rate risk

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

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

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

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

b) Foreign exchange risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to US intercompany management fees and interest payments which totalled US$7,278 (2011 – US$7,071). A 5% weakening or strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of US$364 (2011 - US$354).

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

Liquidity risk

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

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

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

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

Capital management

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

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

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

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

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

21 Commitments

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

	$
Not later than one year	23,056
Later than one year and not later than five years	56,431
Later than five years	23,066
	102,553

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

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

22 Operating segments

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

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

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

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

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

23 Comparative figures

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

CORPORATE INFORMATION

ANNUAL GENERAL MEETING

Tuesday, May 7, 2013
8:00a.m. at Varscona Hotel on Whyte
8208 - 106 Street
Edmonton, Alberta

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Edmonton, Alberta

BANKERS

Canadian Imperial Bank of Commerce
Edmonton, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
Trading symbols – LIQ
– LIQ. DBA

BOARD OF DIRECTORS

Jim Dinning – Chairman
Henry Bereznicki
Irv Kipnes
R. John Butler, Q.C.
Gary Collins
Robert Green
David Margolus, Q.C.

EXECUTIVE OFFICERS

Jim Dinning
Interim Chief Executive Officer

Patrick de Grace
Senior Vice President and
Chief Financial Officer

Scott Morrow
Chief Operating Officer

Craig D. Corbett
Senior Vice President, Business
Development, General Counsel
and Corporate Secretary