# Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Financial Statements

**June 30, 2013 and 2012**
(Unaudited, expressed in thousands of Canadian dollars)

# Liquor Stores N.A. Ltd.

## Condensed Interim Consolidated Statements of Financial Position

*(in thousands of Canadian dollars)*

| | Note | June 30, 2013 $ | December 31, 2012 $ |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | 4,223 | 5,130 |
| Accounts receivable | | 2,202 | 3,622 |
| Inventory | | 145,179 | 146,710 |
| Prepaid expenses and deposits | | 3,127 | 6,715 |
| Derivative instrument | 11 | 300 | - |
| | | 155,031 | 162,177 |
| **Deferred tax assets** | | 1,736 | 1,703 |
| **Property and equipment** | | 45,181 | 43,527 |
| **Intangible assets** | | 44,891 | 44,221 |
| **Goodwill** | | 282,543 | 281,459 |
| | | 529,382 | 533,087 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Bank indebtedness | | 1,657 | 3,891 |
| Accounts payable and accrued liabilities | | 32,208 | 38,464 |
| Dividends payable to shareholders | 4 | 2,074 | 2,063 |
| Income tax payable | 5 | 4,590 | 2,205 |
| Derivative instrument | 11 | - | 10 |
| | | 40,529 | 46,633 |
| **Long-term debt** | | 152,253 | 146,566 |
| **Deferred tax liabilities** | | 18,700 | 22,138 |
| | | 211,482 | 215,337 |
| **Shareholders' Equity** | | | |
| Equity attributable to shareholders | | 317,837 | 317,658 |
| Equity attributable to non-controlling interest | | 63 | 92 |
| | | 317,900 | 317,750 |
| | | 529,382 | 533,087 |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# Liquor Stores N.A. Ltd.

## Condensed Interim 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 6) | | | | | | | |
| **Opening balance – January 1, 2012** | 181,272 | 37 | 174,867 | (3,174) | (35,887) | 317,115 | 85 | 317,200 |
| Net earnings for the period | - | - | - | - | 7,004 | 7,004 | 168 | 7,172 |
| Foreign currency translation adjustment | - | - | - | 60 | - | 60 | - | 60 |
| Comprehensive income for the period | - | - | - | 60 | 7,004 | 7,064 | 168 | 7,232 |
| Share-based payments | - | - | 196 | - | - | 196 | - | 196 |
| Exercise of share options | 2,404 | - | (192) | - | - | 2,212 | - | 2,212 |
| Issuance of debentures | - | 3,328 | - | - | - | 3,328 | - | 3,328 |
| Redemption of debentures | 30 | (37) | 37 | - | - | 30 | - | 30 |
| Dividends declared | - | - | - | - | (12,286) | (12,286) | - | (12,286) |
| Dividend reinvestment plan issuance | 965 | - | - | - | - | 965 | - | 965 |
| Dividends declared by subsidiaries | - | - | - | - | - | - | (170) | (170) |
| Transactions with owners | 3,399 | 3,291 | 41 | - | (12,286) | (5,555) | (170) | (5,725) |
| **Balance – June 30, 2012** | 184,671 | 3,328 | 174,908 | (3,114) | (41,169) | 318,624 | 83 | 318,707 |
| **Opening balance – January 1, 2013** | 185,696 | 3,328 | 174,900 | (4,505) | (41,761) | 317,658 | 92 | 317,750 |
| Net earnings for the period | - | - | - | - | 6,686 | 6,686 | 92 | 6,778 |
| Foreign currency translation adjustment | - | - | - | 3,918 | - | 3,918 | - | 3,918 |
| Comprehensive income for the period | - | - | - | 3,918 | 6,686 | 10,604 | 92 | 10,696 |
| Share-based payments | - | - | 61 | - | - | 61 | - | 61 |
| Exercise of share options | 990 | - | (94) | - | - | 896 | - | 896 |
| Dividends declared (note 4) | - | - | - | - | (12,411) | (12,411) | - | (12,411) |
| Dividend reinvestment plan issuance (note 4) | 1,029 | - | - | - | - | 1,029 | - | 1,029 |
| Dividends declared by subsidiaries | - | - | - | - | - | - | (121) | (121) |
| Transactions with owners | 2,019 | - | (33) | - | (12,411) | (10,425) | (121) | (10,546) |
| **Balance – June 30 , 2013** | 187,715 | 3,328 | 174,867 | (587) | (47,486) | 317,837 | 63 | 317,900 |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**Liquor Stores N.A. Ltd.**

Condensed Interim Consolidated Statements of Earnings and Comprehensive Income

Three and Six Months Ended June 30, 2013 and 2012

*(in thousands of Canadian dollars)*

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | Note | **June 30, 2013 $** | **June 30, 2012 $** | **June 30, 2013 $** | **June 30, 2012 $** |
| **Sales** | | 167,669 | 159,621 | 303,971 | 286,257 |
| Cost of sales | | 126,094 | 119,965 | 227,478 | 214,166 |
| **Gross margin** | | 41,575 | 39,656 | 76,493 | 72,091 |
| Operating and administrative expenses | | 29,863 | 27,569 | 58,289 | 53,070 |
| | | 11,712 | 12,087 | 18,204 | 19,021 |
| **Amortization** | | | | | |
| Property and equipment | | 2,582 | 1,679 | 4,613 | 3,430 |
| Intangible assets | | 89 | 118 | 178 | 229 |
| | | 9,041 | 10,290 | 13,413 | 15,362 |
| Finance costs | 3 | 1,808 | 3,952 | 4,202 | 5,792 |
| **Earnings before income taxes** | | 7,233 | 6,338 | 9,211 | 9,570 |
| **Income tax expense** | 5 | 1,912 | 1,572 | 2,433 | 2,398 |
| **Net earnings** | | 5,321 | 4,766 | 6,778 | 7,172 |
| **Other comprehensive income** | | | | | |
| Items that may be reclassified subsequently to net earnings: | | | | | |
| Currency translation difference on foreign subsidiaries | | 2,573 | 1,228 | 3,918 | 60 |
| **Comprehensive income** | | **7,894** | **5,994** | **10,696** | **7,232** |
| **Net earnings attributable to** | | | | | |
| Owners of the parent | | 5,260 | 4,704 | 6,686 | 7,004 |
| Non-controlling interest | | 61 | 62 | 92 | 168 |
| | | 5,321 | 4,766 | 6,778 | 7,172 |
| **Comprehensive income attributable to** | | | | | |
| Owners of the parent | | 7,833 | 5,932 | 10,604 | 7,064 |
| Non-controlling interest | | 61 | 62 | 92 | 168 |
| | | 7,894 | 5,994 | 10,696 | 7,232 |
| **Earnings per share** | | | | | |
| Basic | 7 | 0.23 | 0.21 | 0.29 | 0.31 |
| Diluted | 7 | 0.23 | 0.21 | 0.29 | 0.31 |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**Liquor Stores N.A. Ltd.**
Condensed Interim Consolidated Statements of Cash Flow
Three and Six Months Ended June 30, 2013 and 2012
*(in thousands of Canadian dollars)*

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | | **June 30, 2013** | **June 30, 2012** | **June 30, 2013** | **June 30, 2012** |
| | Note | **$** | **$** | **$** | **$** |
| **Cash provided by (used in)** | | | | | |
| **Operating activities:** | | | | | |
| Net earnings for the period | | 5,321 | 4,766 | 6,778 | 7,172 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | | | |
| Amortization of property and equipment | | 2,582 | 1,679 | 4,613 | 3,430 |
| Amortization of intangible assets | | 89 | 118 | 178 | 229 |
| Amortization of financing charges | 3 | 82 | 85 | 165 | 195 |
| Non-cash interest on convertible debentures | 3 | 270 | 1,575 | 520 | 2,010 |
| Fair value adjustment on derivative instrument | 11 | (455) | 375 | (310) | (215) |
| Deferred income tax | | 2,054 | 1,694 | (3,390) | 311 |
| Share-based payments | | 15 | 63 | 68 | 196 |
| Cash provided by operating activities before changes in non-cash working capital | | 9,958 | 10,355 | 8,622 | 13,328 |
| Net change in non-cash working capital items | 10 | 8,594 | 4,329 | 1,641 | 1,582 |
| | | 18,552 | 14,684 | 10,263 | 14,910 |
| **Investing activities:** | | | | | |
| Business acquisitions | | - | (24) | - | (24) |
| Purchase of property and equipment | | (2,136) | (1,096) | (3,507) | (2,066) |
| Purchase of intangible assets | | (143) | (14) | (214) | (73) |
| | | (2,279) | (1,134) | (3,721) | (2,163) |
| **Financing activities:** | | | | | |
| Proceeds (repayment)of bank indebtedness | | 1,644 | (2,477) | (2,248) | (40,504) |
| Proceeds (repayment) from long-term debt | | (12,259) | (14,876) | 5,003 | 29,120 |
| Redemption of convertible unsecured subordinated debentures | | - | (57,500) | - | (57,500) |
| Issuance of convertible unsecured subordinated debentures | | - | 64,349 | - | 64,349 |
| Dividends paid | 4 | (5,681) | (5,635) | (11,371) | (11,303) |
| Proceeds received on exercise of stock-options | | 810 | 1,602 | 896 | 2,242 |
| Dividends paid to non-controlling interest by subsidiaries | | (37) | (38) | (121) | (170) |
| | | (15,523) | (14,575) | (7,841) | (13,766) |
| **Foreign exchange gain on cash held in foreign currency** | | 314 | 65 | 392 | 77 |
| **Increase (decrease) in cash** | | 1,064 | (960) | (907) | (942) |
| **Cash – Beginning of period** | | 3,159 | 1,725 | 5,130 | 1,707 |
| **Cash - End of period** | | 4,223 | 765 | 4,223 | 765 |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## 1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act. 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 June 30, 2013, the Company operated 245 (2012 - 242) retail liquor stores, of which 177 (2012 - 176) were in Alberta, 36 (2012 - 35) were in British Columbia, 20 (2012 - 20) were in Alaska and 12 (2012 - 11) were in Kentucky. Of the stores operated, 203 (2012 - 206) were acquired and 42 (2012 - 36) were developed by the Company.

These condensed interim consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on August 6, 2013.

## 2 Basis of preparation and significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2012.

The preparation of condensed interim consolidated financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2012.

The Company's operations are seasonal in nature. Accordingly, sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a higher level of earnings in the third and fourth quarters. This business seasonality results in quarterly performance that is not necessarily indicative of the year's performance.

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2012, except as described below.

*Changes in Accounting Policies*

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

*(in thousands of Canadian dollars)*

International Financial Reporting Standard ("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. This standard was adopted prospectively and did not require any measurement adjustments or adjustments to the valuation techniques employed by the Company to measure fair value.

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. These changes did not result in any changes to other comprehensive income or comprehensive income.

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. Adoption of this standard did not result in any changes in the Company's accounting policies.

IFRS 10, *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation, Special Purpose Entities and establishes exemptions for eligible investment entities from consolidating subsidiaries, measuring those investments at their fair value instead. The Company has determined that the adoption of IFRS 10 does not result in any change in the consolidation of any of its subsidiaries and investees.

## 3 Finance costs

Finance costs comprise the following:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013 $** | **2012 $** | **2013 $** | **2012 $** |
| Interest expense | | | | |
| Bank indebtedness | 50 | 57 | 158 | 365 |
| Long-term debt(i) | 933 | 648 | 1,848 | 1,338 |
| Convertible debenture(ii) | 1,257 | 2,882 | 2,494 | 4,294 |
| Fair value adjustment on interest rate swap (note 11) | (455) | 375 | (310) | (215) |
| Net (gain) loss on foreign exchange from financing activities | 23 | (10) | 12 | 10 |
| | 1,808 | 3,952 | 4,202 | 5,792 |

i) Included in interest expense on long-term debt for the three and six months ended June 30, 2013 was amortization of deferred financing costs of $82 and $165 (2012 - $85 and $195), respectively.

ii) Interest expense on the convertible debentures for the three and six months ended June 30, 2013, respectively, of $1,257 and $2,494 (2012 - $2,888 and $4,293) represents coupon interest of $987 and $1,974 (2012 – $1,313 and $2,283) and $270 and $520 (2012 – $1,575 and $2,010) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

## 4 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance. During the three months ended June 30, 2013, the Company declared monthly dividends of $0.09 per share or $6,215 (2012 - $0.09 per share or $6,159). Dividends of $6,208 (2012 - $6,147) were paid during the period, of which $527 (2012 - $512) was paid in shares pursuant to the Company's dividend reinvestment plan.

During the six months ended June 30, 2013, the Company declared monthly dividends of $0.09 per share or $12,411 (2012 - $0.09 per share or $12,286). Dividends of $12,400 (2012 - $12,268) were paid during the period, of which $1,029 (2012 - $965) was paid in shares pursuant to the Company's dividend reinvestment plan.

Dividends of $2,074 were payable as at June 30, 2013 (2012 - $2,063). Dividends are paid mid-month following the month of declaration.

Dividends were declared on July 15, 2013 in the amount of $0.09 per common share and will be paid on August 15, 2013 to the holders of common shares as at the close of the record date of July 31, 2013.

## 5 Income tax

Income tax is recognized based on management's estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual effective tax rate for 2013 is 26% (the effective tax rate for the year ended December 31, 2012 was 26%).

Income tax expense for the three months ended June 30, 2013 was $1,912 (2012 – $1,572), which includes current income tax recovery of $142, (2012 - $122) and a deferred income tax expense of $2,054 (2012 - $1,694). Income tax expense for the six months ended June 30, 2013 was $2,433 (2012 – $2,398), which includes current income tax expense of $5,823, (2012 - $2,087) and a deferred income tax recovery of $3,390 (2012 - deferred income tax expense of $311).

During the first quarter of 2013, the Company received a notice of assessment and demand for payment from the State of Alaska Department of Revenue denying certain deductions from taxable income claimed in the 2008 through 2011 taxation years. The assessed tax, along with associated penalties and interest, totalled approximately US$855. Since receiving this notice of assessment, the Company and the State of Alaska have reached an agreement for an inconsequential amount.

*(in thousands of Canadian dollars)*

## 6 Share capital

a) Authorized:

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

b) Issued and outstanding:

| | # | $ |
|---|---|---|
| Balance – January 1, 2012 | 22,665,902 | 181,272 |
| Exercised share options | 142,500 | 2,212 |
| Transfer from contributed surplus for share options exercised | - | 192 |
| Shares issued under dividend reinvestment plan | 58,356 | 965 |
| Conversion of subordinated debentures | 1,052 | 30 |
| Balance – June 30, 2012 | 22,867,810 | 184,671 |
| | | |
| Balance – January 1, 2013 | 22,924,591 | 185,696 |
| Exercised stock options | 57,750 | 896 |
| Transfer from contributed surplus for share options exercised | - | 94 |
| Shares issued under dividend reinvestment plan | 57,752 | 1,029 |
| Balance – June 30, 2013 | 23,040,093 | 187,715 |

## 7 Earnings per share

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013 $** | **2012 $** | **2013 $** | **2012 $** |
| Net earnings attributable to owners of the parent | 5,260 | 4,704 | 6,686 | 7,004 |
| | **2013 #** | **2012 #** | **2013 #** | **2012 #** |
| Weighted average number of common shares outstanding – Basic | 23,008,043 | 22,783,941 | 22,973,535 | 22,733,077 |
| Effect of dilutive securities | | | | |
| Equity-settled share-based payment awards | 30,057 | 50,669 | 35,424 | 36,681 |
| Weighted average number of common shares outstanding - Diluted | 23,038,100 | 22,834,610 | 23,008,959 | 22,769,758 |
| | **2013 $** | **2012 $** | **2013 $** | **2012 $** |
| Basic earnings per share | 0.23 | 0.21 | 0.29 | 0.31 |
| Diluted earnings per share | 0.23 | 0.21 | 0.29 | 0.31 |

*(in thousands of Canadian dollars)*

For the three and six months ended June 30, 2013, potential shares issuable in exchange for 216,750 (2012 – 465,000) equity-settled share options have been included in the diluted earnings per share calculation. Due to their anti-dilutive effect, the potential shares issuable in exchange for convertible debentures were not included in the diluted earnings per share calculation for the three and six months ended June 30, 2013 and June 30, 2012.

## 8 Share-based payments

On March 28, 2013, the Company adopted a new incentive award plan comprised of restricted awards and performance awards for employees of the Company. Restricted awards are subject to service conditions and performance awards are subject to both service conditions and corporate performance measures. Restricted awards and performance awards issued under the incentive award plan are granted at the discretion of the Company's Board of Directors.

Incentive award plan units vest over three years, one third of each of the first, second and third anniversaries of the grant date and are settled in cash calculated based on the volume weighted average share price of the Company for the five days immediately preceding the vesting date. Incentive Awards are accounted for as an employee benefit, the liability for which is revalued at each balance sheet date using the weighted average price of the Company's shares for the immediately preceding five days.

In March 2013, the Company granted 47,016 restricted share units with a value of $842. Compensation expense of $94 (2012 - $nil) and $95 (2012 - $nil) was recognized for these awards for the three and six months ended June 30, 2013, respectively. No performance share units were awarded during the period.

## 9 Related party transactions

The following transactions were carried out with related parties:

Operating and administrative expenses

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013 $** | **2012 $** | **2013 $** | **2012 $** |
| Professional fees[i] | 37 | 33 | 75 | 85 |
| Rent expense[ii] | 115 | 144 | 232 | 290 |
| | 152 | 177 | 307 | 375 |

(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.

*(in thousands of Canadian dollars)*

There was $1 included in accounts payable and accrued liabilities (December 31, 2012 – $nil) relating to these transactions.

## 10 Supplementary disclosure of cash flow information

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

| | Three months ended June 30, 2013 $ | Three months ended June 30, 2012 $ | Six months ended June 30, 2013 $ | Six months ended June 30, 2012 $ |
|---|---|---|---|---|
| Accounts receivable | (202) | 347 | 1,444 | 65 |
| Inventory | 5,737 | (711) | 3,632 | 1,160 |
| Prepaid expenses and deposits | 1,898 | (1,194) | 3,629 | (831) |
| Accounts payable and accrued liabilities | 1,875 | 6,045 | (9,412) | (862) |
| Income tax payable | (714) | (158) | 2,348 | 2,050 |
| | 8,594 | 4,329 | 1,641 | 1,582 |

Interest and income taxes paid are included in cash provided by operating activities in the Statements of Cash Flows.

| | Three months ended June 30, 2013 $ | Three months ended June 30, 2012 $ | Six months ended June 30, 2013 $ | Six months ended June 30, 2012 $ |
|---|---|---|---|---|
| Interest paid | 2,937 | 3,256 | 4,865 | 4,834 |
| Income taxes paid | 528 | 14 | 3,432 | 14 |

## 11 Fair value of financial instruments

a) Financial instruments measured at fair value

Fair value hierarchy

Financial instruments recognized on the statement of financial position 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.

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 observable yield curves at each measurement date.

b) Financial instruments measured at other than fair value

Financial assets that are valued at other than fair value on the consolidated statements of financial position include cash and accounts receivable. The carrying value less impairment provision of trade receivables approximates fair value at June 30 , 2013 and June 30, 2012 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 long-term debt.

The carrying value of trade payables and dividends payable 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. Debentures with a carrying value of $67,500 have a fair value of $69,525, determined based on market trading values at the balance sheet date.

## 12 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, as included in the internal management reports that are reviewed regularly by the Company's 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 Condensed Interim 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.

*(in thousands of Canadian dollars)*

| | Three months ended June 30, 2013 | | |
|---|---|---|---|
| | **Canadian Operations $** | **US Operations $** | **Consolidated $** |
| Sales to external customers | 128,808 | 38,861 | 167,669 |
| Operating margin | 9,761 | 1,951 | 11,712 |
| Property and equipment amortization | | | 2,582 |
| Intangible asset amortization | | | 89 |
| Finance costs | | | 1,808 |
| Earnings before income taxes | | | 7,233 |
| **Other information** | | | |
| Expenditures for additions to: | | | |
| Property and equipment | 1,813 | 2,638 | 4,451 |
| Intangible assets | 6 | 141 | 147 |
| Total assets at June 30, 2013 | 443,369 | 86,013 | 529,382 |

| | Three months ended June 30, 2012 | | |
|---|---|---|---|
| | **Canadian Operations $** | **US Operations $** | **Consolidated $** |
| Sales to external customers | 121,257 | 38,364 | 159,621 |
| Operating margin | 10,630 | 1,457 | 12,087 |
| Property and equipment amortization | | | 1,679 |
| Intangible asset amortization | | | 118 |
| Finance costs | | | 3,952 |
| Earnings before income taxes | | | 6,338 |
| **Other information** | | | |
| Expenditures for additions to: | | | |
| Property and equipment | 981 | 339 | 1,320 |
| Intangibles | 12 | 2 | 14 |
| Total assets at December 31, 2012 | 453,153 | 79,934 | 533,087 |

*(in thousands of Canadian dollars)*

| | Six months ended June 30, 2013 | | |
|---|---|---|---|
| | **Canadian Operations $** | **US Operations $** | **Consolidated $** |
| Sales to external customers | 232,833 | 71,138 | 303,971 |
| Operating margin | 15,099 | 3,105 | 18,204 |
| Property and equipment amortization | | | 4,613 |
| Intangible asset amortization | | | 178 |
| Finance costs | | | 4,202 |
| Earnings before income taxes | | | 9,211 |
| **Other information** | | | |
| Expenditures for additions to: | | | |
| Property and equipment | 2,765 | 2,992 | 5,757 |
| Intangible assets | 72 | 146 | 218 |
| Total assets at June 30, 2013 | 443,369 | 86,013 | 529,382 |

| | Six months ended June 30, 2012 | | |
|---|---|---|---|
| | **Canadian Operations $** | **US Operations $** | **Consolidated $** |
| Sales to external customers | 216,397 | 69,860 | 286,257 |
| Operating margin | 16,191 | 2,830 | 19,021 |
| Property and equipment amortization | | | 3,430 |
| Intangible asset amortization | | | 229 |
| Finance costs | | | 5,792 |
| Earnings before income taxes | | | 9,570 |
| **Other information** | | | |
| Expenditures for additions to: | | | |
| Property and equipment | 1,586 | 704 | 2,290 |
| Intangibles | 69 | 4 | 73 |
| Total assets at December 31, 2012 | 453,153 | 79,934 | 533,087 |