LIQUOR DEPOT

LIQUOR STORES N.A. LTD.

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

For the Three Months Ended March 31, 2011
As of May 18, 2011

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the interim consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores N.A. Ltd. (the "Company") for the three months ended March 31, 2011 and the consolidated financial statements and MD&A for the year ended December 31, 2010. Unless otherwise stated, results are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"). The CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011 with retrospective restatement of 2010 comparable figures. Accordingly, the Company has commenced reporting on this basis in these financial statements. In this MD&A, the term, "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "EBITDA", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other non-GAAP financial measures. A description of these measures and their limitations are discussed on page 16 under "Non-GAAP Financial Measures".

See also "Risk Factors" and "Forward-Looking Statements" on page 16 of this MD&A.

This MD&A is dated May 18, 2011.

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

HIGHLIGHTS

Three Months Ended March 31, 2011

- Operating margin before non-recurring items increased by 30%
- Overall gross margin as a percentage of sales increased to 25.1% from 24.3% in first quarter 2010
- Same store sales in Alberta (the Company's largest market) are up 4.8% overall
- Canadian same-store sales increased by 2.6%

Consolidated sales were $116.0 million, an increase of 0.14% over the first quarter 2010, despite a $1.5 million decrease in the Canadian dollar equivalent for US store sales (as a result of foreign exchange rate differences) and the Company's strategic reduction of its wholesale business.

Canadian same-store sales increased 2.6% to $75.8 million in the first quarter, compared with $73.9 million in first quarter 2010. U.S. same store sales also increased slightly, improving 0.31% in the first quarter, from US$28.3 million to US$28.4 million.

Overall gross margin, as a percentage of sales, increased to 25.1% from 24.3% in the first quarter of last year. Operating margin, before non-recurring items, increased 30% to $5.2 million for the first quarter of 2011, from $4.0 million in the first quarter of 2010.

Early results for 2011 are encouraging. Canadian same stores sales have improved 2.6% in the first quarter of 2011 compared to a 1.3% decline in the same quarter last year. We have seen positive results from our expanded store operating hours program, as customer counts have increased and sales have exceeded the additional labour and operating costs incurred. Same store sales in Alberta (our largest market) are up 4.8% overall, and with the effects of the temporarily increased Alberta wholesale price mark-ups over, margin rates in Alberta have returned to norms comparable to those prior to the second quarter of 2009. Our British Columbia operations saw a small decrease in sales and customer counts compared to the same period last year. The Company believes that these BC reductions may be attributable, in part; to the uplift from the Olympics held in the first quarter of 2010 and that consumer spending habits have been adversely affected as a result of the mid-2010 legislative change imposing more stringent standards for criminal impaired driving charges in the province. An added factor negatively impacting first quarter sales was the partial shift in Easter sales from the first quarter 2010 to second quarter 2011 (although Easter fell in the second quarter of both 2010 and 2011, the 2010 advertising campaign was commenced in first quarter 2010 and a portion of Easter-related sales occurred during that period).

US operations continue to meet Management's expectations; however, the strengthening Canadian dollar did impact results.

OUTLOOK

Management anticipates that the second quarter of 2011 will reflect the positive trends of the first quarter, with expected further improvements in same store sales, overall sales growth, and with the improved first quarter margin rates being maintained. Economic indicators suggest that the Western Canadian economy is growing, and the Company believes that heightened consumer confidence levels and a strong labour market should support continued improvements in the Alberta market. That being said, unprecedented forest fires in and around the Town of Slave Lake, Alberta and the resulting mandatory evacuation of the municipality recently forced the closure of three stores. These unanticipated store closures have the potential to negatively affect overall sales and Canadian same store sale results for the second quarter of 2011. BC sales for the second quarter of 2011 may not see the same levels as the second quarter of 2010 as consumer spending habits appear to be influenced by more stringent standards for criminal impaired driving charges and the implementation of Harmonized Sales Tax ("HST") in the province, however, the positive impact on sales from the continued playoff success of the NHL's Vancouver Canucks has the potential to mitigate the effects of the foregoing on the quarter.

Operations in Alaska and Kentucky continue to meet our expectations, however, the strengthening Canadian dollar (and resulting foreign exchange rate differences) may continue to impact consolidated results in the second quarter.

OVERVIEW OF THE COMPANY

The Company was incorporated on November 8, 2010 under the laws of the Province of Alberta. On December 31, 2010, Liquor Stores Income Fund (the "Fund") and the Company completed a Plan of Arrangement under the Canada Business Corporations Act (the "Arrangement"). Pursuant to the Arrangement, unitholders of the Fund and Liquor Stores Limited Partnership (the "LP") each received one common share of the Company for each trust unit and each exchangeable LP unit and series 1 exchangeable unit of the LP that they held on December 31, 2010. The Company also assumed the Fund's 6.75% convertible subordinated debenture. The Company's shares and 6.75 % convertible subordinated debentures trade on the TSX under the symbols LIQ and LIQ.DB, respectively. The Fund was established as an unincorporated open-ended trust under the laws of the Province of Alberta on August 10, 2004 and will be dissolved at a later date. The Company operates 236 retail liquor stores. Management believes the Company is the largest liquor store operator in Alberta by number of stores and revenue.

Stores and Operations (as of May 18, 2011)

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

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres.

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

Competitive Environment

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

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

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

The Company operates nine stores in Kentucky of which six are large format stores. Licenses have been approved allowing the Company to develop and open an additional store, which will be a large format store in a formerly dry county. In the state of Kentucky there are no government owned or operated liquor stores. Liquor licenses are permitted based on the alcoholic status of each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell beer, wine and spirits. There are approximately 784 package retail license stores in Kentucky with 207 in Jefferson County and 68 in Fayette County [Source: Kentucky's Alcoholic Beverage Control Board]. The Company currently operates five stores in Lexington (Fayette County) and four stores in Louisville (Jefferson County).

BUSINESS STRATEGY

Growth

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

Competitive Differentiation

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

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

DIVIDENDS

Policy

Dividends are 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, fluctuations in working capital and ongoing capital requirements. Presently, the Board of Directors has approved a monthly dividend of $0.09 ($1.08 annually). For Canadian residents, the Company's dividends are considered to be eligible dividends for income tax purposes (subject to gross up and the enhanced dividend tax credit).

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

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

Cash provided by operating activities before changes in working capital is an additional GAAP measure which the Company believes provides useful information to investors and management by providing an indication of cash flow available for sustaining its current annual dividend of $1.08 per share, investment in working capital, replacement or purchase of new fixed assets, acquisitions, and debt repayment. Investors often compare basic and diluted earnings per share amounts to the Company's annual dividend. 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.

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

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

	Three months ended March 31,	
(expressed in thousands of Canadian dollars, except per Share amounts)	**2011**	**2010**
Cash provided by operating activities before changes in non-cash working capital	$ 2,815	$ 2,207
Non-recurring items	537	(95)
Cash provided by operating activities before changes in non-cash working capital and non-recurring items	3,352	2,112
Weighted average number of shares outstanding (3)	22,589	22,542
Per share amount (3)	$ 0.12	$ 0.10
Per share amount before non-recurring items (3)	$ 0.15	$ 0.09
Cash dividends per share (3)	$ 0.27	$ 0.41

(1) Non-recurring items for the three months ended March 31, 2011 and 2010 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust less a settlement received from one of the parties relating to the 2007 acquisition of Liquor Barn Income Fund. For the first quarter of 2010 non-recurring expenses were offset by a settlement related to a GST appeal.

(2) The GAAP measure comparable to cash provided by operating activities before changes in non-cash working capital per share is earnings per share. Diluted earnings(loss) per share for the three months ended March 31, 2011 and 2010 are nil and $(0.47) respectively.

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

Seasonality

The retail liquor industry is subject to seasonal variations with respect to sales and consequently operating results. Sales are typically lowest early in the year and increase in the latter half. In 2010, 20% (2009- 20%) of annual same store sales occurred in the first quarter, 26 % (2009 - 26%) in the second quarter, 26% (2009 - 26%) in the third quarter and 28% (2009 - 28%) in the last quarter. 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 announced a Dividend Reinvestment Plan (the "DRIP" or the "Plan") on April 15, 2011 which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. 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 April 29, 2011, Shareholders enrolled in the DRIP, at that time, held approximately 1.4 million shares.

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

Policy on Same Store Sales Comparisons

Comparable same store sales includes sales for stores that have been open 12 full months at the beginning of the reporting period. Stores which have significant wholesale business have been excluded.

Three Months Ended March 31, 2011

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

	Three months ended March 31,			
	2011		**2010**	
(Cdn $ 000's, unless otherwise stated)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales [1]				
Canadian same stores	75,786	65.4%	73,881	63.8%
Canadian wholesale operations	9,323	8.0%	10,026	8.7%
Other Canadian stores	2,672	2.3%	2,481	2.1%
Total Canadian store sales	87,781	75.7%	86,388	74.6%
US same stores (US$)	28,364	24.5%	28,276	24.4%
Other US stores (US$)	219	0.2%	0	0.0%
Foreign exchange on US store sales	(397)	(0.3)%	1,134	1.0%
Total US store sales	28,186	24.3%	29,410	25.4%
Total sales	115,967	100.0%	115,798	100%
Gross margin	29,155	25.1%	28,110	24.3%
Operating and administrative expense	24,492	21.1%	24,015	20.7%
Operating margin	4,663	4.0%	4,095	3.5%
Non-recurring items[2]	537	0.5%	(95)	(0.1)%
Operating margin before non-recurring items	5,200	4.5%	4,000	3.5%

Notes:

(1) *The number of stores and corresponding results for the three months ended March 31, 2011 includes partial months of operations for new stores opened or acquired (2011: none;2010: one store) and stores closed during the period (2011: one store; 2010: one store). Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.*

(2) *Non-recurring items for the three months ended March 31, 2011 and 2010 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust less the proceeds of a settlement with one of the parties to the Liquor Barn Income Fund litigation. For the first quarter of 2010 non-recurring expenses were offset by a refund related to a GST appeal.*

First quarter 2011 Operating Results Compared to First Quarter 2010 Operating Results

Sales

Sales for the three months ended March 31, 2011 and 2010 were $116.0 million and $115.8 million, respectively, up marginally despite a $1.5 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 - up $1.9 million or 2.6%
- Canadian same store sales have benefitted from a stronger first quarter promotional campaign compared to the same period in 2010 and an improved customer offering through extended operational hours and enhanced customer service at the store level. The 2.6% increase was achieved despite the year over year impact of the Olympics occurring in the first quarter of 2010, the more stringent standards imposed in the BC market for criminal impaired driving charges, the effect in BC of the HST on customer buying habits, and the timing of Easter which benefited the first quarter in 2010.
- US same store sales were US$28.4 million, up from US$28.3 million.

Other Sales

- Wholesale business sales for the three months ended March 31, 2011 were $9.3 million, down $ 0.7 million or 7% from $10.0 million a year earlier. The Company strategically reduced its business in this area in 2010 due to lower margins and higher administrative and credit risk costs associated with wholesale customers. Increased competition for this business has also lead to a decrease in volume further supporting the Company's decision to reduce its business in this area.
- Other Canadian stores include stores that were opened, acquired or closed after January 1, 2010 and stores that have been impacted by decisions of the Company to open stores within their trading area.
- Other US stores include stores that were opened or acquired after January 1, 2010, including one store opened in Kentucky (2010 – no store additions).

Gross Margin

For the three months ended March 31, 2011, gross margin was $29.2 million, up 3.7 % from $28.1 million for the same period last year. Gross margin is up overall due to stronger merchandising, buying practices, pricing strategy and operational execution in the first quarter of 2011. The prior year impact of the Government of Alberta's 2009 liquor wholesale price mark-up increase impact is also no longer applicable.

Gross margin as a percentage of sales is up 0.8% to 25.1% from 24.3% in 2010. The primary factors for the increase were:

- New merchandising techniques, category management, purchasing strategies and product selling knowledge for sales associates have been deployed in the first quarter of 2011 compared to the same period last year (along with an enhanced focus on store execution of these operational initiatives);

- The overall mix of sales has changed as we continue to reduce our wholesale business (that historically achieves lower gross margins) and increase our same store sales; and

- In the first quarter of 2010, the remaining higher cost of inventory purchased during the Alberta liquor mark-up period was sold at lower margins. The impact of this liquor mark-up is no longer impacting gross margins.

Operating and Administrative Expense

Operating and administrative expenses for the three months ended March 31, 2011 was $24.5 million, up 1.9% from $24.0 million a year earlier. Increased rent and common area costs and the impact of non-recurring costs incurred in head office administration were the major contributors. Non-recurring costs for the three months ended March 31, 2011 were $0.5 million (2010: $0.01 million net recovery) and included professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund, less the settlement from one of the parties in the first quarter of 2011. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust to a corporation. First quarter 2010 non-recurring expenses were offset by a settlement related to a GST appeal. As a percentage of sales, operating and administrative expense for the period is comparable with the prior year at approximately 21.0%.

Operating Margin

Operating margin was $4.7 million for the quarter ended March 31, 2011, up 13.8% from $4.1 million in 2010. As a percentage of sales, operating margin was 4.0%, up 0.5% from a year earlier.

Operating margin for Canadian stores for the first quarter of 2011 was $4.5 million or 5.1% as a percentage of sales compared with $4.0 million and 4.6% as a percentage of sales for 2010. In Canada, operating margin as a percentage of sales was up due to the implementation of new merchandising programs and the elimination of the effect of the Government of Alberta's liquor mark-up increase in the first quarter of 2010 as discussed above.

The US operating margin for the first quarter of 2011 was $0.2 million or 0.8% as a percentage of sales compared with $0.1 million and 0.4% as a percentage of sales for the first quarter of 2010.

Operating margin before non-recurring items for the quarter ended March 31, 2011 was $5.2 million, up $1.2 million or 30% for the same period last year due to the reasons discussed above.

IFRS Implementation

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

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

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

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

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

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

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $2.0 million (2010: $1.8 million); non-cash interest of $0.6 million (2010: $0.4 million); foreign exchange gains of $ nil (2010: $0.7 million); and IFRS adjustments related to the distributions on revaluation of exchangeable units and the change in fair value of the conversion feature of debentures totalling $8.6 million in the first quarter of 2010. (see note 7 to the Financial Statements).

Income Taxes

In the quarter ended March 31, 2011, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets, and applied new tax rates which are a result of its conversion from an income trust to a corporation. The result is a deferred income tax recovery of $0.02 million in this quarter, compared with an expense of $0.1 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings (Loss)

The net earnings for the three months ended March 31, 2011 was $145 thousand compared to a loss of $8.6 million for the same period in 2010. The 2010 Net loss has been re-stated as a result of the conversion to IFRS and specifically the treatment of financing costs and income taxes as described above. Adjusting for these factors, quarter 1, 2010 had net earnings of $54 thousand. Net earnings for quarter 1, 2011 is down primarily due to higher non-recurring costs compared to the same quarter last year.

Condensed Quarterly Information

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

	2011	2010				2009		
	Mar 31	**Dec 31 (1)**	**Sep 30 (1)**	**Jun 30 (1)**	**Mar 31 (1)**	**Dec 31 (1)**	**Sep 30 (1)**	**Jun 30 (1)**
Balance Sheet								
Cash and cash equivalents	$ 2,106	$ 2,815	$ 2,215	$ 919	$ 1,236	$ 5,288	$ 9,078	$ 1,338
Total assets	493,463	496,792	494,328	502,511	494,017	509,809	474,583	474,963
Bank indebtedness	54,075	41,468	41,310	49,962	40,430	41,094	26,427	25,862
Total current liabilities	75,503	71,839	67,802	73,370	63,826	68,688	47,229	44,571
Long-term debt	100,878	100,417	100,957	100,679	100,923	100,126	85,563	85,188
Statement of Earnings								
# stores, end of period	236	237	237	237	236	236	225	224
Sales	$ 115,967	$ 163,555	$ 151,605	$ 148,742	$ 115,798	$ 155,529	$ 138,915	$ 140,253
Operating margin before non-recurring items	5,200	15,161	13,159	11,507	4,000	14,946	12,457	15,084
Future tax expense (recovery)	(20)	(6,528)	897	(330)	97	(1,600)	423	576
Net (loss) earnings for the period	145	16,846	3,063	13,238	(8,604)	9,836	7,466	10,091
Basic earnings (loss) per Share	$ 0.00	$ 0.90	$ 0.17	$ 0.71	$ (0.47)	$ 0.45	$ 0.32	$ 0.44
Diluted earnings (loss) per Share	$ 0.00	$ 0.90	$ 0.16	$ 0.71	$ (0.47)	$ 0.43	$ 0.32	$ 0.44
Dividends declared per Share	$ 0.27	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405

(1) *Information for the quarters in 2010 have been restated in accordance with the adoption of International Financial Reporting Standards ("IFRS"). 2009 balances are prepared in accordance with Canadian GAAP before the adoption of IFRS.*

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' Equity

As at May 17, 2011, 22,590,103 common shares of the Company were outstanding (see note 10 to the Financial Statements for further information).

Capital Expenditures

Historically, capital expansion has been financed by proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Company believes existing credit facilities are adequate to finance developments and acquisitions expected to occur in 2011. The Company would require additional capital or financing for a larger acquisition.

The Company did not open any new stores during the quarter ended March 31, 2011.

The Company will continue to pursue acquisition opportunities and to open new stores in the remainder of 2011.

Credit Facilities

The Company has a credit facility with a syndicate of banks, which is effective until June 26, 2012. Negotiations are currently being finalized with the renewed facility expected to be effective until June 24, 2013. There is a total of $143 million available under the facility, consisting of an available $95 million extendible revolving operating loan (the "Operating Line Facility") and a $48 million extendible revolving term loan (the "Term Loan Facility"). Pursuant to the terms of the credit facility, the Company has the ability to request an additional $30 million (to be provided by the lenders on a best-effort basis). The Company also has a $5 million USD facility with a US bank.

At May 17, 2011 there was $52.5 million drawn on the Operating Line Facility, and $46.5 million drawn on the Term Loan Facility, both available until June 26, 2012. The Company has $7.2 million in letters of credit issued against the Operating Line Facility.

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

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

Current ratio

Current ratio is the ratio of current assets to the current liabilities. Current ratio is to be maintained in a ratio greater than or equal to 1.10 to 1.00.

Funded debt to EBITDA ratio

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

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 March 31, 2011, the Company was in compliance with all financial covenants.

Ratio	Covenant	Company at March 31, 2011
Current	> or = 1.10:1.00	1.67:1.00
Funded debt to EBITDA	< 2.75:1.00	2.17:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.67:1.00
Fixed charge coverage	> or = 1.00:1.00	1.06:1.00

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. Taking into consideration seasonal working capital requirements, the Company believes it has available credit of approximately $28 million to finance growth opportunities.

Interest Rate Risk and Sensitivity

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

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Company as at March 31, 2011, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $100.5 million.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 1,005	$ (1,005)
Increase (decrease) in earnings before income tax	(1,005)	1,005

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

Credit Risk

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

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to US intercompany management fees and interest payments which totalled US$1.6 million for the three months ended March 31, 2011 (2010: $1.5 million).

The Company's US subsidiaries use the US dollar as their functional currency and the assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiaries currently operate 29 stores out of the Company's 236 stores.

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

Contractual Obligations

The table below sets forth, as of March 31, 2011, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands of Canadian dollars)	2011	2012	2013	2014	2015	2016 and thereafter
Operating leases	$ 15,033	$ 18,369	$ 15,884	$ 12,293	$ 8,948	$ 18,070
Long-term debt	-	46,390	-	-	-	-
Debentures	-	57,500	-	-	-	-
Total	$ 15,033	$ 122,259	$ 15,884	$ 12,293	$ 8,948	$ 18,070

OFF BALANCE SHEET ARRANGEMENTS

As at May 18, 2011, the Company does not have any off balance sheet arrangements other than operating leases described above.

FINANCIAL INSTRUMENTS

The Company, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, foreign exchange currency contracts, bank indebtedness, accounts payable and accrued liabilities, dividends payable and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as loans and receivables. Financial liabilities are classified as other financial liabilities. (Refer to note 16 of the financial statements for further information).

TRANSACTIONS WITH RELATED PARTIES

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

During the three months ended March 31, 2011, the Company incurred professional fees of $93,064 to a law firm of which a director of the Company, is a partner. Rent paid to companies controlled by the Executive Chairman of the Company amounted to $139,323 for the three months ended March 31, 2011. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (see note 14 to the Financial Statements).

CRITICAL ACCOUNTING ESTIMATES

Goodwill

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

The Company completed its transitional impairment test at January 1, 2011 and its annual goodwill impairment test as at September 30, 2010 using the discounted cash flow method of assessing fair value. No impairment was identified.

The Company will perform its 2011 annual goodwill impairment test as at October 1, 2011 unless a triggering event occurs requiring the Company to test goodwill at an earlier time.

Amortization Policies and Useful Lives

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

Purchase Price Allocations

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

Deferred income taxes

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

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

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

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

IFRS 1

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

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

Business Combinations

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

Property and Equipment

IFRS allows an entity to use either the cost method or revaluation method for asset valuation. IFRS also requires each component of property and equipment with a significant cost in relation to the total cost of asset to be evaluated with respect to useful life and, if appropriate, be depreciated separately, referred to as asset componentization. The Company has selected the cost method of asset valuation under IFRS. This, in conjunction with the fair value or revaluation as deemed cost election under IFRS 1, minimized IFRS transition adjustments with respect to property and equipment for the Company. No significant adjustments resulted from asset componentization.

Asset Impairment

Under IFRS, the impairment of assets, excluding financial assets, is tested and measured by comparing the carrying value of an asset or cash generating unit to its recoverable amount. Recoverable amount is measured as the higher of fair value less costs to sell or value-in-use based upon discounted cash flow methodology. Unlike Canadian GAAP, IFRS requires impairment reversals for assets, with the exception of goodwill. As a result, IFRS treatment has the potential to increase income statement volatility due to the potential for increased write-downs and reversals of write-downs. IFRS requires goodwill to be allocated to the cash generating units ("CGUs") that benefit from the expected synergies of the related business combination and tests that goodwill for impairment at the CGU or group of CGUs level. More than one CGU can be aggregated when allocating the goodwill from a business combination. The Company has chosen to define the CGU at the individual store level for property and equipment and intangible assets and as a result, some operating segments may have increased potential for impairment losses in the future. The Company performed asset impairment testing as at January 1, 2010 and there were not any significant differences in the results from this test compared to testing performed with respect to the years ended December 31, 2010, under Canadian GAAP.

Income Trust Structure

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

INTERNAL CONTROLS AND PROCESSES

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

The chief executive and chief financial officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the year ended December 31, 2010. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

RISK FACTORS

There are no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 15, 2011, and the Company's annual Management Discussion & Analysis for the year-ended December 31, 2010.

NON-GAAP FINANCIAL MEASURES

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

EBITDA is defined as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $3.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

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

Operating margin for purposes of disclosure under "Operating Results" has been derived by subtracting Operating and Administrative expenses from Gross Margin. Operating margin as a percentage of sales is calculated by dividing operating margin by sales. Operating margin before non-recurring items has been derived by adding non-recurring items to operating margin as described above.

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

FORWARD LOOKING STATEMENTS

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

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

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

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