LIQUOR DEPOT

LIQUOR STORES N.A. LTD.

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

For the Three and Nine Months Ended September 30, 2011
As of November 9, 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 and accompanying notes of Liquor Stores N.A. Ltd. (the "Company") for the three months ended March 31, 2011, the three and nine months ended September 30, 2011(the "Financial Statements"), 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 comparative figures. Accordingly, the Company is reporting on this basis in these financial statements. In this MD&A, the term, "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "EBITDA", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other non-GAAP financial measures. A description of these measures and their limitations are discussed on page 15 under "Non-GAAP Financial Measures".

See also "Risk Factors" and "Forward-Looking Statements" on page 14 and 15 of this MD&A.

This MD&A is dated November 9, 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 September 30, 2011

- Same store sales increased 7.1% in Canada and 1.2% in the United States, led by Alberta with a 10.1% increase.
- Overall operating margin before non-recurring items increased by 3.8% to $13.7 million.

Consolidated sales were $157.1 million, representing a significant increase of 3.6% over the third quarter of 2010, despite a $2.0 million decrease in the Canadian dollar equivalent for U.S. store sales (as a result of foreign exchange rate differences).

Canadian same-store sales strengthened by 7.1% to $110.4 million in the third quarter, compared with $103.0 million in third quarter of 2010. U.S. same store sales also improved, increasing by 1.2% in the third quarter, from US$34.4 million to US$34.8 million.

Overall gross margin, as a percentage of sales, decreased to 24.7% for the third quarter from 25.3% last year. Operating margin, before non-recurring items, however, increased 3.8% to $13.7 million for the third quarter of 2011, from $13.1 million in the third quarter of 2010.

Nine Months Ended September 30, 2011

- Same store sales increased in all markets except British Columbia. Alberta continued to strengthen, with a 6.3% increase in same store sales during this period. British Columbia saw a 1.0% decrease. Overall Canadian same store sales increased by 4.5% and U.S. same store sales increased by 1.4%.
- Overall gross margin as a percentage of sales was 24.8%, unchanged from 2010.
- Operating margin before non-recurring items increased by 9.1% to $31.2 million.

Third quarter results were very positive, continuing the trends exhibited in the first half of 2011. Canadian same store sales further escalated, increasing by 7.1%, compared to a 3.0% decline during the same quarter last year. Alberta continues to be a very strong market for the Company, as evidenced by a 10.1% increase in same store sales in the third quarter. The positive results in Canada are attributable, in part, to the continued success of the Company's expanded store hours program (with stores in selected markets open until 2 am), an enhanced promotional campaign (increased flyer distribution compared with third quarter 2010) as well as various in-store customer service-orientated initiatives. Management also believes that the significant operating margin improvements are a direct result of the continued implementation of new purchasing strategies, category management and merchandising techniques. U.S. operations continue to meet management's expectations (with United States same store sales in third quarter 2011 increasing by 1.2%); however, the strong Canadian dollar did adversely impact results.

OUTLOOK

The Company experienced healthy increases in same store sales and operating margin during the third quarter. Management does not expect the fourth quarter results to reflect continued increases of this magnitude. That being said, Management is confident that the sales and merchandising initiatives described above will continue to have a positive impact on sales, gross margins, and overall results throughout its Canadian business. Sales in British Columbia may continue to face pressure from various extraneous factors, including potential continued reduced consumer spending habits arising from more stringent impaired driving penalties. Early indicators suggest that the Company's U.S. business operations, which are in Alaska and Kentucky, should continue to remain stable.

OVERVIEW OF THE COMPANY

The Company was incorporated on November 8, 2010 under the federal laws of Canada. On December 31, 2010, Liquor Stores Income Fund (the "Fund") and the Company completed a Plan of Arrangement under the Canada Business Corporations Act (the "Arrangement"). Pursuant to the Arrangement, unitholders of the Fund and Liquor Stores Limited Partnership (the "LP") each received one common share of the Company for each trust unit and each exchangeable LP unit and series 1 exchangeable unit of the LP that they held on December 31, 2010. The Company also assumed the Fund's 6.75% convertible subordinated debentures. The Company's shares and 6.75% convertible subordinated debentures trade on the TSX under the symbols LIQ and LIQ.DB, respectively. The Fund was established as an unincorporated open-ended trust under the laws of the Province of Alberta on August 10, 2004 and will be dissolved at a later date. The Company operates 238 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 November 9, 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	46	49	13	11	11	20	5	4	238

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres.
(2) Other communities served in Alberta include, by region, Northern (24), Southern (9), Central (14) and resort communities (2).

Competitive Environment

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Company currently operates 174 liquor stores in Alberta where there are approximately 1,273 liquor stores and 95 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 672 private stores and 197 government operated stores. There are also approximately 223 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch].

The Company currently operates 20 stores in the greater Anchorage, Alaska area. In the State of Alaska there are approximately 367 retail liquor stores with 87 stores in the greater Anchorage area. There are also 23 seasonal retail liquor stores for golf courses and resort properties. Save for limited community liquor stores that are operated by certain municipal governments, there are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas [Source: Alaska's Alcoholic Beverage Control Board]. The Company's "Brown Jug" trade name is well recognized throughout the state as the leading alcoholic beverage retailer.

The Company operates nine stores in Kentucky of which six are large format stores. A new license has been recently approved in a formerly-dry Kentucky county allowing the Company to develop and open an additional large format store, which management expects will be open in late 2011. 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 820 package retail license stores in Kentucky with 246 in Jefferson County and 82 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 continued marketing and brand development of its well-known industry-leading brands. Management is also confident that its emphasis in Canada on establishing and maintaining convenient and high-traffic locations assists the Company in differentiating it from industry competitors.

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

Dividend Policy

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

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

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

Cash provided by operating activities before changes in working capital is an additional GAAP measure which the Company believes provides useful information to investors and management by providing an indication of cash flow available for sustaining its current annual dividend of $1.08 per share, investment in working capital, replacement or purchase of new fixed assets, acquisitions, and debt repayment. Investors often compare basic and diluted earnings per share amounts to the Company’s annual dividend. 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 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 11 in the Company’s Financial Statements for the most directly comparable measure calculated in accordance with GAAP.

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

	Three months ended September 30,		**Nine months ended September 30,**	
(expressed in thousands of Canadian dollars, except per Share amounts)	**2011**	**2010**	**2011**	**2010**
Cash provided by operating activities before changes in non-cash working capital	15,782	10,539	28,485	22,147
Non-recurring items (1)	(3,650)	583	(2,971)	983
Cash provided by operating activities before changes in non-cash working capital and non-recurring items	12,132	11,122	25,514	23,130
Weighted average number of shares outstanding (3)	22,613,328	22,556,969	22,601,954	22,556,969
Per share amount (2)(3)	0.70	0.47	1.26	0.98
Per share amount before non-recurring items (3)	0.54	0.49	1.13	1.03
Cash dividends per share (3)	0.27	0.41	0.81	1.21

(1) *Non-recurring items for the three months and nine months ended September 30, 2011 are related primarily to the cash proceeds on the settlement of litigation relating to the 2007 acquisition of Liquor Barn Income Fund less related costs. For the three months ended 2010 non-recurring items also include costs related to the conversion from an income trust to a corporation and store closure costs. For the nine months ended September 30, 3010 non-recurring items include a refund of GST following the successful appeal of a reassessment.*

(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 September 30, 2011 and 2010 are $0.48 and $0.15 respectively, and for the nine months ended September 30, 2011 and 2010 are $0.74 and $0.40, 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 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 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

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

As at October 31, 2011, shareholders enrolled in the DRIP held approximately 1.6 million shares.

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

Policy on Same Store Sales Comparisons

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

Three Months Ended September 30, 2011

The following table summarizes the operating results for the three months ended September 30, 2011 and 2010.

	Three months ended September 30,			
	2011		2010	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same stores	110,357	70.8%	102,998	68.0%
Canadian wholesale operations (1)	12,319	7.9%	12,346	8.1%
Other Canadian stores (2)	-	-	529	0.3%
Total Canadian store sales	122,676	78.7%	115,873	76.4%
U.S. same stores (US$)	34,803	21.5%	34,374	22.7%
Other U.S. stores (US$) (3)	289	0.2%	-	-
Foreign exchange on US store sales	(688)	(0.4%)	1,358	0.9%
Total U.S. store sales	34,404	21.3%	35,732	23.6%
Total sales	157,080	100.0%	151,605	100.0%
Gross margin	38,752	24.7%	38,314	25.3%
Operating and administrative expense	25,470	13.4%	25,752	17.0%
Operating margin	13,282	11.0%	12,562	8.3%
Non-recurring items(4)	350	(2.3%)	583	0.4%
Operating margin before non-recurring items	13,632	8.7%	13,145	8.7%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.*
(2) *Sales for the three months ended September 30, 2010 include those of 3 Canadian stores closed subsequent to September 30, 2010.*
(3) *Sales for the three months ended September 30, 2011 include those of 1 store opened in Kentucky in the fourth quarter of 2010.*
(4) *Non-recurring items for the three months ended September 30, 2011 are related primarily to the costs associated with the Liquor Barn litigation, margin adjustment and severance. For the three months ended September 30, 2010 non-recurring items include costs related to the Liquor Barn litigation, conversion from an income trust to a corporation and store closure costs.*

Third Quarter 2011 Operating Results Compared to Third Quarter 2010 Operating Results

Sales

Sales for the three months ended September 30, 2011 and 2010 were $157.1 million and $151.6 million, respectively, up 3.6% despite a $2.0 million decrease in the Canadian currency equivalent for U.S. sales as a result of foreign exchange rate differences.

Same Store Sales

- Led by Alberta's 10.1% increase, Canadian same store sales were up $7.4 million or 7.1%.
- Canadian same store sales have benefitted from extended operational hours and enhanced customer service at the store level, a more aggressive third quarter promotional campaign compared to the same period in 2010, and favourable weather conditions in the third quarter compared to 2010. In British Columbia same store sales were adversely affected by more stringent impaired driving penalties and the effect in B.C. of the imposition of HST on customer buying habits.
- U.S. same store sales were up US$0.4 million or 1.2%.

Other Sales

- Wholesale business sales for the three months ended September 30, 2011 were $12.3 million, unchanged from 2010.
- Other Canadian stores include three stores closed subsequent to September 30, 2010.
- Other U.S. stores include a Kentucky store opened in November 2010.

Gross Margin

For the three months ended September 30, 2011, gross margin was $38.8 million, up 1.1% from $38.3 million for the same period last year due to increased sales revenue.

Gross margin as a percentage of sales was down to 24.7% from 25.3% in 2010. This decrease is primarily attributable to i) increased marketing activities in the quarter; ii) reduced beer margins in Canada compared to third quarter 2010 (third quarter 2010 gross margin benefitted from retail price increases prompted by the manufacturers' industry-wide inflation of wholesale prices); and iii) a $0.2 million non-recurring charge to margin related to the Company's ongoing development of its new point of sale systems.

Operating and Administrative Expense

Before non-recurring items, operating and administrative expense for the three months ended September 30, 2011 was $25.3 million, up marginally from $25.2 million last year. Reductions in expenses following the closure of underperforming stores and pubs together with reduced exchange on U.S. expenses largely offset increases in payroll, rent and other expenses. In the third quarter of 2011, non-recurring items of $0.2 million include the costs associated with the Liquor Barn litigation and severance payments. In the third quarter of 2010 non-recurring expenses were $0.6 million.

Operating Margin

Operating margin before non-recurring items was $13.6 million for the quarter ended September 30, 2011, up 3.8% from $13.1 million in 2010. As a percentage of sales, operating margin before non-recurring items was 8.7%, unchanged from a year earlier.

Operating margin before non-recurring items for Canadian stores for the third quarter of 2011 was $11.6 million or 9.5% as a percentage of sales compared with $11.3 million and 9.8% as a percentage of sales for 2010.

The U.S. operating margin before non-recurring items for the third quarter of 2011 was $2.0 million or 5.8% as a percentage of sales compared with $1.8 million and 5.0% as a percentage of sales last year.

Operating margin for the quarter ended September 30, 2011 was $13.3 million, up $0.7 million or 5.9% 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 effects 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 2011 quarterly financial statements.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $1.9 million (2010: $2.0 million); non-cash interest of $0.5 million (2010: $0.6 million); foreign exchange gains of $0.1 million (2010: $0.3 million); and IFRS net expenses related to the distributions and revaluation of exchangeable units and the change in fair value of the conversion feature of debentures totalling $3.8 million in the third quarter of 2010 (See note 3 to the Financial Statements).

Litigation Settlement

During the quarter ended September 30, 2011, the Company entered in to a settlement agreement with respect to litigation arising from the 2007 acquisition of Liquor Barn Income Fund. The settlement agreement provided for (among other items) payments to the Company in the aggregate amount of $4,000,000, as well as the transfer of certain intangible assets to the Company with an incremental value of $920,000. The Company has recorded a gain from the settlement totalling $4,920,000.

Income Taxes

In the quarter ended September 30, 2011, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets. The result is a deferred income tax expense of $2.9 million for the three months ended September 30, 2011, compared with $0.9 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge against net earnings.

Net Earnings

Net earnings for the three months ended September 30, 2011 were $11.0 million. Before IFRS adjustments, net earnings for the three months ended September 30, 2010 were $7.0 million. Approximately $0.6 million of the increase is due to improved operating performance and reduced cash interest. The remaining $3.4 million improvement relates to non-recurring items and variations in amortization, non-cash interest, foreign exchange and deferred income tax.

Under IFRS, net earnings for the three months ended September 30, 2011 were $11.0 million, compared to $3.0 million for the same period in 2010.

Nine Months Ended September 30, 2011

The following table summarizes the operating results for the nine months ended September 30, 2011 and 2010.

	Nine months ended September 30,			
	2011		**2010**	
(Cdn $000's, unless otherwise stated)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales [1]				
Canadian same stores	288,561	68.2%	276,246	66.4 %
Canadian wholesale operations [1]	33,522	7.9%	34,761	8.4%
Other Canadian stores [2]	4,414	1.0%	4,806	1.2%
Total Canadian store sales	326,497	77.1%	315,813	75.9%
U.S. same stores (US$)	98,199	23.2%	96,872	23.3%
Other U.S. stores (US$) [3]	777	0.2%	-	-
Foreign exchange on U.S. store sales	(2,215)	(0.5%)	3,460	0.8%
Total U.S. store sales	96,761	22.9%	100,332	24.1%
Total sales	423,258	100.0%	416,145	100.0%
Gross margin	104,686	24.8%	103,012	24.8%
Operating and administrative expense	74,533	16.7%	75,402	18.1%
Operating margin	30,153	8.1%	27,610	6.7%
Non-recurring items [4]	1,029	(0.7%)	983	0.2%
Operating margin before non-recurring items	31,182	7.4%	28,593	6.9%

Notes:

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

(2) *Sales for the nine months ended September 30, 2011 and 2010 include those of 4 stores opened in 2010 and 3 stores closed subsequent to September 30, 2010.*

(3) *Sales for the nine months ended September 30, 2011 include those of a store opened in Kentucky in the fourth quarter of 2010.*

(4) *Non-recurring items for the nine months ended September 30, 2011 are related primarily to costs associated with the Liquor Barn litigation, margin adjustment and severance. For the nine months ended September 30, 2010 non-recurring items include costs related to the Liquor Barn litigation, conversion from an income trust to a corporation and store closure costs less a refund related to a GST appeal.*

Nine Months Ended September 30, 2011 Operating Results Compared to Nine Months ended September 30, 2010 Operating Results

Sales

Sales for the nine months ended September 30, 2011 and 2010 were $423.3 million and $416.1 million, respectively, up 1.7% despite a $5.7 million decrease in the Canadian currency equivalent for U.S. sales as a result of foreign exchange rate differences.

Same Store Sales

- Canadian same store sales - up $12.3 million or 4.5%.
- U.S. same store sales - up US$1.3 million or 1.4%.

Other Sales

- Wholesale business sales for the nine months ended September 30, 2011 were $33.5 million, down $1.3 million or 3.5% from $34.8 million a year earlier.
- Other Canadian stores include stores that were opened, acquired or closed after January 1, 2010.
- Other U.S. stores includes one Kentucky store opened in November 2010.

Gross Margin

For the nine months ended September 30, 2011, gross margin was $104.7 million, up 1.6% from $103.0 million for the same period last year. Gross margin is up overall due to increased sales volumes.

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

Operating and Administrative Expense

Before non-recurring items, operating and administrative expense for the nine months ended September 30, 2011 was $73.7 million, down 1.0% from $74.4 million a year earlier. Reductions in expenses following the closure of underperforming stores and pubs together with reduced exchange on U.S. expenses more than offset increases in payroll, rent and other expenses. For the nine months ended September 30, 2011 there was a non-recurring expenses of $0.9 million compared to non-recurring expenses of $1.0 million last year.

Operating Margin

Operating margin before non-recurring items was $31.1 million for the nine months ended September 30, 2011, up 9.1% from $28.6 million in 2010. As a percentage of sales, operating margin was 7.4%, up 0.5% from a year earlier.

Operating margin before non-recurring items for Canadian stores for the nine months ended September 30, 2011 was $25.9 million or 7.9% as a percentage of sales compared with $23.6 million and 7.5% as a percentage of sales for 2010. In Canada, the increase in operating margin as a percentage of sales was because the margin on significantly improved sales far exceeds expense growth.

The U.S. operating margin before non-recurring items for the nine months ended September 30, 2011 was $5.2 million or 5.4% as a percentage of sales compared with $5.0 million and 5.0% as a percentage of sales in 2010.

Operating margin for the nine months ended September 30, 2011 was $30.2 million, up $2.6 million or 9.3% for the same period last year.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $6.1 million (2010: $5.6 million); non-cash interest of $1.7 million (2010: $1.5 million); foreign exchange gains of $0.1 million (2010: $0.7 million); and IFRS-related expenses due to distributions and revaluation of exchangeable units and the change in fair value of the conversion feature of debentures totalling $4.9 million in the nine months ended September 30, 2010 (See note 3 to the Financial Statements).

Litigation Settlement

During the quarter ended September 30, 2011, the Company entered in to a settlement agreement with respect to litigation arising from the 2007 acquisition of Liquor Barn Income Fund. The settlement agreement provided for (among other items) payments to the Company in the aggregate amount of $4,000,000, as well as the transfer of certain intangible assets to the Company with an incremental value of $920,000. The Company has recorded a gain from the settlement totalling $4,920,000.

Income Taxes

In the nine months ended September 30, 2011, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets. The result is a deferred income tax expense of $4.6 million in this quarter, compared to $0.7 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge (or recovery) against net earnings.

Net Earnings

Net earnings for the nine months ended September 30, 2011 were $16.9 million. Before IFRS adjustments, the nine month ended September 30, 2010 net earnings were $11.4 million. Approximately $2.1 million of the increase is due to improved operating performance less an increase in cash interest. The remaining $3.4 million improvement relates to non-recurring items and variations in amortization, non-cash interest, foreign exchange and deferred income tax.

Under IFRS, net earnings for the nine months ended September 30, 2011 were $16.6 million compared to $7.7 million for the same period in 2010. IFRS adjustments reduced 2010 net earnings largely as a result of fair value adjustments to exchangeable units and deferred income tax offset by dividends paid on exchangeable units (See note 3 to the Financial Statements and refer to discussion on “IFRS Implementation” above).

Condensed Quarterly Information

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

	2011			2010				2009
	Sep 30	Jun 30	Mar 31	Dec 31 (1)	Sep 30 (1)	Jun 30 (1)	Mar 31 (1)	Dec 31 (1)
Balance Sheet								
Cash and cash equivalents	$ 895	$ 1,558	$ 2,106	$ 2,815	$ 2,215	$ 919	$ 1,236	$ 5,288
Total assets	495,860	490,189	493,463	496,792	494,328	502,511	494,017	509,809
Bank indebtedness	39,605	47,706	54,075	41,468	41,310	49,962	40,430	41,094
Total current liabilities	62,150	70,327	75,503	71,839	67,802	73,370	63,826	68,688
Long-term debt	101,699	101,248	100,878	100,417	100,957	100,679	100,923	100,126
Statement of Earnings								
# stores, end of period	236	236	236	237	237	237	236	236
Sales	$ 157,080	$ 150,210	$ 115,967	$ 163,555	$ 151,605	$ 148,742	$ 115,798	$ 155,529
Operating margin before non-recurring items	13,632	12,342	5,200	15,161	13,145	11,503	4,000	14,946
Deferred income tax expense (recovery)	2,936	1,653	(20)	(6,528)	897	(330)	97	(1,600)
Net (loss) earnings for the period	10,970	5,783	145	16,846	2,970	13,314	(8,604)	9,836
Basic earnings (loss) per Share	$ 0.48	$ 0.25	$ 0.00	$ 0.90	$ 0.15	$ 0.71	$ (0.47)	$ 0.45
Diluted earnings (loss) per Share	$ 0.48	$ 0.25	$ 0.00	$ 0.90	$ 0.15	$ 0.71	$ (0.47)	$ 0.43
Dividends declared per Share	$ 0.27	$ 0.27	$ 0.27	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405

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

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

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' Equity

As at November 9, 2011, 22,646,110 common shares of the Company were outstanding.

Capital Expenditures

Historically, capital expansion has been financed by proceeds of equity and debt offerings or by utilizing existing credit facilities. The Company believes existing credit facilities are adequate to finance developments and acquisitions expected to occur in 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 September 30, 2011.

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

Credit Facilities

In the second quarter of 2011 the Company renewed its credit facility with a syndicate of banks, which is effective until June 26, 2013. The terms of the renewed facility are substantially the same terms as the Company's prior credit facility. There is a total of $143 million available under the renewed 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 U.S. bank.

At November 8th, 2011 there was $45.7 million drawn on the Operating Line Facility, and $46.5 million drawn on the Term Loan Facility. 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% subordinated convertible 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.

<u>Current ratio</u>

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.

<u>Funded debt to EBITDA ratio</u>

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

<u>Adjusted debt to EBITDAR</u>

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

<u>Fixed charge coverage ratio</u>

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 September 30, 2011, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**Company at September 30, 2011**
Current	> or = 1.10:1.00	2.02:1.00
Funded debt to EBITDA	< 2.75:1.00	1.64:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.14:1.00
Fixed charge coverage	> or = 1.00:1.00	1.28:1.00

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 $33.2 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 September 30, 2011, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $86.1 million.

(expressed in thousands of Canadian dollars)	**+ 1.00%**	**- 1.00%**
Increase (decrease) in interest expense	$ 861	$ (861)
Increase (decrease) in earnings before income tax	(861)	861

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 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$5.0 million for the nine months ended September 30, 2011 (2010: $5.3 million).

The Company's U.S. subsidiaries use the U.S. 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 U.S. subsidiaries currently operate 29 stores out of the Company's 238 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 September 30, 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	$ 5,288	$ 19,798	$ 17,206	$ 13,431	$ 9,905	$ 18,987
Long-term debt	-	-	46,448	-	-	-
Debentures	-	57,500	-	-	-	-
Total	$ 5,288	$ 77,298	$ 63,654	$ 13,431	$ 9,905	$ 18,987

OFF BALANCE SHEET ARRANGEMENTS

As at November 9, 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, other than derivatives which are held for trading.

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 nine months ended September 30, 2011, the Company incurred professional fees of $211 thousand to a law firm of which a director of the Company is a partner. Rent paid to companies controlled by a director (and former Executive Chairman) of the Company amounted to $411 thousand for the nine months ended September 30, 2011. As well, during the nine months ended September 30, 2011 the Company paid $66 thousand in real estate consulting fees to a company controlled by another director (and former Chairman) of the Company. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (See note 13 to the Financial Statements).

CRITICAL ACCOUNTING ESTIMATES

Goodwill

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

The Company completed its transitional impairment test at January 1, 2010 and its annual goodwill impairment test as at 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. For further detailed information, refer to the first quarter 2011 MD&A on page 14.

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 September 30, 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, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's method of calculating operating margin, operating margin as a percentage of sales, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales may not be comparable to similar measures presented by other issuers.

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

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

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

Non-recurring items include costs incurred and recoveries received by the Company that are not part of on-going operations and that are not expected to recur. Among others, these non-recurring items include professional fees paid in respect of lawsuits that originated following and arising from the Company’s acquisition of Liquor Barn Income Fund in 2007 and the proceeds received on settlement of these matters.

FORWARD LOOKING STATEMENTS

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under “Risk Factors”. Specific forward-looking statements contained in this MD&A include, among others, the future payment and timing of dividends, the anticipated opening of an additional store in Kentucky, and management’s general expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

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

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