Liquor Stores N.A. Ltd.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2011 and 2010
(expressed in thousands of Canadian dollars)

Liquor Stores N.A. Ltd.

Interim Consolidated Balance Sheet

(expressed in thousands of Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	2,106	2,815	5,288
Accounts receivable	531	974	1,846
Inventory – at cost	119,613	119,392	122,571
Prepaid expenses and deposits	3,706	3,854	2,031
	125,956	127,035	131,736
Deferred income tax (note 9)	1,005	877	515
Property and equipment	39,651	40,860	47,013
Intangible assets	45,219	45,854	47,963
Goodwill (note 5)	281,632	282,166	283,097
	493,463	496,792	510,324
Liabilities			
Current liabilities			
Bank indebtedness	54,075	41,468	41,094
Accounts payable and accrued liabilities	19,395	27,324	25,403
Dividends payable to shareholders (note 8)	2,033	2,563	2,493
Distributions payable to exchangeable unitholders	-	484	547
	75,503	71,839	69,537
Long-term debt (note 6)	100,878	100,417	100,648
Deferred income tax (note 9)	9,067	8,950	15,180
Exchangeable units (note 11)	-	-	63,261
	185,448	181,206	248,626
Shareholders' Equity			
Equity attributable to shareholders (note 10)	307,829	315,301	261,423
Equity attributable to non-controlling interest	186	285	275
	308,015	315,586	261,698
	493,463	496,792	510,324

Liquor Stores N.A. Ltd.

Interim Consolidated Statement of Changes In Equity

(expressed in thousands of Canadian dollars)

	Attributable to Shareholders of the Company							
	Share Capital	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income	Deficit	Total	Non-controlling interest	Total Shareholders' equity
Opening balance – January 1, 2010	$ 311,044	$ -	$ -	$ (2,025)	$ (47,596)	$ 261,423	$ 275	$ 261,698
Net (loss) earnings for the period	-	-	-	-	(8,647)	(8,647)	43	(8,604)
Foreign currency translation adjustment	-	-	-	(1,861)	-	(1,861)	-	(1,861)
Comprehensive income	311,044	-	-	(3,886)	(56,243)	250,915	318	251,233
Units issued for exchangeable units	365	-	-	-	-	365	-	365
Vested long-term incentive plan units	460	-	-	-	-	460	-	460
Exchangeable LP Unit conversion	-	-	-	-	(13)	(13)	-	(13)
Dividends declared	-	-	-	-	(7,501)	(7,501)	-	(7,501)
Dividends declared by subsidiaries	-	-	-	-	-	-	(192)	(192)
Transactions with owners	825	-	-	-	(7,514)	(6,689)	(192)	(6,881)
Balance – March 31, 2010	$ 311,869	$ -	$ -	$ (3,886)	$ (63,757)	$ 244,226	$ 126	$ 244,352
Opening balance – January 1, 2011	$ 180,000	$ 37	$ 174,632	$ (4,428)	$ (34,940)	$ 315,301	$ 285	$ 315,586
Net (loss) earnings for the period	-	-	-	-	109	109	36	145
Foreign currency translation adjustment	-	-	-	(1,435)	-	(1,435)	-	(1,435)
Comprehensive income	180,000	37	174,632	(5,863)	(34,831)	313,975	321	314,296
Vested long-term incentive plan units	197	-	(197)	-	-	-	-	-
Stock-based compensation expense (note 13)	-	-	12	-	(59)	(47)	-	(47)
Dividends declared (note 8)	-	-	-	-	(6,099)	(6,099)	-	(6,099)
Dividends declared by subsidiaries	-	-	-	-	-	-	(135)	(135)
Transactions with owners	197	-	(185)	-	(6,158)	(6,146)	(135)	(6,281)
Balance – March 31, 2011	$ 180,197	$ 37	$ 174,447	$ (5,863)	$ (40,989)	$ 307,829	$ 186	$ 308,015

Liquor Stores N.A. Ltd.

Interim Consolidated Statement of Earnings and Comprehensive Income

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

	Three months ended March 31, 2011	March 31, 2010
Sales	115,967	115,798
Cost of sales	86,812	87,688
Gross margin	29,155	28,110
Operating and administrative expenses	24,492	24,015
	4,663	4,095
Amortization		
Property and Equipment	1,540	1,797
Intangible assets	426	641
Operating earnings (loss) before finance costs	2,697	1,657
Finance costs (note 7)	2,572	10,164
Earnings (loss) before income taxes	125	(8,507)
Deferred income tax (recovery) expense	(20)	97
Net earnings (loss) for the period	145	(8,604)
Other comprehensive (loss) gain		
Currency translation difference on foreign net investments	(1,435)	(1,861)
Comprehensive (loss) income for the period	(1,290)	(10,465)
Net earnings (loss) attributable to		
Owners of the parent	109	(8,647)
Non-controlling interest	36	43
	145	(8,604)
Comprehensive (loss) income attributable to		
Owners of the parent	(1,326)	(10,508)
Non-controlling interest	36	43
	(1,290)	(10,465)
Earnings (loss) per Share (note 12)		
Basic	0.00	(0.47)
Diluted	0.00	(0.47)

Liquor Stores N.A. Ltd.

Interim Consolidated Statement of Cash Flows

(expressed in thousands of Canadian dollars)

	Three months ended	
	March 31, 2011	**March 31, 2010**
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	145	(8,604)
Items not affecting cash		
Amortization	1,966	2,438
Amortization of financing charges	199	108
Non-cash interest on convertible debentures	390	348
Fair value adjustment on convertible debentures	-	378
Change in fair value of exchangeable units	-	6,631
Dividends declared to exchangeable unitholders	-	1,628
Deferred income tax	(20)	97
Unrealized loss (gain) on foreign currency	123	(817)
Share-based compensation	12	-
Cash provided by operating activities before changes in non-cash working capital	2,815	2,207
Net change in non-cash working capital items (note 15)	(7,848)	4,478
	(5,033)	6,685
Financing activities		
Increase (decrease) in bank indebtedness	12,308	(342)
Dividends paid to shareholders	(6,630)	(7,493)
Dividends paid to non-controlling interest	(484)	(1,633)
Dividends paid to non-controlling interest by subsidiaries	(135)	(192)
	5,059	(9,660)
Investing activities		
Contingent consideration paid	-	(200)
Net deposits on future acquisitions	-	(20)
Purchase of property and equipment	(636)	(355)
Purchase of intangible assets	(63)	(450)
	(699)	(1,025)
Foreign exchange loss on cash held in foreign currency	(36)	(52)
Decrease in cash and cash equivalents	(709)	(4,052)
Cash and cash equivalents – Beginning of period	2,815	5,288
Cash and cash equivalents – End of period	2,106	1,236

1 Nature of operations and organization

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on November 8, 2010. On December 31, 2010, Liquor Stores Income Fund (the "Fund") and Liquor Stores N.A. Ltd. entered into a Plan of arrangement pursuant to the Canada Business Corporations Act (the "Arrangement"). The Arrangement involved the exchange, on a one-for-one basis of units of the Fund for common shares of the Company. As a result of the Arrangement, the holders of units of the Fund became the shareholders of the Company. The effective date of the Plan of Arrangement was December 31, 2010.

As part of the reorganization, the conversion was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion were the same as the carrying values of the Company immediately after the conversion. Notwithstanding the foregoing, adjustments to the classification and measurement of certain items were required on transition to International Financial Reporting Standards ("IFRS",) as described in note 4. References to common shares, shareholders and dividends of the Company were formerly referred to as units, unitholders and distributions under the Fund.

References herein to Liquor Stores N.A. Ltd. and the Company represent the financial position, results of operations, cash flows and disclosures of Liquor Stores N.A. Ltd. and its subsidiaries on a consolidated basis.

The Company's principal activity is the retailing of wines, beers and spirits. As at March 31, 2011, the Company operated 236 (2010 – 236) retail liquor stores, of which 172 (2010 – 173) were in Alberta, 35 (2010 - 35) were in British Columbia, 20 (2010 – 20) were in Alaska and 9 (2010 – 8) were in Kentucky. Of the stores operated, 206 (2010 – 204) were acquired by the Company and 30 (2010 - 32) were developed by the Company.

These consolidated interim financial statements have been approved for issue by the Board of Directors on May 18, 2011.

2 Summary of significant accounting policies

a) Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publically accountable enterprises to apply such standards effective for the years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements, and the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The accompanying interim consolidated financial statements of the Company are for the three months ended March 31, 2011. They have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and are covered by IFRS 1, First-time Adoption of IFRS, because they are part of the period covered by the Company's first IFRS financial statements for the year ended December 31, 2011. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (May 2011). The IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. Any subsequent changes to IFRS could result in a restatement of these consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the Company's equity and net income are provided in note 4.

Subject to certain transition elections disclosed in note 4, the policies set out below have been consistently applied to all periods presented. These consolidated interim financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial liabilities, including derivative instruments to fair value.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements are disclosed in note 3.

These interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

b) Consolidation

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

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

c) Revenue recognition

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

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

e) Inventory

Inventory, consisting primarily of liquor for resale, is valued at the lower of cost, determined using the weighted average method, and net realizable value.

f) Property and equipment

Property and equipment is recorded at cost less subsequent depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of assets at the annual rates disclosed below. The Company will test its property and equipment for impairment when events and circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value. Impairment losses are reversed in subsequent periods if there is a change in the estimates used to determine the recoverable amount since the impairment loss was recognized.

	Rate %
Leasehold improvements	8
Operating equipment	10
Office equipment and fixtures	10
Computer equipment	20
Automotive	20
Signage	10
Shelving and racking	10
Building	4

g) Intangible assets

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

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

The amount attributed to property leases is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the remaining terms of the leases ranging from one to 12 years.

Certain retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. Other retail liquor licenses are amortized using the straight-line method based on license expiry terms ranging from 5 to 37 years.

Tradenames have an indefinite life and are not amortized.

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

h) Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is assessed for impairment at least annually or when events and circumstances indicate the carrying value may not be recoverable. Goodwill is carried at cost less accumulated impairment losses. Impairments losses on goodwill are not reversed.

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

i) Deferred income tax

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

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

j) Share-based compensation

The Company's employee share-based compensation plans consist of share-based employee options and, a Long Term Incentive Plan and a 2007 Incentive Plan for the benefit of certain employees, and there is also a Deferred Share Plan for the benefit of the Company directors. These plans are further described in note 13. The Company accounts for share-based compensation for employees using the fair value method, in which the fair value of compensation is measured at the grant date based on the Company's estimate of the number of shares that are expected to vest and recognized over the service period. The Deferred Share Plan is settled in cash and is accounted for as an employee benefit, the liability for which is revalued at each balance sheet date.

k) Financial instruments

The Company has designated its cash and cash equivalents and accounts receivable as loans and receivables, which are measured initially at fair value, and subsequently at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, dividends payable exchangeable units and long-term debt are classified as other financial liabilities and measured initially at fair value, and subsequently at amortized cost.

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

l) Convertible debentures

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

m) Foreign currency translation

Functional and presentation currency

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

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average exchange rates for the respective period; and
- all resulting exchange differences are recognized as a separate component of equity

When a foreign operation is sold, accumulated exchange differences are recognized in earnings as part of the gain or loss on sale.

Transactions and balances

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

n) Leases

The Company operates its head office and retail locations under lease agreements in which the lessor retains substantially all the risks and rewards of ownership. These leases are classified as operating leases and payments made are charged to the income statement on a straight-line basis over the term of the lease.

o) New standards issued but not applied

IRFS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and liabilities and is effective for annual periods beginning on or after January 1, 2013. The Company is presently evaluating the impact of IFRS 9 on its financial reporting.

On May 12, 2011, the International Accounting Standards Board ("IASB") published three new standards on consolidation and joint arrangements, as follows:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint arrangements
IFRS 12 Disclosure of Interests in Other Entities

Introduction of the above standards resulted in consequential amendments to IAS 27, Consolidated and Separate Financial Statements, and IAS 28, Investments in Associates.

These new standards include the following changes:

- A revised definition of control for the purposes of determining which arrangements should be consolidated, including guidance on participating and protective rights;
- A reduction in the types of joint arrangements to two, and classification based on rights and obligations rather than legal structure;
- New requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities

Also on May 12, 2011, the IASB published IFRS 13, Fair Value Measurement, which sets out a single IFRS framework for measuring fair value, and establishes disclosure requirements for fair value measurements.

These standards are effective for annual periods commencing on or after January 1, 2013, with earlier adoption permitted. The Company is in the process of evaluating the impact of the new standards on its financial reporting.

3 Critical accounting estimates and judgements

a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(h). The recoverable amounts of cash-generating units have been determined based on fair value calculations.

While no goodwill impairment charges were determined as of January 1, 2010, date of transition to IFRS, or as of the October 1, 2010 annual test, reductions to forecast gross margins or increases in the discount rate used could have resulted in impairment charges.

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.

Amortization policies and useful lives

The Company amortizes property, equipment and intangible assets over the estimated useful lives of the assets. In determining the estimated useful lives of these assets, significant management judgment is required, including consideration of industry trends and Company-specific factors. 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 allocated based on a calculation of fair values by management. A discounted cash flow analysis is 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. Any contingent consideration is recognized at fair value as part of the consideration transferred. Subsequent changes in the fair value of contingent consideration classified as a liability are recognized in earnings.

4 Transition to IFRS

a) Basis of transition to IFRS

(1) Application of IFRS 1

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared as described in note 2(a). The Company has applied IFRS 1 in preparing these consolidated interim financial statements.

The Company's transition date is January 1, 2010 and the opening IFRS balance sheet has been prepared at that date. The reporting date of these interim consolidated financial statements is March 31, 2011.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Company has applied the applicable mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Mandatory exceptions that apply to the Company:

Estimates exception

Estimates under IFRS at January 1, 2010 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Non-controlling interest

Effective January 1, 2010, the Company attributed total comprehensive income to Unitholders and non-controlling interest. On a prospective basis, the Company will account for changes in its ownership interest in subsidiaries in accordance with IAS 27 Consolidated and Separate Financial Statements.

Optional exemptions from full retrospective application elected by the Company.

Business combinations exemption

The Company has elected to apply the business combinations exemption and has not restated business combinations that took place prior to the January 1, 2010 transition date. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have carried forward without adjustment.

Fair value as deemed cost exemption

The Company has elected to use previous GAAP revaluations of property and equipment at, or before, the date of transition to IFRS as deemed cost at January 1, 2010. These revaluations resulted from business combinations and were made at fair value. Depreciation has been applied from the date of revaluation.

b) Reconciliation between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation (note 4(b)(i)) provides an overview of the impact on equity of the transition at January 1, 2010, March 31, 2010 and December 31, 2010. The following four reconciliations provide details of the impact of the transition on:

- Equity at January 1, 2010 (note 4(b)(ii))
- Equity at March 31, 2010 (note 4(b)(iii))
- Equity at December 31, 2010 (note 4(b)(iv))
- Comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 (note 4(b)(v))

i) Summary of equity

The following reconciliation provides an overview of the impact on equity of the transition to IFRS at January 1, 2010, March 31, 2010 and December 31, 2010.

(Expressed in thousands of Canadian dollars)	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Total equity in accordance with Canadian GAAP	331,741	320,516	314,956
Deferred tax adjustment (note 4(c)(ii))	(5,411)	(5,429)	690
Reclassification of convertible debenture – conversion feature (note 4(c)(i))	(4,970)	(4,970)	(4,793)
Remeasurement of conversion feature to fair value (note 4(c)(i))	4,448	4,069	4,793
Reclassification of unit-based compensation plan liability (note 4(c)(iii))	(857)	(312)	(60)
Remeasurement of unit-based compensation liability (note 4(c)(iii))	8	5	-
Remeasurement of exchangeable units to fair value (note 4(c)(iv))	(17,960)	(26,633)	-
Change in equity attributable to Shareholders	(24,742)	(33,270)	630
Change in equity attributed to non-controlling interest (note 4(b)(i))	(45,301)	(42,894)	-
Total equity in accordance with IFRS	261,698	244,352	315,586

ii) Reconciliation of equity at January 1, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets			
Current assets			
Cash and cash equivalents	5,288	-	5,288
Accounts receivable	1,846	-	1,846
Inventory – at cost	122,571	-	122,571
Prepaid expenses and deposits	2,031	-	2,031
	131,736	-	131,736
Deferred income tax (note 4(c)(ii))	-	515	515
Property and equipment	47,013	-	47,013
Intangible assets	47,963	-	47,963
Goodwill	283,097	-	283,097
	509,809	515	510,324
Liabilities			
Current liabilities			
Bank indebtedness	41,094	-	41,094
Accounts payable and accrued liabilities (note 4(c)(iii))	24,554	849	25,403
Dividends payable to shareholders	2,493	-	2,493
Dividends payable to exchangeable unitholders	547	-	547
	68,688	849	69,537
Long-term debt (note 4(c)(i))	100,126	522	100,648
Deferred tax liability (note 4(c)(ii))	9,254	5,926	15,180
Exchangeable units (note 4(c)(iv))	-	63,261	63,261
	178,068	70,558	248,626
Shareholders' Equity			
Equity attributable to shareholders (note 4(b)(i))	286,165	(24,742)	261,423
Equity attributable to non-controlling interest (note 4(b)(i))	45,576	(45,301)	275
	331,741	(70,043)	261,698
	509,809	515	510,324

iii) Reconciliation of equity at March 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets			
Current assets			
Cash and cash equivalents	1,236	-	1,236
Accounts receivable	1,089	-	1,089
Inventory – at cost	113,471	-	113,471
Prepaid expenses and deposits	1,810	-	1,810
	117,606		117,606
Deferred income tax (note 4(c)(ii))	-	610	610
Deposits on future acquisitions	20	-	20
Property and equipment	45,864	-	45,864
Intangible assets	47,372	-	47,372
Goodwill	282,545	-	282,545
	493,407	610	494,017
Liabilities			
Current liabilities			
Bank indebtedness	40,430	-	40,430
Accounts payable and accrued liabilities (note 4(c)(iii))	20,046	307	20,353
Dividends payable to shareholders	2,501	-	2,501
Dividends payable to exchangeable unitholders	542	-	542
	63,519	307	63,826
Long-term debt (note 4(c)(i))	100,022	901	100,923
Deferred tax liability (note 4(c)(ii))	9,350	6,039	15,389
Exchangeable units (note 4(c)(iv))	-	69,527	69,527
	172,891	76,774	249,665
Shareholders' Equity			
Equity attributable to shareholders (note 4(b)(i))	277,496	(33,270)	244,226
Equity attributable to non-controlling interest (note 4(b)(i))	43,020	(42,894)	126
	320,516	(76,164)	244,352
	493,407	610	494,017

iv) Reconciliation of equity at December 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets			
Current assets			
Cash and cash equivalents	2,815	-	2,815
Accounts receivable	974	-	974
Inventory – at cost	119,392	-	119,392
Prepaid expenses and deposits	3,854	-	3,854
	127,035	-	127,035
Deferred income tax (note 4(c)(ii))	-	877	877
Property and equipment	40,860	-	40,860
Intangible assets	45,854	-	45,854
Goodwill	282,166	-	282,166
	495,915	877	496,792
Liabilities			
Current liabilities			
Bank indebtedness	41,468	-	41,468
Accounts payable and accrued liabilities (note 4(c)(iii))	27,264	60	27,324
Dividends payable to shareholders	2,563	-	2,563
Dividends payable to exchangeable unitholders	484	-	484
	71,779	60	71,839
Long-term debt	100,417	-	100,417
Deferred tax liability (note 4(c)(ii))	8,763	187	8,950
	180,959	247	181,206
Shareholders' Equity			
Equity attributable to shareholders (note 4(b)(i))	314,671	630	315,301
Equity attributable to non-controlling interest (note 4(b)(i))	285	-	285
	314,956	630	315,586
	495,915	877	496,792

v) Reconciliation of comprehensive earnings

	3 months ended March 31, 2010 $	Year ended December 31, 2010 $
Comprehensive income in accordance with Canadian GAAP	(1,807)	19,868
Fair value adjustments to convertible debenture (note 4(c)(i))	(378)	485
Fair value adjustments to unit-based compensation (note 4(c)(iii))	(3)	(350)
Fair value adjustments to exchangeable units (note 4(c)(iv))	(6,631)	(2,132)
Dividends paid on exchangeable units (note 4(c)(iv))	(1,628)	(6,293)
Increase in deferred tax expense (note 4(c)(ii))	(18)	6,101
Comprehensive earnings in accordance with IFRS	(10,465)	17,679

c) Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the balance sheet and income statement.

i) Convertible debentures – conversion feature

Under IAS 32 – *Financial Instruments: Presentation*, convertible debt that entitles the holder to acquire puttable instruments for a fixed price must be classified as a financial liability in its entirety, with embedded conversion options being recognized separately. At January 1, 2010, the Company had two convertible unsecured subordinated debentures that were convertible at the holder's option into fully paid and non-assessable units of the Fund. As the Fund units are puttable financial instruments, the conversion feature represents a financial liability under IFRS. Upon conversion to IFRS, the Company reclassified the value of the embedded conversion features from equity to long-term liabilities that are remeasured to fair value at each reporting date. On conversion from an income trust to a corporation at December 31, 2010, the embedded conversion feature on the convertible debenture outstanding at December 31, 2010, was reclassified from long term liabilities to equity as the underlying equity instrument is no longer puttable.

ii) Deferred income tax liability

Under Canadian GAAP, income trusts record temporary differences that are expected to reverse after 2010 based on specified investment flow through entity ("SIFT") tax rates. Under IFRS, the highest marginal personal tax (the "undistributed" rate) rate is applied to temporary differences rather than the SIFT rate. The highest marginal personal tax rate is the rate at which tax would be payable by the trust should distributions not be declared. This change resulted in an increase in the deferred income tax liability and expense, which was substantially reversed on conversion to a corporation at December 31, 2010.

	January 1, 2010 $	March 31, 2010 $	December 31, 2010 $
Deferred income tax liability in accordance with Canadian GAAP	9,254	9,350	8,763
Overall impact of recognizing deferred tax in accordance with IAS 12	5,411	5,429	(690)
Net deferred income tax liability in accordance with IFRS	14,665	14,779	8,073

iii) Unit-based compensation plans

Unit-based compensation granted to employees of the Company prior to its December 31, 2010 conversion to a corporation does not qualify as equity-settled stock-based compensation under IFRS 2 – Share-based Payments. Such compensation is accounted for as employee benefits under IAS 19 and accrued compensation payables related to the plans are classified as financial liabilities. Upon conversion to IFRS, accrued payables under employee unit-based compensation plans were reclassified from contributed surplus to accounts payable. Upon conversion to a corporation, these became share-based plans, and accordingly the remaining liability was reclassified to contributed surplus.

iv) Exchangeable Units

Prior to conversion to a corporation, the units of the Fund were puttable instruments. In accordance with IAS 32, the treatment of the Fund units as equity does not extend to the exchangeable units and requires the classification of these instruments as financial liabilities. The liability has been measured at fair value, with changes in fair value recorded in earnings as a finance cost. Distributions on the exchangeable units were reclassified from equity to finance costs, to achieve consistency with the balance sheet classification. Upon conversion to a corporation on December 31, 2010, these units were exchanged for common shares, which are not puttable, and were accordingly reclassified to equity.

5 Goodwill

	$
Balance – December 31, 2010	282,166
Foreign currency translation	(534)
Balance – March 31, 2011	281,632

	$
Balance –January 1, 2010	283,097
Contingent consideration	200
Foreign currency translation	(752)
Balance – March 31, 2010	282,545

a) Impairment test for goodwill

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

The recoverable amount of a CGU is determined based on fair value calculations. These calculations use projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the retail liquor industry in which the CGU operates.

b) Key assumptions used for fair value calculations

	Canada %	**Kentucky** %	**Alaska** %
Gross margin(i)	26.37	21.97	21.67
Growth(ii)	2.00	2.00	2.00
Discount rate(iii)	8.35	10.55	10.55

These assumptions have been used for the analysis of each CGU within the business segment.

(i) Budgeted gross margin
(ii) Weighted average growth rate used to extrapolate cash flows beyond the budget period.
(iii) Pre-tax discount rate applied to the cash flow projections

Management determined the budgeted gross margins based on past performance and its expectations for market trends. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The Company tested goodwill for impairment as of January 1, 2010 and October 1, 2010 and determined that goodwill was not impaired.

6 Long-term debt

Long-term debt comprises the following:

	Due date	2011 effective rate %	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Term loan facility advance	Jun 26, 2012	4.03	46,500	46,482	47,188
Unamortized financing charges			(55)	(110)	(135)
Convertible unsecured subordinated debentures					
Fair value of conversion feature			-	-	522
6.75% debenture	Dec 31, 2012	10.13	54,433	54,045	52,543
8.00% debenture			-	-	530
			100,878	100,417	100,648

7 Finance costs

Finance costs comprise the following:

	March 31, 2011 $	March 31, 2010 $
Finance costs		
Interest expense		
Bank indebtedness	711	458
Long-term debt	498	438
Convertible debenture	1,358	1,328
Dividends to exchangeable unitholders	-	1,628
Net loss (gain) on foreign exchange from financing activities	5	(697)
Change in fair value of conversion feature	-	378
Change in fair value of exchangeable units	-	6,631
	2,572	10,164

8 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance. The Company established what it believes to be a sustainable dividend of $0.270 (2010 – $0.405) per share for the period ended March 31, 2011.

Date dividends declared	Date dividends paid	Declared $	Paid $
Jan 14, 2011	Feb 15, 2011	2,033	2,033
Feb 15, 2011	Mar 15, 2011	2,033	2,033
Mar 15, 2011	Apr 15, 2011	2,033	-
		6,099	4,066

9 Deferred income tax

Prior to June 12, 2007, the Company provided for current and future income taxes only for its incorporated subsidiaries. On June 22, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), received Royal Assent. As a consequence, Canadian income trusts are required to provide for deferred income taxes arising from temporary differences at the highest marginal personal tax rate. On conversion from an income trust to a corporation at December 31, 2010, deferred income taxes arising from temporary differences are at enacted or substantively enacted corporate rates.

The movement on the net deferred income tax liability is as follows:

	$
At January 1, 2010	14,665
Charged/(credited) to net earnings	97
Exchange differences	17
At March 31, 2010	14,779

	$
At January 1, 2011	8,073
Charged/(credited) to net earnings	(20)
Exchange differences	9
At March 31, 2011	8,062

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

Deferred income tax

	Balance – January 1, 2010 $	Charged/(credited) to net earnings $	Exchange differences $	Balance – March 31, 2010 $
Deferred income tax liabilities:				
Intangible assets	9,156	(525)	-	8,631
Property and equipment	3,066	249	5	3,320
Goodwill	4,907	584	6	5,497
Convertible debenture	1,400	(234)	-	1,166
	18,529	74	11	18,614
Deferred income tax assets:				
Issue and financing costs	1,630	(253)	-	1,377
Deferred lease inducements	916	45	-	961
Long term incentive plans	232	(28)		204
Non-capital losses	1,086	213	(6)	1,293
Unrealized foreign exchange losses	(344)	-	-	(344)
Valuation allowance	344	-	-	344
	3,864	(23)	(6)	3,835
	14,665	97	17	14,779

	Balance – January 1, 2011 $	Charged/(credited) to net earnings $	Exchange differences $	Balance – March 31, 2011 $
Deferred income tax liabilities:				
Intangible assets	5,331	(75)	(5)	5,251
Property and equipment	1,094	(318)	(15)	761
Goodwill	4,632	594	(34)	5,192
Convertible debenture	868	(101)	-	767
	11,925	100	(54)	11,971
Deferred income tax assets:				
Issue and financing costs	428	(44)	-	384
Deferred lease inducements	748	9	(1)	756
Long term incentive plans	246	(54)	(1)	191
Non-capital losses	2,362	210	(59)	2,513
Other	68	(1)	(2)	65
Unrealized foreign exchange losses	(466)	-	-	(466)
Valuation allowance	466	-	-	466
	3,852	120	(63)	3,909
	8,073	(20)	9	8,062

The above includes a net deferred income tax asset recorded by a wholly-owned US subsidiary of $399,302 (2010 – $155,117).

During the period ended March 31, 2010, 23,333 units were exchanged resulting in an increase to deferred income taxes of $11,686.

The Company has recognized deferred income tax assets related to non-capital losses of $7,349,048 (2010 – $3,243,211) available in subsidiaries to offset income of future years. If not utilized, $512,727 of non-capital loss carry forwards will expire in 2028, $2,745,752 will expire in 2029, $3,557,360 will expire in 2030, and $533,209 will expire in 2031.

Deferred income taxes are not recorded on $103,745,778 of non tax-deductible goodwill.

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority and taxable entity, resulting in the following balance sheet presentation:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred income tax liabilities	9,067	8,950	15,180
Deferred income tax assets	1,005	877	515

10 Share Capital

Shares outstanding are as follows:

	Number of shares #	Net capital contributions $
Balance – January 1, 2010	18,470,448	311,044
Issued for Exchangeable Liquor Stores LP Shares	23,333	365
Vested shares	29,403	460
Balance – March 31, 2010	18,523,184	311,869

	Number of shares #	Net capital contributions $
Balance – January 1, 2011	22,577,088	180,000
Vested shares	13,015	197
Balance – March 31, 2011	22,590,103	180,197

11 Exchangeable Units

	Liquor Stores Exchangeable LP Units #	Series I Exchangeable LP Units #	Total #	Total $
Balance – January 1, 2010	3,196,842	845,409	4,042,251	63,261
Exchanged for common shares	-	(23,333)	(23,333)	(365)
Change in fair value of exchangeable units (note 4(c)(iv))	-	-	-	6,631
Balance – March 31, 2010	3,196,842	822,076	4,018,918	69,527

As at December 31, 2010, all exchangeable units were converted to common shares of the Company.

12 Earnings per Share

	Three months ended March 31,	
	2011 **$**	**2010** **$**
Net earnings (loss) attributable to Owners of the parent (numerator utilized in basic and diluted earnings per unit)	109	(8,647)
	#	#
Shares outstanding – Beginning of period	22,577,088	18,470,447
Weighted average of Shares issued less treasury Shares acquired	12,003	45,092
	22,589,091	18,515,539
Denominator utilized in diluted earnings per unit	22,589,091	18,515,539
	$	**$**
Earnings per unit – Basic	0.00	(0.47)
Earnings per unit – Diluted	0.00	(0.47)

Potential shares issuable in exchange for convertible debentures for both periods and 675,000 share options for 2011 have not been included in the diluted earnings per unit calculation due to their anti-dilutive effect.

13 Share-based compensation plans

Employees

a) Share based compensation

On March 24, 2011, 675,000 share options were granted to employees with an exercise price set at $15.52 per share, which is the five day weighted average trading price preceding the grant date.

Share options vest over three years (1/3 at each of the first, second and third anniversaries of the grant date) and expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined.

The weighted average fair value of options granted during the period was $1.53 per option. The significant weighted average inputs into the model were a share price of $15.52, an exercise price of $15.52, volatility of 24.50%, a dividend yield of 6.96%, and an annual risk-free interest rate of 2.70%. Compensation expense for the three months ended March 31, 2011 was $12,217.

b) Long-term Incentive Plan (“LTIP”) and 2007 Incentive Plan (“2007 Plan”)

The following table summarizes the status of the Plans:

	LTIP **#**	**2007 Plan** **#**	**Total** **#**
Unvested Units January 1, 2010	31,038	13,232	44,270
Vested Units transferred to participants	(16,171)	(13,232)	(29,403)
Unvested Units March 31, 2010	14,867	-	14,867

	LTIP **#**	**2007 Plan** **#**	**Total** **#**
Unvested Shares January 1, 2011	13,015	-	13,015
Vested Shares transferred to participants	(13,015)	-	(13,015)
Unvested Shares March 31, 2011	-	-	-

Compensation expense for the LTIP for the period ended March 31, 2011 was $nil (2010 – $25,271). Compensation expense of $nil· (2010 – $1,292) was recorded for the 2007 Plan for the period ended March 31, 2011.

Directors

Director deferred share plan ("DS Plan")

The following table summarizes the status of the Plan:

	#
Unvested Units – January 1, 2010	39,180
Vested Units (settled in cash)	(6,802)
Awards	3,314
Unvested Units – March 31, 2010	35,692

	#
Unvested Shares – January 1, 2011	42,204
Vested Shares (settled in cash)	(8,983)
Awards	3,806
Unvested Shares – March 31, 2011	37,027

During the period ended March 31, 2011, awards accruing to DS Plan participants totalled $81,017 (2010 – $112,486), which was recorded as compensation expense in the period.

14 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

	Three months ended March 31,	
	2011 **$**	**2010** **$**
Professional fees(i)	93,064	65,104
Rent expense(ii)	139,323	133,938
	232,387	199,042

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

These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount.

There was $47,834 included in accounts payable and accrued liabilities (December 31, 2010 – $36,865) relating to these transactions.

15 Supplementary disclosure of cash flow information

Changes in non-cash working capital items

	Three months ended March 31,	
	2011 $	2010 $
Accounts receivable	442	752
Inventory	(911)	8,240
Prepaid expenses and deposits	34	205
Accounts payable and accrued liabilities	(7,413)	(4,719)
	(7,848)	4,478

	Three months ended March 31,	
	2011 $	2010 $
Interest received	4	8
Interest paid	955	787
Income taxes paid	68	43

Interest and taxes paid are included in cash flows from operating activities in the statement of cash flows.

16 Financial instruments

a) Financial instruments by category

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dividends payable to Shareholders and non-controlling interest and long-term debt.

The following table shows the carrying amounts and fair values of the financial assets:

	March 31, 2011		December 31, 2010	
	Carrying value $	Estimated fair value $	Carrying value $	Estimated fair value $
Cash and cash equivalents	2,106	2,106	2,815	2,815
Accounts receivable	531	531	974	974
	2,637	2,637	3,789	3,789

For cash and cash equivalents, the fair value represents cost plus accrued interest. Due to the short-term nature of the instruments, the carrying value approximates fair value.

The carrying value less impairment provision of trade receivables approximates fair value due to the short-term nature of the instruments.

The following table shows the carrying amounts and fair values of the financial liabilities:

	March 31, 2011		December 31, 2010	
	Carrying value $	**Estimated fair value $**	**Carrying value $**	**Estimated fair value $**
Bank indebtedness	54,075	54,075	41,468	41,468
Accounts payable and accrued liabilities	19,395	19,395	27,324	27,324
Dividends payable to shareholders	2,033	2,033	2,563	2,563
Dividends payable to exchangeable unitholders	-	-	484	484
Capital/acquisition facility advance	46,445	46,445	46,372	46,372
Convertible debenture	54,433	59,944	54,045	59,225

Other financial liabilities are measured at amortized cost.

The carrying value of trade payables is assumed to approximate fair value due to the short-term nature of the instruments. Bank indebtedness, long-term debt and convertible debentures have been recorded at amortized cost using the effective interest method. The fair value of the debentures was determined based on market trading values at the balance sheet date. The carrying value of bank indebtedness and long-term debt approximates the fair value, as the interest rate affecting these instruments is at a variable market rate.

17 Segmented information

The Company's reportable segments are Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions. The following segmented information is regularly reported to the Company's President and Chief Executive Officer (the Company's chief operating decision maker).

				March 31, 2011
	Canadian $	**US** $	**Intersegment eliminations** $	**Consolidated** $
Sales to external customers	87,783	28,184	-	115,967
Intersegment revenue[i]	944	-	(944)	-
	88,727	28,184	(944)	115,967
Operating margin before amortization, interest and other	4,465	198	-	4,663
Property and equipment amortization	1,369	171	-	1,540
Intangible asset amortization	396	30	-	426
Interest income[i]	(609)		609	-
Finance costs	2,551	630	(609)	2,572
Earnings before income tax	758	(633)	-	125
Deferred income tax expense (recovery)	98	(118)	-	(20)
Net earnings (loss) for the period	660	(515)	-	145
Other information				
Expenditures for additions to:				
Property and equipment	572	64	-	636
Intangible assets	53	10	-	63
Total assets	489,940	3,523	-	493,463

[i] Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

				March 31, 2010
	Canadian	**US**	**Intersegment eliminations**	**Consolidated**
	$	**$**	**$**	**$**
Sales to external customers	86,388	29,410	-	115,798
Intersegment revenue[(i)]	938	-	(938)	-
	87,326	29,410	(938)	115,798
Operating margin before amortization, interest and other	3,981	114	-	4,095
Property and equipment amortization	1,636	161	-	1,797
Intangible asset amortization	608	33	-	641
Interest income[(i)]	(676)	-	676	-
Finance costs	10,128	712	(676)	10,164
Loss before income tax and non-controlling interest	(7,715)	(792)	-	(8,507)
Deferred income tax expense (recovery)	114	(17)	-	97
Net losss for the period	(7,829)	(775)	-	(8,604)
Other information				
Expenditures for additions to:				
Property and equipment	314	41	-	355
Goodwill	200	-	-	200
Total assets	429,871	64,146	-	494,017

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

18 Seasonal nature of the business

The Company historically experiences higher sales in the third and fourth quarters, while the first and second quarters typically experience lower sales levels due to seasonal shopping patterns. Occupancy related expenses, operating and administrative expense and amortization remain relatively steady throughout the year.