Liquor Stores N.A. Ltd.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2011 and 2010
(expressed in thousands of Canadian dollars)

Liquor Stores N.A. Ltd.

Interim Consolidated Balance Sheet

(expressed in thousands of Canadian dollars)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	1,558	2,815
Accounts receivable	796	974
Inventory – at cost	118,236	119,392
Prepaid expenses and deposits	3,475	3,854
	124,065	127,035
Deferred income tax	1,115	877
Property and equipment	38,633	40,860
Intangible assets	44,853	45,854
Goodwill	281,523	282,166
	490,189	496,792
Liabilities		
Current liabilities		
Bank indebtedness	47,706	41,468
Accounts payable and accrued liabilities	20,586	27,324
Dividends payable to shareholders (note 6)	2,035	2,563
Distributions payable to exchangeable unitholders	-	484
	70,327	71,839
Long-term debt (note 4)	101,248	100,417
Deferred income tax	10,833	8,950
	182,408	181,206
Shareholders' Equity		
Equity attributable to shareholders (note 7)	307,523	315,301
Equity attributable to non-controlling interest	258	285
	307,781	315,586
	490,189	496,792

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	-	-	-	-	4,559	4,559	151	4,710
Foreign currency translation adjustment	-	-	-	659	-	659	-	659
Comprehensive income	311,044	-	-	(1,366)	(43,037)	266,641	426	267,067
Units issued for exchangeable units	442	-	-	-	-	442	-	442
Vested long-term incentive plan units	460	-	-	-	-	460	-	460
Dividends declared	-	-	-	-	(15,004)	(15,004)	-	(15,004)
Dividends declared by subsidiaries	-	-	-	-	-	-	(266)	(266)
Transactions with owners	902	-	-	-	(15,004)	(14,102)	(266)	(14,368)
Balance – June 30, 2010	$ 311,946	$ -	$ -	$ (1,366)	$ (58,041)	$ 252,539	$ 160	$ 252,699
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	-	-	-	-	5,791	5,791	137	5,928
Foreign currency translation adjustment	-	-	-	(1,703)	-	(1,703)	-	(1,703)
Comprehensive income	180,000	37	174,632	(6,131)	(29,149)	319,389	422	319,811
Vested long-term incentive plan shares	197	-	(197)	-	(65)	(65)	-	(65)
Share-based compensation expense (note 10)	-	-	151	-	-	151	-	151
Dividends declared (note 6)	-	-	-	-	(12,201)	(12,201)	-	(12,201)
Dividend reinvestment plan issuance (note 6)	249	-	-	-	-	249	-	249
Dividends declared by subsidiaries	-	-	-	-	-	-	(164)	(164)
Transactions with owners	446	-	(46)	-	(12,266)	(11,866)	(164)	(12,030)
Balance – June 30, 2011	$ 180,446	$ 37	$ 174,586	$ (6,131)	$ (41,415)	$ 307,523	$ 258	$ 307,781

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		Six Months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Sales	150,210	148,742	266,177	264,540
Cost of sales	113,432	112,154	200,244	199,842
Gross margin	36,778	36,588	65,933	64,698
Operating and administrative expenses	24,578	25,635	49,070	49,650
	12,200	10,953	16,863	15,048
Amortization				
Property and equipment	1,552	2,443	3,092	4,240
Intangible assets	430	491	856	1,132
Operating earnings before finance costs	10,218	8,019	12,915	9,676
Finance costs (note 5)	2,782	(4,965)	5,354	5,199
Earnings before income taxes	7,436	12,984	7,561	4,477
Deferred income tax expense (recovery)	1,653	(330)	1,633	(233)
Net earnings for the period	5,783	13,314	5,928	4,710
Other comprehensive (loss) gain				
Currency translation adjustment on foreign net investments	(268)	2,520	(1,703)	659
Comprehensive income for the period	5,515	15,834	4,225	5,369
Net earnings attributable to				
Shareholders of the parent	5,682	13,206	5,791	4,559
Non-controlling interest	101	108	137	151
	5,783	13,314	5,928	4,710
Comprehensive income attributable to				
Shareholders of the parent	5,414	15,726	4,088	5,218
Non-controlling interest	101	108	137	151
	5,515	15,834	4,225	5,369
Earnings per Share (note 9)				
Basic	0.25	0.71	0.26	0.25
Diluted	0.25	0.71	0.26	0.25

Liquor Stores N.A. Ltd.

Interim Consolidated Statement of Cash Flows
(expressed in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	5,783	13,314	5,928	4,710
Items not affecting cash				
Amortization	1,982	2,934	3,948	5,373
Amortization of financing charges	199	108	399	216
Non-cash interest on convertible debentures	390	348	780	696
Fair value adjustment on convertible debentures	-	(500)	-	(122)
Change in fair value of exchangeable units	-	(8,667)	-	(2,036)
Dividends declared to exchangeable unitholders	-	1,626	-	3,254
Deferred income tax	1,653	(330)	1,633	(233)
Unrealized loss (gain) on foreign currency	44	565	167	(252)
Share-based compensation	139	-	151	-
Cash provided by operating activities before changes in non-cash working capital	10,190	9,398	13,006	11,606
Net change in non-cash working capital items (note 12)	2,670	(7,486)	(5,184)	(3,009)
	12,860	1,912	7,822	8,597
Financing activities				
Increase (decrease) in bank indebtedness	(6,517)	9,118	5,957	8,776
(Repayment of) proceeds from long-term debt	(119)	(426)	(268)	(426)
Dividends paid to shareholders	(5,851)	(7,503)	(12,481)	(14,996)
Dividends paid to non-controlling interest	-	(1,626)	(484)	(3,259)
Dividends paid to non-controlling interest by subsidiaries	(33)	(74)	(172)	(266)
	(12,520)	(511)	(7,448)	(10,171)
Investing activities				
Contingent consideration paid	-	(378)	-	(578)
Net deposits on future acquisitions	-	-	-	(20)
Purchase of property and equipment	(559)	(1,340)	(1,232)	(1,695)
Purchase of intangible assets	(124)	(31)	(186)	(481)
	(683)	(1,749)	(1,418)	(2,774)
Foreign exchange loss on cash held in foreign currency	(205)	31	(213)	(21)
Decrease in cash and cash equivalents	(548)	(317)	(1,257)	(4,369)
Cash and cash equivalents – Beginning of period	2,106	1,236	2,815	5,288
Cash and cash equivalents – End of period	1,558	919	1,558	919

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 3. 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 balance sheet, 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 June 30, 2011, the Company operated 236 (2010 – 237) retail liquor stores, of which 172 (2010 – 174) 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 – 203) were acquired by the Company and 30 (2010 - 34) were developed by the Company.

These consolidated interim financial statements have been approved for issue by the Board of Directors on August 8, 2011.

2 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 its 2011 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 and six months ended June 30, 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 (August 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 comprehensive income are provided in note 3.

Subject to certain transition elections disclosed in note 3, the policies set out in the March 31, 2011 financial statements 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.

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, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to the interim financial statements.

3 Transition to IFRS

a) Basis of transition to IFRS

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. 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 June 30, 2011.

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 3(b)(i)) provides an overview of the impact on equity of the transition at June 30, 2011 and December 31, 2010. The following four reconciliations provide details of the impact of the transition on:

- Equity at June 30, 2010 (note 3(b)(ii))
- Equity at December 31, 2010 (note 3(b)(iii))
- Comprehensive income for the three and six months ended June 30, 2010 (note 3(b)(iv))

i) Summary of equity

The following reconciliation provides an overview of the impact on equity of the transition to IFRS at June 30, 2010 and December 31, 2010.

(Expressed in thousands of Canadian dollars)	**June 30, 2010**	**December 31, 2010**
Total equity in accordance with Canadian GAAP	318,614	314,956
Deferred tax adjustment (note 3(c)(ii))	(4,394)	690
Reclassification of convertible debenture – conversion feature (note 3(c)(i))	(4,970)	(4,793)
Remeasurement of conversion feature to fair value (note 3(c)(i))	4,569	4,793
Reclassification of unit-based compensation plan liability (note 3(c)(iii))	(252)	(60)
Remeasurement of unit-based compensation liability (note 3(c)(iii))	(8)	-
Remeasurement of exchangeable units to fair value (note 3(c)(iv))	(18,228)	-
Change in equity attributable to Shareholders	(23,283)	630
Change in equity attributed to non-controlling interest	(42,632)	-
Total equity in accordance with IFRS	252,699	315,586

ii) Reconciliation of equity at June 30, 2010

(Expressed in thousands of Canadian dollars)	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets			
Current assets			
Cash and cash equivalents	919	-	919
Accounts receivable	940	-	940
Inventory – at cost	122,596	-	122,596
Prepaid expenses and deposits	1,720	-	1,720
	126,175		126,175
Deferred income tax (note 3(c)(ii))	-	447	447
Property and equipment	44,776	-	44,776
Intangible assets	47,452	-	47,452
Goodwill	283,661	-	283,661
	502,064	447	502,511
Liabilities			
Current liabilities			
Bank indebtedness	49,962	-	49,962
Accounts payable and accrued liabilities (note 3(c)(iii))	20,105	260	20,365
Dividends payable to shareholders	2,501	-	2,501
Dividends payable to exchangeable unitholders	542	-	542
	73,110	260	73,370
Long-term debt (note 3(c)(i))	100,278	401	100,679
Deferred tax liability (note 3(c)(ii))	10,062	4,841	14,903
Exchangeable units (note 3(c)(iv))	-	60,860	60,860
	183,450	66,362	249,812
Shareholders' Equity			
Equity attributable to shareholders (note 3(b)(i))	275,822	(23,283)	252,539
Equity attributable to non-controlling interest (note 3(b)(i))	42,792	(42,632)	160
	318,614	(65,915)	252,699
	502,064	447	502,511

iii) Reconciliation of equity at December 31, 2010

(Expressed in thousands of Canadian dollars)	**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 3(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 3(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 3(c)(ii))	8,763	187	8,950
	180,959	247	181,206
Shareholders' Equity			
Equity attributable to shareholders (note 3(b)(i))	314,671	630	315,301
Equity attributable to non-controlling interest (note 3(b)(i))	285	-	285
	314,956	630	315,586
	495,915	877	496,792

iv) Reconciliation of comprehensive income

(Expressed in thousands of Canadian dollars)	**Three months ended June 30, 2010 $**	**Six Months ended June 30, 2010 $**
Comprehensive income in accordance with Canadian GAAP	7,274	5,468
Fair value adjustments to convertible debenture (note 3(c)(i))	500	122
Fair value adjustments to unit-based compensation (note 3(c)(iii))	(16)	(20)
Fair value adjustments to exchangeable units (note 3(c)(iv))	8,667	2,036
Dividends paid on exchangeable units (note 3(c)(iv))	(1,626)	(3,254)
Increase in deferred tax expense (note 3(c)(ii))	1,035	1,017
Comprehensive income in accordance with IFRS	15,834	5,369

c) Explanation of the effect of 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 rate (the "undistributed" 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.

(Expressed in thousands of Canadian dollars)	**June 30, 2010 $**	**December 31, 2010 $**
Deferred income tax liability in accordance with Canadian GAAP	10,062	8,763
Overall impact of recognizing deferred tax in accordance with IAS 12	4,394	(690)
Net deferred income tax liability in accordance with IFRS	14,456	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.

4 Long-term debt

Long-term debt comprises the following:

(Expressed in thousands of Canadian dollars)	2011 effective rate %	June 30, 2011 $	December 31, 2010 $
Term loan facility advance	4.03	46,500	46,482
Unamortized financing charges		(72)	(110)
Convertible unsecured subordinated debentures			
Fair value of conversion feature			
6.75% debenture, due December 31, 2012	10.13	54,820	54,045
		101,248	100,417

On June 27, 2011, the Company concluded an amended and restated credit agreement which is effective until June 26, 2013. The Fund's credit facilities are with a syndicate of Canadian banks and are comprised of an available $95,000,000 extendible revolving operating facility and a $48,000,000 extendible revolving term facility. During the three month period ended June 30, 2011, financing fees of $214,500 (2010 - $382,500) related to the amendment of the credit agreement have been capitalized and are being amortized over the term of the credit facilities, of which $72,000 relate to long-term debt and $142,500 relate to bank indebtedness.

5 Finance costs

Finance costs comprise the following:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
(Expressed in thousands of Canadian dollars)	$	$	$	$
Finance costs				
Interest expense				
Bank indebtedness	860	516	1,571	974
Long-term debt	553	458	1,051	896
Convertible debenture	1,357	1,328	2,715	2,656
Dividends to exchangeable unitholders (1)	-	1,626	-	3,254
Net loss (gain) on foreign exchange from financing activities	12	274	17	(423)
Change in fair value of conversion feature (1)	-	(500)	-	(122)
Change in fair value of exchangeable units (1)	-	(8,667)	-	(2,036)
	2,782	(4,965)	5,354	5,199

(i) As further described in notes 3(c)(i) and (iv), the adoption of IFRS resulted in certain items that were previously recorded in shareholders' equity in 2010 being reclassified as liabilities and measured at fair value. The changes in fair value, which constitute a non-cash charge, were reported as finance costs. This affected the accounting treatment of the conversion feature of convertible debentures and the exchangeable units. With the conversion to an incorporated structure effective December 31, 2010, these instruments were reclassified to equity and do not result in finance costs in 2011. The distributions paid to exchangeable unitholders, which were previously charged to shareholders' equity, were also reclassified as a finance cost under IFRS in 2010.

6 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 $0.540 (2010 – $0.810) per share for the six month period ended June 30, 2011.

			Paid	
(Expressed in thousands of Canadian dollars)	Date dividends declared	Declared $	Shares	Cash $
	Jan 14, 2011	2,033	-	2,033
	Feb 15, 2011	2,033	-	2,033
	Mar 15, 2011	2,033	-	2,033
	Apr 15, 2011	2,033	124	1,909
	May 13, 2011	2,034	125	1,909
	Jun 15, 2011	2,035	-	-
		12,201	249	9,917

Dividends paid in shares are pursuant to the Company's dividend reinvestment plan effective April 29, 2011. Share and cash dividends are paid mid-month following the month of declaration.

7 Share Capital

Shares outstanding are as follows:

(Expressed in thousands of Canadian dollars)	Number of shares #	Net capital contributions $
Balance – January 1, 2010	18,470,448	311,044
Issued for Exchangeable Liquor Stores LP Shares	27,721	442
Vested shares	29,403	460
Balance – June 30, 2010	18,527,572	311,946

	Number of shares #	Net capital contributions $
Balance – January 1, 2011	22,577,088	180,000
Vested shares	13,015	197
Issued for Dividend Reinvestment Plan	16,884	249
Balance – June 30, 2011	22,606,987	180,446

8 Exchangeable Units

(Expressed in thousands of Canadian dollars)	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	(4,388)	(23,333)	(27,721)	(365)
Change in fair value of exchangeable units (note 3(c)(iv))	-	-	-	(2,036)
Balance – June 30, 2010	3,192,454	822,076	4,014,530	60,860

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

9 Earnings per Share

(Expressed in thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2011 **$**	**2010** **$**	**2011** **$**	**2010** **$**
Net earnings (loss) attributable to Shareholders of the parent (numerator utilized in basic and diluted earnings per share)	5,682	13,206	5,791	4,559
	#	#	#	#
Shares outstanding – Beginning of period	22,590,103	18,523,183	22,577,088	18,470,448
Weighted average of Shares issued less treasury Shares acquired	8,472	3,874	16,771	50,883
	22,598,575	18,527,057	22,593,859	18,521,331
Denominator utilized in diluted earnings per share	22,598,575	18,527,057	22,593,859	18,521,331
	$	**$**	**$**	**$**
Earnings per share – Basic	0.25	0.71	0.26	0.25
Earnings per share – Diluted	0.25	0.71	0.26	0.25

Potential shares issuable in exchange for convertible debentures for all 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.

10 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 six months ended June 30, 2011 was $151,217.

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 at January 1, 2010	31,038	13,232	44,270
Vested Units transferred to participants	(16,171)	(13,232)	(29,403)
Forfeited Units	(1,159)	-	(1,159)
Unvested Units at June 30, 2010	13,708	-	13,708

	LTIP **#**	**2007 Plan** **#**	**Total** **#**
Unvested Shares at January 1, 2011	13,015	-	13,015
Vested Shares transferred to participants	(13,015)	-	(13,015)
Unvested Shares at June 30, 2011	-	-	-

Compensation expense for the LTIP for the three months ended June 30, 2011 was $nil (2010 – $21,799) and $nil (2010 - $47,070) for the six months ended June 30, 2011. No compensation expense was recorded for the three month period ended June 30, 2011 and 2010 and $nil (2010 – $1,292) was recorded for the 2007 Plan for the six month period ended June 30, 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)	(7,834)
Awards	6,810
Unvested Units – June 30, 2010	38,156

	#
Unvested Shares – January 1, 2011	42,204
Vested Shares (settled in cash)	(16,686)
Awards	5,562
Unvested Shares – June 30, 2011	31,080

During the six month period ended June 30, 2011, awards accruing to DS Plan participants totalled $33,721 (2010 – $89,164), which was recorded as compensation expense in the period.

11 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

	Three months ended June 30,		**Six months ended June 30,**	
(Expressed in thousands of Canadian dollars)	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Professional fees[(i)]	66	55	159	120
Rent expense[(ii)]	135	136	275	270
Consulting fees [(iii)]	33	-	33	-
	234	191	467	390

(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 Company.

(iii) The Company paid consulting fees to a company controlled by a director of the Company for real estate services.

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 $37,117 included in accounts payable and accrued liabilities (December 31, 2010 – $36,865) relating to these transactions.

12 Supplementary disclosure of cash flow information

Changes in non-cash working capital items

	Three months ended June 30,		**Six months ended June 30,**	
(Expressed in thousands of Canadian dollars)	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Accounts receivable	(67)	155	284	907
Inventory	2,821	(7,820)	2,392	420
Prepaid expenses and deposits	(484)	109	(250)	315
Accounts payable and accrued liabilities	400	70	(7,610)	(4,651)
	2,670	(7,486)	(5,184)	(3,009)

	Three months ended June 30,		**Six months ended June 30,**	
(Expressed in thousands of Canadian dollars)	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Interest paid	2,371	2,833	4,557	3,619
Income taxes paid	58	12	121	55

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

13 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).

	Three months ended June 30, 2011			
(Expressed in thousands of Canadian dollars)	**Canadian** $	**US** $	**Intersegment eliminations** $	**Consolidated** $
Sales to external customers	116,041	34,169	-	150,210
Intersegment revenue[(i)]	1,125	-	(1,125)	-
	117,166	34,169	(1,125)	150,210
Operating margin before amortization, interest and other	11,282	925	-	12,207
Property and equipment amortization	1,387	165	-	1,552
Intangible asset amortization	402	28	-	430
Interest income[(i)]	(610)	-	610	-
Finance costs	2,768	631	(610)	2,789
Earnings before income tax	7,335	101	-	7,436
Deferred income tax expense (recovery)	1,743	(90)	-	1,653
Net earnings (loss) for the period	5,592	191	-	5,783
Other information				
Expenditures for additions to:				
Property and equipment	468	128	-	596
Intangible assets	109	14	-	123
Total assets	425,300	64,889	-	490,189

[(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.

(Expressed in thousands of Canadian dollars)	Three months ended June 30, 2010 Canadian $	US $	Intersegment eliminations $	Consolidated $
Sales to external customers	113,551	35,191	-	148,742
Intersegment revenue[(i)]	1,172	-	(1,172)	-
	114,723	35,191	(1,172)	148,742
Operating margin before amortization, interest and other	10,000	953	-	10,953
Property and equipment amortization	2,280	163	-	2,443
Intangible asset amortization	464	27	-	491
Interest income[(i)]	(629)	-	629	-
Finance costs	(5,035)	699	(629)	(4,965)
Earnings before income tax	12,920	64	-	12,984
Deferred income tax expense (recovery)	(574)	244	-	(330)
Net earnings (loss) for the period	13,494	(180)	-	13,314
Other information				
Expenditures for additions to:				
Property and equipment	1,183	157	-	1,340
Intangible assets	281	-	-	281
Total assets	436,346	66,165	-	502,511

[(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.

	Six months ended June 30, 2011			
(Expressed in thousands of Canadian dollars)	**Canadian** $	**US** $	**Intersegment eliminations** $	**Consolidated** $
Sales to external customers	203,821	62,356	-	266,177
Intersegment revenue[(i)]	2,069	-	(2,069)	-
	205,890	62,356	(2,069)	266,177
Operating margin before amortization, interest and other	15,747	1,123	-	16,870
Property and equipment amortization	2,756	336	-	3,092
Intangible asset amortization	798	58	-	856
Interest income[(i)]	(1,219)	-	1,219	-
Finance costs	5,319	1,261	(1,219)	5,361
Earnings before income tax	8,093	(532)	-	7,561
Deferred income tax expense (recovery)	1,841	(208)	-	1,633
Net earnings (loss) for the period	6,252	(324)	-	5,928
Other information				
Expenditures for additions to:				
Property and equipment	1,040	192	-	1,232
Intangible assets	162	24	-	186
Total assets	425,300	64,889	-	490,189

[(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.

(Expressed in thousands of Canadian dollars)	Six months ended June 30, 2010 Canadian $	US $	Intersegment eliminations $	Consolidated $
Sales to external customers	199,939	64,601	-	264,540
Intersegment revenue[(i)]	2,110	-	(2,110)	-
	202,049	64,601	(2,110)	264,540
Operating margin before amortization, interest and other	13,981	1,067	-	15,048
Property and equipment amortization	3,916	324	-	4,240
Intangible asset amortization	1,072	60	-	1,132
Interest income[(i)]	(1,305)	-	1,305	-
Finance costs	5,093	1,411	(1,305)	5,199
Earnings (loss) before income tax and non-controlling interest	5,205	(728)	-	4,477
Deferred income tax expense (recovery)	(460)	227	-	(233)
Net earnings for the period	5,665	(955)	-	4,710
Other information				
Expenditures for additions to:				
Property and equipment	1,497	198	-	1,695
Intangible assets	481	-	-	481
Total assets	436,346	66,165	-	502,511

[(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.

14 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.