Liquor Stores N.A. Ltd.

Interim Consolidated Financial Statements
(Unaudited)

September 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)

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	895	2,815
Accounts receivable	1,956	974
Inventory – at cost	119,518	119,392
Prepaid expenses and deposits	3,251	3,854
	125,620	127,035
Deferred income tax	1,184	877
Property and equipment	39,074	40,860
Intangible assets	46,671	45,854
Goodwill	283,311	282,166
	495,860	496,792
Liabilities		
Current liabilities		
Bank indebtedness	39,605	41,468
Accounts payable and accrued liabilities	20,508	27,324
Dividends payable to shareholders (note 8)	2,037	2,563
Distributions payable to exchangeable unitholders	-	484
	62,150	71,839
Long-term debt (note 6)	101,699	100,417
Deferred income tax	13,792	8,950
	177,641	181,206
Shareholders' Equity		
Equity attributable to shareholders (note 9)	318,234	315,301
Equity attributable to non-controlling interest	(15)	285
	318,219	315,586
	495,860	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 (note 9)	**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 earnings for the period	-	-	-	-	7,420	7,420	260	7,680
Foreign currency translation adjustment	-	-	-	(1,141)	-	(1,141)	-	(1,141)
Comprehensive income	311,044	-	-	(3,166)	(40,176)	267,702	535	268,237
Units issued for exchangeable units	6,206	-	-	-	-	6,206	-	6,206
Vested long-term incentive plan units	460	-	-	-	-	460	-	460
Dividends declared	-	-	-	-	(22,563)	(22,563)	-	(22,563)
Dividends declared by subsidiaries	-	-	-	-	-	-	(352)	(352)
Transactions with owners	6,666	-	-	-	(22,563)	(15,897)	(352)	(16,249)
Balance – September 30, 2010	$ 317,710	$ -	$ -	$ (3,166)	$ (62,739)	$ 251,805	$ 183	$ 251,988
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	-	-	-	-	16,752	16,752	146	16,898
Foreign currency translation adjustment	-	-	-	3,089	-	3,089	-	3,089
Comprehensive income	180,000	37	174,632	(1,339)	(18,188)	335,142	431	335,573
Vested long-term incentive plan shares	197	-	(197)	-	-	-	-	-
Share-based compensation expense (note 12)	-	-	260	-	-	260	-	260
Dividends declared (note 8)	-	-	-	-	(18,309)	(18,309)	-	(18,309)
Dividend reinvestment plan issuance (note 8)	646	-	-	-	-	646	-	646
Equity impact of acquisition (note 4)	-	-	-		537	537	(215)	322
Dividends declared by subsidiaries	-	-	-	-	(42)	(42)	(231)	(273)
Transactions with owners	843	-	63	-	(17,814)	(16,908)	(446)	(17,354)
Balance – September 30, 2011	$ 180,843	$ 37	$ 174,695	$ (1,339)	$ (36,002)	$ 318,234	$ (15)	$ 318,219

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		Nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Sales	157,080	151,605	423,258	416,145
Cost of sales	118,328	113,291	318,572	313,133
Gross margin	38,752	38,314	104,686	103,012
Operating and administrative expenses	25,470	25,752	74,533	75,402
	13,282	12,562	30,153	27,610
Amortization				
Property and equipment	1,691	2,076	4,789	6,316
Intangible assets	332	484	1,188	1,616
Operating earnings before litigation settlement and financing costs	11,259	10,002	24,176	19,678
Litigation settlement (note 5)	(4,920)	-	(4,920)	-
Finance costs (note 7)	2,273	6,135	7,629	11,334
Earnings before income taxes	13,906	3,867	21,467	8,344
Deferred income tax expense	2,936	897	4,569	664
Net earnings for the period	10,970	2,970	16,898	7,680
Other comprehensive gain (loss)				
Currency translation adjustment on foreign net investments	4,792	(1,800)	3,089	(1,141)
Comprehensive income for the period	15,762	1,170	19,987	6,539
Net earnings attributable to				
Shareholders of the parent	10,961	2,861	16,752	7,420
Non-controlling interest	9	109	146	260
	10,970	2,970	16,898	7,680
Comprehensive income attributable to				
Shareholders of the parent	15,753	1,061	19,841	6,279
Non-controlling interest	9	109	146	260
	15,762	1,170	19,987	6,539
Earnings per Share (note 11)				
Basic	0.48	0.15	0.74	0.40
Diluted	0.48	0.15	0.74	0.40

Liquor Stores N.A. Ltd.

Interim Consolidated Statement of Cash Flows

(expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Cash provided by (used in)				
Operating activities				
Net earnings for the period	10,970	2,970	16,898	7,680
Items not affecting cash				
Amortization	2,023	2,560	5,977	7,933
Amortization of financing charges	61	199	460	415
Non-cash interest on convertible debentures	432	388	1,212	1,084
Gain on settlement (note 5)	(920)	-	(920)	-
Fair value adjustment on convertible debentures	-	(38)	-	(160)
Change in fair value of exchangeable units	-	2,276	-	240
Dividends declared to exchangeable unitholders	-	1,572	-	4,826
Deferred income tax	2,936	897	4,569	664
Unrealized loss (gain) on foreign currency	140	(285)	29	(535)
Share-based compensation	140	-	260	-
Cash provided by operating activities before changes in non-cash working capital	15,782	10,539	28,485	22,147
Net change in non-cash working capital items (note 14)	60	9,262	(5,089)	6,255
	15,842	19,801	23,396	28,402
Financing activities				
Increase (decrease) in bank indebtedness	(8,127)	(8,572)	(2,185)	203
Repayment of long-term debt	-	-	-	(426)
Dividends paid to shareholders	(5,710)	(7,507)	(18,675)	(22,505)
Dividends paid to non-controlling interest	-	(1,623)	-	(4,880)
Dividends paid to non-controlling interest by subsidiaries	(71)	(76)	(268)	(343)
	(13,908)	(17,778)	(21,128)	(27,951)
Investing activities				
Business acquisitions (note 4)	(779)	-	(779)	-
Contingent consideration paid	-	-	-	(578)
Net deposits on future acquisitions	-	-	-	(20)
Purchase of property and equipment	(1,666)	(553)	(2,860)	(2,249)
Purchase of intangible assets	(304)	(153)	(490)	(634)
	(2,749)	(706)	(4,129)	(3,481)
Foreign exchange loss on cash held in foreign currency	152	(21)	(59)	(43)
Increase (decrease) in cash and cash equivalents	(663)	1,296	(1,920)	(3,073)
Cash and cash equivalents – Beginning of period	1,558	919	2,815	5,288
Cash and cash equivalents – End of period	895	2,215	895	2,215

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 September 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 November 9, 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 nine months ended September 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 September 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 September 30, 2010 and December 31, 2010. The following reconciliations provide details of the impact of the transition on:

- Equity at September 30, 2010 (note 3(b)(ii))
- Equity at December 31, 2010 (note 3(b)(iii))
- Comprehensive income for the three and nine months ended September 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 September 30, 2010 and December 31, 2010.

(Expressed in thousands of Canadian dollars)	**September 30, 2010**	**December 31, 2010**
Total equity in accordance with Canadian GAAP	314,465	314,956
Deferred tax adjustment (note 3(c)(ii))	(4,653)	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))	4,607	4,793
Reclassification of unit-based compensation plan liability (note 3(c)(iii))	(266)	(60)
Remeasurement of unit-based compensation liability (note 3(c)(iii))	3	-
Remeasurement of exchangeable units to fair value (note 3(c)(iv))	(18,292)	-
Change in equity attributable to Shareholders	(23,571)	630
Change in equity attributed to non-controlling interest	(38,906)	-
Total equity in accordance with IFRS	251,988	315,586

ii) Reconciliation of equity at September 30, 2010

(Expressed in thousands of Canadian dollars)	**Canadian GAAP** **$**	**Effect of transition to IFRS** **$**	**IFRS** **$**
Assets			
Current assets			
Cash and cash equivalents	2,215	-	2,215
Accounts receivable	985	-	985
Inventory – at cost	116,222	-	116,222
Prepaid expenses and deposits	1,473	-	1,473
	120,895		120,895
Deferred income tax (note 3(c)(ii))	-	826	826
Property and equipment	42,975	-	42,975
Intangible assets	46,731	-	46,731
Goodwill	282,901	-	282,901
	493,502	826	494,328
Liabilities			
Current liabilities			
Bank indebtedness	41,310	-	41,310
Accounts payable and accrued liabilities (note 3(c)(iii))	23,185	263	23,448
Dividends payable to shareholders	2,552	-	2,552
Dividends payable to exchangeable unitholders	492	-	492
	67,539	263	67,802
Long-term debt (note 3(c)(i))	100,594	363	100,957
Deferred tax liability (note 3(c)(ii))	10,904	5,479	16,383
Exchangeable units (note 3(c)(iv))	-	57,198	57,198
	179,037	63,303	242,340
Shareholders' Equity			
Equity attributable to shareholders (note 3(b)(i))	275,376	(23,571)	251,805
Equity attributable to non-controlling interest (note 3(b)(i))	39,089	(38,906)	183
	314,465	(62,477)	251,988
	493,502	826	494,328

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 September 30, 2010 $**	**Nine months ended September 30, 2010 $**
Comprehensive income in accordance with Canadian GAAP	5,242	10,710
Fair value adjustments to convertible debenture (note 3(c)(i))	38	160
Fair value adjustments to unit-based compensation (note 3(c)(iii))	(3)	(23)
Fair value adjustments to exchangeable units (note 3(c)(iv))	(2,276)	(240)
Dividends paid on exchangeable units (note 3(c)(iv))	(1,572)	(4,826)
Increase in deferred tax expense (note 3(c)(ii))	(259)	758
Comprehensive income in accordance with IFRS	1,170	6,539

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)	**September 30, 2010 $**	**December 31, 2010 $**
Deferred income tax liability in accordance with Canadian GAAP	10,904	8,763
Overall impact of recognizing deferred tax in accordance with IAS 12	4,653	(690)
Net deferred income tax liability in accordance with IFRS	15,557	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 payable 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 Business acquisitions

Effective July 6, 2011, the Company acquired the remaining 50% interest in a subsidiary that operates one retail liquor store, for cash consideration of $778,551. As this transaction did not result in a change of control, the $537,011 difference between the consideration paid and the $1,315,562 carrying value of the non-controlling interest acquired was recognized in equity.

In addition, the Company acquired a licence in Fairbanks, Alaska for the future operation of a liquor store. The cash consideration of this transaction was $312,364.

5 Litigation Settlement

Effective September 1, 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 payments to the Company in the aggregate amount of $4,000,000, with $2,900,000 received on September 1, 2011, and $1,100,000 received on October 14, 2011, which latter amount is included within accounts receivable as of September 30, 2011. In addition to the monetary component of the settlement, the Company obtained certain intangible assets with an incremental value of $920,000.

The Company has recorded a gain from the settlement totalling $4,920,000.

6 Long-term debt

Long-term debt comprises the following:

(Expressed in thousands of Canadian dollars)	2011 effective rate %	September 30, 2011 $	December 31, 2010 $
Term loan facility advance	4.03	46,500	46,482
Unamortized financing charges		(52)	(110)
Convertible unsecured subordinated debentures			
6.75% debenture, due December 31, 2012	10.13	55,251	54,045
		101,699	100,417

7 Finance costs

Finance costs comprise the following:

(Expressed in thousands of Canadian dollars)	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Finance costs				
Interest expense				
Bank indebtedness	520	740	2,092	1,714
Long-term debt	464	502	1,516	1,398
Convertible debenture	1,400	1,368	4,116	4,024
Dividends to exchangeable unitholders [1]	-	1,572	-	4,826
Net loss (gain) on foreign exchange from financing activities	(111)	(285)	(95)	(708)
Change in fair value of conversion feature [1]	-	(38)	-	(160)
Change in fair value of exchangeable units [1]	-	2,276	-	240
	2,273	6,135	7,629	11,334

[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.

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 $0.810 (2010 – $1.215) per share for the nine month period ended September 30, 2011.

(Expressed in thousands of Canadian dollars)	Date dividends declared	Declared $	Paid Shares $	Paid 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
	June 15, 2011	2,035	126	1,909
	July 15, 2011	2,035	132	1,903
	Aug 15, 2011	2,036	139	1,897
	Sept 15, 2011	2,037	-	-
		18,309	646	15,626

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.

9 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	399,084	6,206
Vested shares	29,403	460
Balance – September 30, 2010	18,898,935	317,710

	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	44,801	646
Balance – September 30, 2011	22,634,904	180,843

10 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	(375,751)	(23,333)	(399,084)	(6,304)
Change in fair value of exchangeable units (note 3(c)(iv))	-	-	-	241
Balance – September 30, 2010	2,821,091	822,076	3,643,167	57,198

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

11 Earnings per share

(Expressed in thousands of Canadian dollars)	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Net earnings (loss) attributable to Shareholders of the parent (numerator utilized in basic and diluted earnings per share)	10,961	2,861	16,752	7,420
	#	#	#	#
Shares outstanding – Beginning of period	22,606,987	18,528,730	22,577,088	18,470,448
Weighted average of Shares issued less treasury Shares acquired	6,341	33,506	24,866	64,668
	22,613,328	18,562,536	22,601,954	18,535,116
Denominator utilized in diluted earnings per share	22,613,328	18,562,536	22,601,954	18,535,116
	$	$	$	$
Earnings per share – Basic	0.48	0.15	0.74	0.40
Earnings per share – Diluted	0.48	0.15	0.74	0.40

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.

12 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 nine months ended September 30, 2011 related to these share option grants was $259,687.

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	(1,621)	-	(1,621)
Unvested Units at September 30, 2010	13,246	-	13,246

	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 September 30, 2011	-	-	-

Compensation expense for the LTIP for the three months ended September 30, 2011 was $nil (2010 – $21,061) and $nil (2010 - $68,131) for the nine months ended September 30, 2011. No compensation expense was recorded for the three month period ended September 30, 2011 and 2010 and $nil (2010 – $1,292) was recorded for the 2007 Plan for the nine month period ended September 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)	(8,889)
Awards	9,990
Unvested Units – September 30, 2010	40,281

	#
Unvested Shares – January 1, 2011	42,204
Vested Shares (settled in cash)	(18,394)
Awards	12,031
Unvested Shares – September 30, 2011	35,841

During the three and nine month period ended September 30, 2011, awards accruing to DS Plan participants totalled $24,989 (2010 – 71,279) and $101,747 (2010 – $160,443), respectively, which was recorded as compensation expense in the period.

13 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

	Three months ended September 30,		**Nine months ended September 30,**	
(Expressed in thousands of Canadian dollars)	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Professional fees(i)	52	72	211	189
Rent expense(ii)	137	128	411	399
Consulting fees (iii)	33	-	66	-
	222	200	688	588

(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 to those with unrelated parties and are measured at the exchange amount.

There was $1,245 included in accounts payable and accrued liabilities (December 31, 2010 – $36,865) relating to these transactions.

14 Supplementary disclosure of cash flow information

Changes in non-cash working capital items

(Expressed in thousands of Canadian dollars)	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Accounts receivable	(1,168)	(48)	(964)	859
Inventory	1,106	5,512	1,409	5,932
Prepaid expenses and deposits	296	235	505	550
Accounts payable and accrued liabilities	(174)	3,563	(6,039)	(1,086)
	60	9,262	(5,089)	6,255

(Expressed in thousands of Canadian dollars)	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Interest paid	924	1,043	3,148	4,656
Income taxes paid	60	11	181	66

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

15 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 September 30, 2011			
(Expressed in thousands of Canadian dollars)	**Canadian** $	**US** $	**Intersegment eliminations** $	**Consolidated** $
Sales to external customers	122,676	34,404	-	157,080
Intersegment revenue[(i)]	1,094	-	(1,094)	-
	123,770	34,404	(1,094)	157,080
Operating margin before amortization, interest and other	12,612	670	-	13,282
Property and equipment amortization	1,514	177	-	1,691
Intangible asset amortization	302	30	-	332
Interest income[(i)]	(630)	-	630	-
Litigation settlement	(4,920)	-	-	(4,920)
Finance costs	2,255	648	(630)	2,273
Earnings before income tax	14,091	(185)	-	13,906
Deferred income tax expense (recovery)	3,028	(92)	-	2,936
Net earnings (loss) for the period	11,063	(93)	-	10,970
Other information				
Expenditures for additions to:				
Property and equipment	755	911	-	1,666
Intangible assets	931	293	-	1,224
Total assets	488,067	7,793	-	495,860

(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.

	Three months ended September 30, 2010			
(Expressed in thousands of Canadian dollars)	**Canadian** **$**	**US** **$**	**Intersegment eliminations** **$**	**Consolidated** **$**
Sales to external customers	115,873	35,732	-	151,605
Intersegment revenue[(i)]	1,131	-	(1,131)	-
	117,004	35,732	(1,131)	151,605
Operating margin before amortization, interest and other	11,875	687	-	12,562
Property and equipment amortization	1,910	166	-	2,076
Intangible asset amortization	453	31	-	484
Interest income[(i)]	(673)	-	673	-
Finance costs	6,097	711	(673)	6,135
Earnings before income tax	4,088	(221)	-	3,867
Deferred income tax expense (recovery)	(414)	1,311	-	897
Net earnings (loss) for the period	4,502	(1,532)	-	2,970
Other information				
Expenditures for additions to:				
Property and equipment	458	95	-	553
Intangible assets	153	-	-	153
Total assets	428,673	65,655	-	494,328

[(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)	Canadian $	US $	Intersegment eliminations $	Consolidated $
	Nine months ended September 30, 2011			
Sales to external customers	326,497	96,761	-	423,258
Intersegment revenue(i)	3,163	-	(3,163)	-
	329,660	96,761	(3,163)	423,258
Operating margin before amortization, interest and other	28,376	1,777	-	30,153
Property and equipment amortization	4,276	513	-	4,789
Intangible asset amortization	1,100	88	-	1,188
Interest income(i)	(1,849)	-	1,849	-
Litigation settlement	(4,920)	-	-	(4,920)
Finance costs	7,568	1,910	(1,849)	7,629
Earnings before income tax	22,20 1	(734)	-	21,467
Deferred income tax expense (recovery)	4,858	(289)	-	4,569
Net earnings (loss) for the period	17,004	(445)	-	16,898
Other information				
Expenditures for additions to:				
Property and equipment	1,757	1,103	-	2,860
Intangible assets	1,093	317	-	1,410
Total assets	488,067	7,793	-	495,860

(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)	Nine months ended September 30, 2010 Canadian $	US $	Intersegment eliminations $	Consolidated $
Sales to external customers	315,813	100,332	-	416,145
Intersegment revenue(i)	3,244	-	(3,244)	-
	319,057	100,332	(3,244)	416,145
Operating margin before amortization, interest and other	25,856	1,754	-	27,610
Property and equipment amortization	5,826	490	-	6,316
Intangible asset amortization	1,525	91	-	1,616
Interest income(i)	(2,016)	-	2,016	-
Finance costs	11,228	2,122	(2,016)	11,334
Earnings (loss) before income tax and non-controlling interest	9,293	(949)	-	8,344
Deferred income tax expense (recovery)	(958)	1,622	-	664
Net earnings for the period	10,251	(2,571)	-	7,680
Other information				
Expenditures for additions to:				
Property and equipment	1,955	294	-	2,249
Intangible assets	634	-	-	634
Goodwill	274	-	-	274
Total assets	428,673	65,655	-	494,328

(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.

16 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.