Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Financial Statements

March 31, 2012 and 2011

(Unaudited, expressed in thousands of Canadian Dollars)

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Financial Position

(in thousand of Canadian dollars)

	March 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	1,725	1,707
Accounts receivable	1,127	845
Inventory	128,535	129,842
Prepaid expenses and deposits	3,543	3,921
Fair value of interest rate swap	200	-
	135,130	136,315
Deferred income tax	1,914	1,610
Property and equipment	37,870	38,772
Intangible assets	45,826	46,145
Goodwill	279,934	280,305
	500,674	503,147
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	2,178	40,424
Accounts payable and accrued liabilities	19,346	24,478
Dividends payable to shareholders	2,046	2,040
Fair value of interest rate swap	-	390
Current portion of long-term debt (note 12)	56,117	55,681
	79,687	123,013
Long-term debt (note 3)	92,196	46,469
Deferred income tax	15,408	16,465
	187,291	185,947
Shareholders’ Equity		
Equity attributable to shareholders	313,345	317,115
Equity attributable to non-controlling interest	38	85
	313,383	317,200
	500,674	503,147

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

(in thousand of Canadian dollars)

	Attributable to shareholders of the Company							
	Share capital $ (note 7)	Equity component of convertible debentures $	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total $	Non-controlling interest $	Total shareholders' equity $
Opening balance – January 1, 2011	180,000	37	174,632	(4,342)	(36,425)	313,902	285	314,187
Net earnings for the period	-	-	-	-	109	109	36	145
Foreign currency translation adjustment	-	-	-	(1,470)	-	(1,470)	-	(1,470)
Comprehensive income for the period	-	-	-	(1,470)	109	(1,361)	36	(1,325)
Vested long-term incentive plan units	197	-	(197)	-	-	-	-	-
Stock-based compensation	-	-	12	-	(59)	(47)	-	(47)
Dividends declared	-	-	-	-	(6,099)	(6,099)	-	(6,099)
Dividends declared by subsidiaries	-	-	-	-	-	-	(135)	(135)
Transactions with shareholders	197	-	(185)	-	(6,158)	(6,146)	(135)	(6,281)
Balance – March 31, 2011	180,197	37	174,447	(5,812)	(42,474)	308,395	186	306,581
Opening balance – January 1, 2012	181,272	37	174,867	(3,174)	(35,887)	317,115	85	317,200
Net earnings for the period	-	-	-	-	2,300	2,300	106	2,406
Foreign currency translation adjustment	-	-	-	(1,168)	-	(1,168)	-	(1,168)
Comprehensive income for the period	-	-	-	(1,168)	2,300	1,132	106	1,238
Stock-based compensation	-	-	132	-	-	132	-	132
Exercise of stock options	676	-	(36)	-	-	640	-	640
Dividends declared (note 5)	-	-	-	-	(6,127)	(6,127)	-	(6,127)
Dividend reinvestment plan issuance (note 5)	453	-	-	-	-	453	-	453
Dividends declared by subsidiaries	-	-	-	-	-	-	(153)	(153)
Transactions with shareholders	1,129	-	96	-	(6,127)	(4,902)	(153)	(5,055)
Balance – March 31, 2012	182,401	37	174,963	(4,342)	(39,714)	313,345	38	313,383

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Earnings and Comprehensive Income (loss)

For the three months ended March 31, 2012 and 2011

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

	2012 $	2011 $
Sales	126,636	115,967
Cost of sales	94,201	86,812
Gross margin	32,435	29,155
Operating and administrative expenses	25,501	24,476
	6,934	4,679
Amortization		
Property and equipment	1,751	1,540
Intangible assets	111	426
	5,072	2,713
Finance costs (note 4)	1,840	2,572
Earnings before income taxes	3,232	141
Income tax expense (recovery)	826	(4)
Net earnings for the period	2,406	145
Other comprehensive loss		
Currency translation difference on foreign subsidiaries	(1,168)	(1,470)
Comprehensive income (loss) for the period	1,238	(1,325)
Net earnings attributable to		
Owners of the parent	2,300	109
Non-controlling interest	106	36
	2,406	145
Comprehensive income attributable to		
Owners of the parent	1,132	(1,361)
Non-controlling interest	106	36
	1,238	(1,325)
Earnings per share (note 8)		
Basic	0.10	0.00
Diluted	0.10	0.00

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Cash Flow

For the three months ended March 31, 2012 and 2011

(in thousand of Canadian dollars)

	2012 $	2011 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	2,406	145
Items not affecting cash		
Amortization	1,862	1,966
Amortization of financing charges	110	199
Non-cash interest on convertible debentures	435	390
Fair value adjustment on interest rate swap	(590)	-
Deferred income tax	(1,383)	(20)
Unrealized gain on foreign currency	4	123
Share-based compensation	132	12
Cash provided by operating activities before changes in non-cash working capital	2,976	2,815
Net change in non-cash working capital items	(4,077)	(7,848)
	(1,101)	(5,033)
Financing activities		
Increase in bank indebtedness	7,326	12,308
Dividends paid (note 5)	(5,670)	(6,630)
Proceeds from share issuance	640	-
Distributions paid to exchangeable unit holders	-	(484)
Dividends paid to non-controlling interest by subsidiaries	(153)	(135)
	2,143	5,059
Investing activities		
Purchase of property and equipment	(970)	(636)
Purchase of intangible assets	(60)	(63)
	(1,030)	(699)
Foreign exchange gain (loss) on cash held in foreign currency	6	(36)
Increase (decrease) in cash and cash equivalents	18	(709)
Cash and cash equivalents – Beginning of period	1,707	2,815
Cash and cash equivalents – End of period	1,725	2,106

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

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 and is the successor entity to Liquor Stores Income Fund. The address of the Company's registered office is 300, 10508 – 82 Avenue, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB".

The Company's principal activity is the retailing of wines, beers and spirits. As at March 31, 2012, the Company operated 240 (2011 - 236) retail liquor stores, of which 174 (2011 - 172) were in Alberta, 35 (2011 - 35) were in British Columbia, 20 (2011 - 20) were in Alaska and 11 (2011 - 9) were in Kentucky. Of the stores operated, 205 (2011 - 206) were acquired by the Company and 35 (2011 - 30) were developed by the Company.

These unaudited condensed interim consolidated financial statements ("interim financial statements") have been approved and authorized for issue by the Board of Directors on May 14, 2012.

2 Basis of preparation and significant accounting policies

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements.

The preparation of interim financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

The Company's operations are seasonal in nature. Accordingly, sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a higher level of earnings in the third and fourth quarters. This business seasonality results in quarterly performance that is not necessarily indicative of the year's performance.

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2011. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2011.

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

3 Bank indebtedness and long-term debt

On February 10, 2012, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility available to the Company. Significant changes to the credit facility include an increase in the extendible revolving operating facility to $150 million and an extension of the maturity date to February 10, 2015.

4 Finance costs

	Three months ended March 31,	
	2012	**2011**
	$	**$**
Interest expense		
Bank indebtedness	308	711
Long-term debt	690	498
Convertible debenture	1,411	1,358
Fair value adjustment on interest rate swap	(590)	-
Net loss (gain) on foreign exchange from financing activities	21	5
	1,840	2,572

5 Income taxes

Income tax is recognized based on management's estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual effective tax rate for 2012 is 25% (the effective tax rate for the year ended December 31, 2011 was 23%). The increase in the rate is primarily related to an expected change in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year.

Income tax expense for the three months ended March 31, 2012 was $826,000 (2011 – recovery of $4,000), which includes current income tax expense of $2,209,000, (March 31, 2011 - $16,000), with the related accrued payable recorded in accounts payable and accrued liabilities, and a deferred income tax recovery of $1,383,000 (March 31, 2011 - $20,000).

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

6 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance.

Date dividends declared	Declared	Paid	
		Shares	Cash
	$	$	$
December 15, 2011	-	145	1,895
January 13, 2012	2,040	148	1,893
February 15, 2012	2,041	160	1,882
March 15, 2012	2,046	-	-
	6,127	453	5,670

Dividends paid in shares are pursuant to the Company's dividend reinvestment plan. Dividends are paid mid-month following the month of declaration.

7 Share capital

	#	$
Balance – January 1, 2011	22,577,088	180,000
Vested shares	13,015	197
Balance – March 31, 2011	22,590,103	180,197
Balance – January 1, 2012	22,665,902	181,272
Exercised stock options	41,250	640
Transfer from contributed surplus for stock options exercised	-	36
Shares issued under dividend reinvestment plan	28,924	453
Balance – March 31, 2012	22,735,627	182,401

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

8 Earnings per share

	Three months ended March 31, 2012 $	2011 $
Net income attributable to shareholders of the Company	2,300	109
Weighted average number of common share outstanding - Basic	22,682,213	22,589,091
Dilutive effect of stock options	17,693	-
Weighted average number of common share outstanding - Diluted	22,699,907	22,589,091
Basic earnings per share	0.10	0.00
Diluted earnings per share	0.10	0.00

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

9 Related party transactions

	Three months ended March 31, 2012 $	2011 $
Professional fees[i]	51	93
Rent expense[ii]	146	139
	197	232

[i] A director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services. The Company also paid professional fees to a company controlled by a director for real estate services.
[ii] The Company paid rent to companies controlled by a Director of the Company.

These operating and administrative expenses are incurred in the normal course of business at terms similar to those applicable to unrelated parties.

There was $14,884 (December 31, 2011 – $9,485) included in accounts payable and accrued liabilities relating to these transactions.

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

10 Supplementary disclosure of cash flow information

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

	Three months ended March 31,	
	2012	**2011**
	$	**$**
Interest paid	998	955
Income taxes paid	-	68

11 Operating segments

The Company has two reportable segments: 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.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating margin, which is defined as earnings before amortization, finance costs and income tax expense (recovery), as included in the internal management reports that are reviewed regularly by the Company's President and Chief Executive Officer (the Company's chief operating decision maker) and follow the organization, management and reporting structure of the Company. Management uses operating margin to establish performance benchmarks for incentive compensation for employees and to evaluate the performance of its operating segments. A reconciliation of operating margin to earnings before income taxes, an earnings measure used in the Company's Consolidated Statement of Earnings and Comprehensive Income (Loss), has been included in the table below.

Operating margin is not an earnings measure recognized by International Financial Reporting Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. Therefore, operating margin may not be comparable to similar measures presented by other issuers. Investors are cautioned that operating margin should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

11 Operating segments (continued)

			March 31, 2012
	Canadian **$**	**US** **$**	**Consolidated** **$**
Sales to external customers	95,140	31,496	126,636
Operating margin	5,561	1,373	6,934
Property and equipment amortization			1,751
Intangible asset amortization			111
Finance costs			1,840
Earnings before income taxes			3,232
Other information			
Expenditures for additions to			
Property and equipment	605	365	970
Intangible assets	57	3	60
Total assets	429,239	71,525	500,674

			March 31, 2011
	Canadian **$**	**US** **$**	**Consolidated** **$**
Sales to external customers	87,781	28,186	115,967
Operating margin	3,481	1,198	4,679
Property and equipment amortization			1,540
Intangible asset amortization			426
Finance costs			2,572
Earnings before income taxes			141
Other information			
Expenditures for additions to			
Property and equipment	572	64	636
Intangibles	53	10	63
Total assets at December 31, 2011	430,388	72,759	503,147

(Tabular amounts in thousands of Canadian dollars, except for share amounts)

12 Subsequent events

On April 23, 2012, the Company issued $67,500,000 aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "2012 Debentures") at a price of $1,000 per 2012 Debenture. The 2012 Debentures will be subordinated, unsecured obligations of the Company and will bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2012. The 2012 Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the "Conversion Price") of $24.90 per share.

The 2012 Debentures will not be redeemable prior to April 30, 2015. On and after April 30, 2015 and prior to April 30, 2017, the 2012 Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after April 30, 2017 and prior to the maturity date, the Company may, at its option, redeem the 2012 Debentures by way of cash payment or through the issuance of common shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

Concurrent with the issue of the 2012 Debentures, the Company announced that it would redeem the outstanding 6.75% convertible unsecured subordinated debentures (the "2007 Debentures") with a principal amount of $57.5 million and accrued interest of approximately $1.6 million. The Company expects that the 2007 Debentures will be redeemed effective May 28, 2012.