LIQUOR DEPOT

LIQUOR STORES N.A. LTD.

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

**For the Three Months Ended March 31, 2011**
**As of May 18, 2011**

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the interim consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores N.A. Ltd. (the "Company") for the three months ended March 31, 2011 and the consolidated financial statements and MD&A for the year ended December 31, 2010. Unless otherwise stated, results are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"). The CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011 with retrospective restatement of 2010 comparable figures. Accordingly, the Company has commenced reporting on this basis in these financial statements. In this MD&A, the term, "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "EBITDA", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other non-GAAP financial measures. A description of these measures and their limitations are discussed on page 16 under "Non-GAAP Financial Measures".

See also "Risk Factors" and "Forward-Looking Statements" on page 16 of this MD&A.

This MD&A is dated May 18, 2011.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") and other public filings, is available on SEDAR (www.sedar.com) and on the Company's website at www.liquorstoresna.ca.

## HIGHLIGHTS

### Three Months Ended March 31, 2011

- Operating margin before non-recurring items increased by 30%
- Overall gross margin as a percentage of sales increased to 25.1% from 24.3% in first quarter 2010
- Same store sales in Alberta (the Company's largest market) are up 4.8% overall
- Canadian same-store sales increased by 2.6%

Consolidated sales were $116.0 million, an increase of 0.14% over the first quarter 2010, despite a $1.5 million decrease in the Canadian dollar equivalent for US store sales (as a result of foreign exchange rate differences) and the Company's strategic reduction of its wholesale business.

Canadian same-store sales increased 2.6% to $75.8 million in the first quarter, compared with $73.9 million in first quarter 2010. U.S. same store sales also increased slightly, improving 0.31% in the first quarter, from US$28.3 million to US$28.4 million.

Overall gross margin, as a percentage of sales, increased to 25.1% from 24.3% in the first quarter of last year. Operating margin, before non-recurring items, increased 30% to $5.2 million for the first quarter of 2011, from $4.0 million in the first quarter of 2010.

Early results for 2011 are encouraging. Canadian same stores sales have improved 2.6% in the first quarter of 2011 compared to a 1.3% decline in the same quarter last year. We have seen positive results from our expanded store operating hours program, as customer counts have increased and sales have exceeded the additional labour and operating costs incurred. Same store sales in Alberta (our largest market) are up 4.8% overall, and with the effects of the temporarily increased Alberta wholesale price mark-ups over, margin rates in Alberta have returned to norms comparable to those prior to the second quarter of 2009. Our British Columbia operations saw a small decrease in sales and customer counts compared to the same period last year. The Company believes that these BC reductions may be attributable, in part; to the uplift from the Olympics held in the first quarter of 2010 and that consumer spending habits have been adversely affected as a result of the mid-2010 legislative change imposing more stringent standards for criminal impaired driving charges in the province. An added factor negatively impacting first quarter sales was the partial shift in Easter sales from the first quarter 2010 to second quarter 2011 (although Easter fell in the second quarter of both 2010 and 2011, the 2010 advertising campaign was commenced in first quarter 2010 and a portion of Easter-related sales occurred during that period).

US operations continue to meet Management's expectations; however, the strengthening Canadian dollar did impact results.

## OUTLOOK

Management anticipates that the second quarter of 2011 will reflect the positive trends of the first quarter, with expected further improvements in same store sales, overall sales growth, and with the improved first quarter margin rates being maintained. Economic indicators suggest that the Western Canadian economy is growing, and the Company believes that heightened consumer confidence levels and a strong labour market should support continued improvements in the Alberta market. That being said, unprecedented forest fires in and around the Town of Slave Lake, Alberta and the resulting mandatory evacuation of the municipality recently forced the closure of three stores. These unanticipated store closures have the potential to negatively affect overall sales and Canadian same store sale results for the second quarter of 2011. BC sales for the second quarter of 2011 may not see the same levels as the second quarter of 2010 as consumer spending habits appear to be influenced by more stringent standards for criminal impaired driving charges and the implementation of Harmonized Sales Tax ("HST") in the province, however, the positive impact on sales from the continued playoff success of the NHL's Vancouver Canucks has the potential to mitigate the effects of the foregoing on the quarter.

Operations in Alaska and Kentucky continue to meet our expectations, however, the strengthening Canadian dollar (and resulting foreign exchange rate differences) may continue to impact consolidated results in the second quarter.

## OVERVIEW OF THE COMPANY

The Company was incorporated on November 8, 2010 under the laws of the Province of Alberta. On December 31, 2010, Liquor Stores Income Fund (the "Fund") and the Company completed a Plan of Arrangement under the Canada Business Corporations Act (the "Arrangement"). Pursuant to the Arrangement, unitholders of the Fund and Liquor Stores Limited Partnership (the "LP") each received one common share of the Company for each trust unit and each exchangeable LP unit and series 1 exchangeable unit of the LP that they held on December 31, 2010. The Company also assumed the Fund's 6.75% convertible subordinated debenture. The Company's shares and 6.75 % convertible subordinated debentures trade on the TSX under the symbols LIQ and LIQ.DB, respectively. The Fund was established as an unincorporated open-ended trust under the laws of the Province of Alberta on August 10, 2004 and will be dissolved at a later date. The Company operates 236 retail liquor stores. Management believes the Company is the largest liquor store operator in Alberta by number of stores and revenue.

**Stores and Operations** (as of May 18, 2011)

| | **Alberta** | | | **British Columbia** | | | **Alaska** | **Kentucky** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Edmonton**[(1)] | **Calgary**[(1)] | **Other**[(2)] | **Lower Mainland** | **Vancouver Island** | **Interior** | **Anchorage** | **Lexington** | **Louisville** | |
| Number of Stores | 79 | 45 | 48 | 13 | 11 | 11 | 20 | 5 | 4 | 236 |

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres.

(2) Other communities served in Alberta include, by region, Northern (23), Southern (9), Central (14) and resort communities (2).

**Competitive Environment**

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Company currently operates 172 liquor stores in Alberta where there are approximately 1,176 liquor stores and 92 agency stores [Source: Alberta Gaming and Liquor Commission].

The Company operates 35 stores in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 682 private stores and 197 government operated stores. There are also approximately 224 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch].

The Company currently operates 20 stores in the greater Anchorage area. In the state of Alaska there are approximately 397 retail liquor stores with 87 stores in the greater Anchorage area. There are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas [Source: Alaska's Alcoholic Beverage Control Board].

The Company operates nine stores in Kentucky of which six are large format stores. Licenses have been approved allowing the Company to develop and open an additional store, which will be a large format store in a formerly dry county. In the state of Kentucky there are no government owned or operated liquor stores. Liquor licenses are permitted based on the alcoholic status of each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell beer, wine and spirits. There are approximately 784 package retail license stores in Kentucky with 207 in Jefferson County and 68 in Fayette County [Source: Kentucky's Alcoholic Beverage Control Board]. The Company currently operates five stores in Lexington (Fayette County) and four stores in Louisville (Jefferson County).

## BUSINESS STRATEGY

### *Growth*

The Company's strategy is to continue to grow through new store development and acquisitions, and by attracting more customers to existing locations and by increasing sales per customer. The Company explores opportunities to acquire and/or develop stores in Alberta, British Columbia and the United States where regulatory regimes permit private liquor stores. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and shareholder value.

### *Competitive Differentiation*

Management focuses on differentiating the Company's stores from the competition by promoting its broad selection of products, by emphasizing the in-store customer experience, and through marketing and brand development. Many of our stores offer customer education events and merchandise presentations.

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

## DIVIDENDS

### *Policy*

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

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

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

Cash provided by operating activities before changes in working capital is an additional GAAP measure which the Company believes provides useful information to investors and management by providing an indication of cash flow available for sustaining its current annual dividend of $1.08 per share, investment in working capital, replacement or purchase of new fixed assets, acquisitions, and debt repayment. Investors often compare basic and diluted earnings per share amounts to the Company's annual dividend. The Company believes that cash provided by operating activities before changes in non-cash working capital provides a better indicator of the Company's ability to sustain its current annual dividend.

Cash provided by operating activities before changes in working capital and non-recurring items and the calculation of this measure and on the additional GAAP measure on a per share basis are all non-GAAP financial measures (see Non-GAAP Financial Measures). Please refer to the Earnings per Share note in the Company's financial statements for the most directly comparable measured calculated in accordance with GAAP.

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

| | **Three months ended March 31,** | |
|---|---|---|
| (expressed in thousands of Canadian dollars, except per Share amounts) | **2011** | **2010** |
| Cash provided by operating activities before changes in non-cash working capital | $ 2,815 | $ 2,207 |
| Non-recurring items | 537 | (95) |
| Cash provided by operating activities before changes in non-cash working capital and non-recurring items | 3,352 | 2,112 |
| Weighted average number of shares outstanding (3) | 22,589 | 22,542 |
| Per share amount (3) | $ 0.12 | $ 0.10 |
| Per share amount before non-recurring items (3) | $ 0.15 | $ 0.09 |
| Cash dividends per share (3) | $ 0.27 | $ 0.41 |

(1) *Non-recurring items for the three months ended March 31, 2011 and 2010 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust less a settlement received from one of the parties relating to the 2007 acquisition of Liquor Barn Income Fund. For the first quarter of 2010 non-recurring expenses were offset by a settlement related to a GST appeal.*

(2) *The GAAP measure comparable to cash provided by operating activities before changes in non-cash working capital per share is earnings per share. Diluted earnings(loss) per share for the three months ended March 31, 2011 and 2010 are nil and $(0.47) respectively.*

(3) *Prior to December 31, 2010 the Company was an income trust. References to" share" and "dividend" above should be read as "unit" and "distribution" for such prior periods.*

***Seasonality***

The retail liquor industry is subject to seasonal variations with respect to sales and consequently operating results. Sales are typically lowest early in the year and increase in the latter half. In 2010, 20% (2009- 20%) of annual same store sales occurred in the first quarter, 26 % (2009 - 26%) in the second quarter, 26% (2009 - 26%) in the third quarter and 28% (2009 - 28%) in the last quarter. Over the course of a year, the Company expects that cash provided by operating activities before changes in non-cash working capital will exceed dividends.

***Dividend Reinvestment Plan***

The Company announced a Dividend Reinvestment Plan (the "DRIP" or the "Plan") on April 15, 2011 which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Shares issued pursuant to the DRIP are issued at a discount of 3% from the market price (as such term is defined in the Plan) and no brokerage or administration fees are charged by the Company for participating in the Plan.

As at April 29, 2011, Shareholders enrolled in the DRIP, at that time, held approximately 1.4 million shares.

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

**Policy on Same Store Sales Comparisons**

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

***Three Months Ended March 31, 2011***

The following table summarizes the operating results for the three months ended March 31, 2011 and 2010.

| | **Three months ended March 31,** | | | |
|---|---|---|---|---|
| | **2011** | | **2010** | |
| (Cdn $ 000's, unless otherwise stated) | **$** | **%** | **$** | **%** |
| | (unaudited) | | (unaudited) | |
| Sales [(1)] | | | | |
| Canadian same stores | 75,786 | 65.4% | 73,881 | 63.8% |
| Canadian wholesale operations | 9,323 | 8.0% | 10,026 | 8.7% |
| Other Canadian stores | 2,672 | 2.3% | 2,481 | 2.1% |
| Total Canadian store sales | 87,781 | 75.7% | 86,388 | 74.6% |
| US same stores (US$) | 28,364 | 24.5% | 28,276 | 24.4% |
| Other US stores (US$) | 219 | 0.2% | 0 | 0.0% |
| Foreign exchange on US store sales | (397) | (0.3)% | 1,134 | 1.0% |
| Total US store sales | 28,186 | 24.3% | 29,410 | 25.4% |
| Total sales | 115,967 | 100.0% | 115,798 | 100% |
| Gross margin | 29,155 | 25.1% | 28,110 | 24.3% |
| Operating and administrative expense | 24,492 | 21.1% | 24,015 | 20.7% |
| Operating margin | 4,663 | 4.0% | 4,095 | 3.5% |
| Non-recurring items[(2)] | 537 | 0.5% | (95) | (0.1)% |
| Operating margin before non-recurring items | 5,200 | 4.5% | 4,000 | 3.5% |

Notes:

(1) *The number of stores and corresponding results for the three months ended March 31, 2011 includes partial months of operations for new stores opened or acquired (2011: none;2010: one store) and stores closed during the period (2011: one store; 2010: one store). Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.*

(2) *Non-recurring items for the three months ended March 31, 2011 and 2010 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust less the proceeds of a settlement with one of the parties to the Liquor Barn Income Fund litigation. For the first quarter of 2010 non-recurring expenses were offset by a refund related to a GST appeal.*

***First quarter 2011 Operating Results Compared to First Quarter 2010 Operating Results***

**Sales**

Sales for the three months ended March 31, 2011 and 2010 were $116.0 million and $115.8 million, respectively, up marginally despite a $1.5 million decrease in the Canadian currency equivalent for US sales as a result of foreign exchange rate differences.

Same Store Sales

- Canadian same store sales - up $1.9 million or 2.6%
- Canadian same store sales have benefitted from a stronger first quarter promotional campaign compared to the same period in 2010 and an improved customer offering through extended operational hours and enhanced customer service at the store level. The 2.6% increase was achieved despite the year over year impact of the Olympics occurring in the first quarter of 2010, the more stringent standards imposed in the BC market for criminal impaired driving charges, the effect in BC of the HST on customer buying habits, and the timing of Easter which benefited the first quarter in 2010.
- US same store sales were US$28.4 million, up from US$28.3 million.

Other Sales

- Wholesale business sales for the three months ended March 31, 2011 were $9.3 million, down $ 0.7 million or 7% from $10.0 million a year earlier. The Company strategically reduced its business in this area in 2010 due to lower margins and higher administrative and credit risk costs associated with wholesale customers. Increased competition for this business has also lead to a decrease in volume further supporting the Company's decision to reduce its business in this area.
- Other Canadian stores include stores that were opened, acquired or closed after January 1, 2010 and stores that have been impacted by decisions of the Company to open stores within their trading area.
- Other US stores include stores that were opened or acquired after January 1, 2010, including one store opened in Kentucky (2010 – no store additions).

**Gross Margin**

For the three months ended March 31, 2011, gross margin was $29.2 million, up 3.7 % from $28.1 million for the same period last year. Gross margin is up overall due to stronger merchandising, buying practices, pricing strategy and operational execution in the first quarter of 2011. The prior year impact of the Government of Alberta's 2009 liquor wholesale price mark-up increase impact is also no longer applicable.

Gross margin as a percentage of sales is up 0.8% to 25.1% from 24.3% in 2010. The primary factors for the increase were:

- New merchandising techniques, category management, purchasing strategies and product selling knowledge for sales associates have been deployed in the first quarter of 2011 compared to the same period last year (along with an enhanced focus on store execution of these operational initiatives);
- The overall mix of sales has changed as we continue to reduce our wholesale business (that historically achieves lower gross margins) and increase our same store sales; and
- In the first quarter of 2010, the remaining higher cost of inventory purchased during the Alberta liquor mark-up period was sold at lower margins. The impact of this liquor mark-up is no longer impacting gross margins.

**Operating and Administrative Expense**

Operating and administrative expenses for the three months ended March 31, 2011 was $24.5 million, up 1.9% from $24.0 million a year earlier. Increased rent and common area costs and the impact of non-recurring costs incurred in head office administration were the major contributors. Non-recurring costs for the three months ended March 31, 2011 were $0.5 million (2010: $0.01 million net recovery) and included professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund, less the settlement from one of the parties in the first quarter of 2011. Non-recurring items for 2011 also include costs related to the Company's conversion from an income trust to a corporation. First quarter 2010 non-recurring expenses were offset by a settlement related to a GST appeal. As a percentage of sales, operating and administrative expense for the period is comparable with the prior year at approximately 21.0%.

**Operating Margin**

Operating margin was $4.7 million for the quarter ended March 31, 2011, up 13.8% from $4.1 million in 2010. As a percentage of sales, operating margin was 4.0%, up 0.5% from a year earlier.

Operating margin for Canadian stores for the first quarter of 2011 was $4.5 million or 5.1% as a percentage of sales compared with $4.0 million and 4.6% as a percentage of sales for 2010. In Canada, operating margin as a percentage of sales was up due to the implementation of new merchandising programs and the elimination of the effect of the Government of Alberta's liquor mark-up increase in the first quarter of 2010 as discussed above.

The US operating margin for the first quarter of 2011 was $0.2 million or 0.8% as a percentage of sales compared with $0.1 million and 0.4% as a percentage of sales for the first quarter of 2010.

Operating margin before non-recurring items for the quarter ended March 31, 2011 was $5.2 million, up $1.2 million or 30% for the same period last year due to the reasons discussed above.

**IFRS Implementation**

Operating results for 2010 have been restated to reflect adjustments arising from the required implementation of IFRS. All of these adjustments relate to the period prior to the Company's conversion to a corporate structure from that of an income trust on December 31, 2010.

For fiscal 2011 and periods thereafter, the Company does not currently expect the adoption of IFRS to increase the volatility of reported results. However, due to the income trust structure in place during 2010, quarterly results for comparable periods in 2010 will be subject to significant volatility, particularly with respect to finance costs and deferred income tax.

In 2010, rights to trust units, including exchangeable limited partnership units, the conversion feature on convertible subordinated debentures, and trust units reserved for issue pursuant to employee long term incentive plans, were all classified as liabilities and marked to market at the end of each reporting period. These items were included in equity under Canadian GAAP. Notwithstanding the foregoing, only the rights granted pursuant to the long term incentive plans have an impact on operating margins described above and the effect for 2010 are insignificant. Mark to market adjustments are reflected in finance costs with respect to the remaining items.

In addition, finance costs include distributions made to the holders of exchangeable limited partnership units, which under Canadian GAAP were not a charge against earnings.

Under the income trust structure, deferred income tax related to the Company's Canadian operations was provided for at the top marginal personal tax rate for an individual resident in the province of Alberta (39%) and no provision for deferred income tax was made with respect to the non-controlling interest represented by exchangeable limited partnership units.

With conversion to a corporate structure on December 31, 2010, all mark to market adjustments ceased, all trust units and exchangeable limited partnership units were converted to common shares of the Company on a one-for-one basis, and corporate tax rates were used to determine deferred income taxes. Additional details with respect to the Company's adoption of IFRS, including tables reconciling figures previously reported under Canadian GAAP to IFRS, can be found in the first quarter financial statements.

**Finance Costs**

Finance costs are comprised of cash interest on bank indebtedness and long term debt of $2.0 million (2010: $1.8 million); non-cash interest of $0.6 million (2010: $0.4 million); foreign exchange gains of $ nil (2010: $0.7 million); and IFRS adjustments related to the distributions on revaluation of exchangeable units and the change in fair value of the conversion feature of debentures totalling $8.6 million in the first quarter of 2010. (see note 7 to the Financial Statements).

**Income Taxes**

In the quarter ended March 31, 2011, the Company updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets, and applied new tax rates which are a result of its conversion from an income trust to a corporation. The result is a deferred income tax recovery of $0.02 million in this quarter, compared with an expense of $0.1 million for the same period in 2010. Changes to deferred income tax expense estimates represent a non-cash charge (or recovery) against net earnings.

**Net Earnings (Loss)**

The net earnings for the three months ended March 31, 2011 was $145 thousand compared to a loss of $8.6 million for the same period in 2010. The 2010 Net loss has been re-stated as a result of the conversion to IFRS and specifically the treatment of financing costs and income taxes as described above. Adjusting for these factors, quarter 1, 2010 had net earnings of $54 thousand. Net earnings for quarter 1, 2011 is down primarily due to higher non-recurring costs compared to the same quarter last year.

Condensed Quarterly Information

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

| | 2011 | 2010 | | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31** | **Dec 31 (1)** | **Sep 30 (1)** | **Jun 30 (1)** | **Mar 31 (1)** | **Dec 31 (1)** | **Sep 30 (1)** | **Jun 30 (1)** |
| **Balance Sheet** | | | | | | | | |
| Cash and cash equivalents | $ 2,106 | $ 2,815 | $ 2,215 | $ 919 | $ 1,236 | $ 5,288 | $ 9,078 | $ 1,338 |
| Total assets | 493,463 | 496,792 | 494,328 | 502,511 | 494,017 | 509,809 | 474,583 | 474,963 |
| Bank indebtedness | 54,075 | 41,468 | 41,310 | 49,962 | 40,430 | 41,094 | 26,427 | 25,862 |
| Total current liabilities | 75,503 | 71,839 | 67,802 | 73,370 | 63,826 | 68,688 | 47,229 | 44,571 |
| Long-term debt | 100,878 | 100,417 | 100,957 | 100,679 | 100,923 | 100,126 | 85,563 | 85,188 |
| **Statement of Earnings** | | | | | | | | |
| # stores, end of period | 236 | 237 | 237 | 237 | 236 | 236 | 225 | 224 |
| Sales | $ 115,967 | $ 163,555 | $ 151,605 | $ 148,742 | $ 115,798 | $ 155,529 | $ 138,915 | $ 140,253 |
| Operating margin before non-recurring items | 5,200 | 15,161 | 13,159 | 11,507 | 4,000 | 14,946 | 12,457 | 15,084 |
| Future tax expense (recovery) | (20) | (6,528) | 897 | (330) | 97 | (1,600) | 423 | 576 |
| Net (loss) earnings for the period | 145 | 16,846 | 3,063 | 13,238 | (8,604) | 9,836 | 7,466 | 10,091 |
| Basic earnings (loss) per Share | $ 0.00 | $ 0.90 | $ 0.17 | $ 0.71 | $ (0.47) | $ 0.45 | $ 0.32 | $ 0.44 |
| Diluted earnings (loss) per Share | $ 0.00 | $ 0.90 | $ 0.16 | $ 0.71 | $ (0.47) | $ 0.43 | $ 0.32 | $ 0.44 |
| Dividends declared per Share | $ 0.27 | $ 0.405 | $ 0.405 | $ 0.405 | $ 0.405 | $ 0.405 | $ 0.405 | $ 0.405 |

(1) *Information for the quarters in 2010 have been restated in accordance with the adoption of International Financial Reporting Standards ("IFRS"). 2009 balances are prepared in accordance with Canadian GAAP before the adoption of IFRS.*

## LIQUIDITY AND CAPITAL RESOURCES

### Shareholders' Equity

As at May 17, 2011, 22,590,103 common shares of the Company were outstanding (see note 10 to the Financial Statements for further information).

### Capital Expenditures

Historically, capital expansion has been financed by proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Company believes existing credit facilities are adequate to finance developments and acquisitions expected to occur in 2011. The Company would require additional capital or financing for a larger acquisition.

The Company did not open any new stores during the quarter ended March 31, 2011.

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

### Credit Facilities

The Company has a credit facility with a syndicate of banks, which is effective until June 26, 2012. Negotiations are currently being finalized with the renewed facility expected to be effective until June 24, 2013. There is a total of $143 million available under the facility, consisting of an available $95 million extendible revolving operating loan (the "Operating Line Facility") and a $48 million extendible revolving term loan (the "Term Loan Facility"). Pursuant to the terms of the credit facility, the Company has the ability to request an additional $30 million (to be provided by the lenders on a best-effort basis). The Company also has a $5 million USD facility with a US bank.

At May 17, 2011 there was $52.5 million drawn on the Operating Line Facility, and $46.5 million drawn on the Term Loan Facility, both available until June 26, 2012. The Company has $7.2 million in letters of credit issued against the Operating Line Facility.

The Company also has $57.5 million in 6.75% Debentures maturing on December 31, 2012.

The Company's indebtedness is subject to a number of financial covenants. Under the terms of the Company's credit facility, the following ratios are monitored: current ratio, funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio.

Current ratio

Current ratio is the ratio of current assets to the current liabilities. Current ratio is to be maintained in a ratio greater than or equal to 1.10 to 1.00.

Funded debt to EBITDA ratio

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

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

Fixed charge coverage ratio is the ratio of EBITDAR less the aggregate amount of unfunded capital expenditures and cash taxes divided by the sum of all interest expense and scheduled repayment of debt for the relevant period, cash dividends and rent.

As at March 31, 2011, the Company was in compliance with all financial covenants.

| Ratio | Covenant | Company at March 31, 2011 |
|---|---|---|
| Current | > or = 1.10:1.00 | 1.67:1.00 |
| Funded debt to EBITDA | < 2.75:1.00 | 2.17:1.00 |
| Adjusted debt to EBITDAR | < 5.00:1.00 | 3.67:1.00 |
| Fixed charge coverage | > or = 1.00:1.00 | 1.06:1.00 |

The funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed, including acquired stores.

**Liquidity Risk**

Liquidity ensures the Company has sufficient financial resources available at all times to meet its obligations. The Company manages liquidity risk by ensuring it has a variety of alternatives available to fund acquisitions, new store development and ongoing operations, which include cash provided by operations, bank indebtedness, issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependent upon capital market conditions and interest rate levels. The degree to which the Company is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. Taking into consideration seasonal working capital requirements, the Company believes it has available credit of approximately $28 million to finance growth opportunities.

**Interest Rate Risk and Sensitivity**

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Company as at March 31, 2011, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $100.5 million.

| (expressed in thousands of Canadian dollars) | **+ 1.00%** | **- 1.00%** |
|---|---|---|
| Increase (decrease) in interest expense | $ 1,005 | $ (1,005) |
| Increase (decrease) in earnings before income tax | (1,005) | 1,005 |

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's net earnings before income tax of $0.04 on a per share basis.

**Credit Risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with a major Canadian chartered bank. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta but these purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

**Foreign Exchange Risk**

The Company is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to US intercompany management fees and interest payments which totalled US$1.6 million for the three months ended March 31, 2011 (2010: $1.5 million).

The Company's US subsidiaries use the US dollar as their functional currency and the assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiaries currently operate 29 stores out of the Company's 236 stores.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

**Contractual Obligations**

The table below sets forth, as of March 31, 2011, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

| (expressed in thousands of Canadian dollars) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 and thereafter |
|---|---|---|---|---|---|---|
| Operating leases | $ 15,033 | $ 18,369 | $ 15,884 | $ 12,293 | $ 8,948 | $ 18,070 |
| Long-term debt | - | 46,390 | - | - | - | - |
| Debentures | - | 57,500 | - | - | - | - |
| Total | $ 15,033 | $ 122,259 | $ 15,884 | $ 12,293 | $ 8,948 | $ 18,070 |

## OFF BALANCE SHEET ARRANGEMENTS

As at May 18, 2011, the Company does not have any off balance sheet arrangements other than operating leases described above.

## FINANCIAL INSTRUMENTS

The Company, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, foreign exchange currency contracts, bank indebtedness, accounts payable and accrued liabilities, dividends payable and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as loans and receivables. Financial liabilities are classified as other financial liabilities. (Refer to note 16 of the financial statements for further information).

## TRANSACTIONS WITH RELATED PARTIES

The Company has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the three months ended March 31, 2011, the Company incurred professional fees of $93,064 to a law firm of which a director of the Company, is a partner. Rent paid to companies controlled by the Executive Chairman of the Company amounted to $139,323 for the three months ended March 31, 2011. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (see note 14 to the Financial Statements).

## CRITICAL ACCOUNTING ESTIMATES

### Goodwill

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

The Company completed its transitional impairment test at January 1, 2011 and its annual goodwill impairment test as at September 30, 2010 using the discounted cash flow method of assessing fair value. No impairment was identified.

The Company will perform its 2011 annual goodwill impairment test as at October 1, 2011 unless a triggering event occurs requiring the Company to test goodwill at an earlier time.

### Amortization Policies and Useful Lives

The Company amortizes property, equipment and intangible assets over the estimated useful service lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Company takes into account industry trends and Company-specific factors, including changing technologies and expectations for the in-service period of these assets. The Company assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Company determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

### Purchase Price Allocations

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. The Company uses independent valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are determined based on a calculation of fair values by management. A discounted cash flow analysis is typically prepared to determine these fair values. Goodwill is calculated based on the purchase price less the fair value of the net tangible and intangible assets acquired.

### Deferred income taxes

Determining deferred income taxes involves a number of assumptions and variables that could reasonably change, including: the useful lives of recorded property and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Company will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Company is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Company's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of deferred income taxes, and these changes could be material.

## CHANGES IN ACCOUNTING POLICIES

### International Financial Reporting Standards

International Financial Reporting Standards (“IFRS”) was incorporated into Canadian GAAP for publicly accountable enterprises beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in accounting policies that were evaluated.

The transition to IFRS from Canadian GAAP is a significant change which has affected the Company’s reported financial position and results of operations. The most significant impacts of IFRS conversion related to the assessment of alternatives available under IFRS 1, business combinations, property and equipment, and asset impairment, as well as issues related to the income trust structure in place in 2010.

**IFRS 1**

This standard provides guidance for the initial adoption of IFRS and allows certain optional exemptions from retrospective application of certain standards as well as requires certain mandatory exceptions. The following are the IFRS 1 components applicable to the Company and the Company's elections as approved by the Audit Committee.

| **Election** | **Election Description** | **Company's Position** |
|---|---|---|
| Business combinations | A first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to past business combinations. If an entity elects to not restate prior period acquisitions, the carrying value of assets and liabilities acquired and recorded under Canadian GAAP is the deemed cost under IFRS on transition date. | The Company made this election and did not restate prior business acquisitions. |
| Cumulative translation differences | A first-time adopter does not need to identify cumulative translation differences at the date of transition to IFRS. If the election is taken, any cumulative translation differences are deemed to be zero at the date of transition. | The Company's current accounting treatment for cumulative translation differences under Canadian GAAP is consistent with IFRS. The Company did not take the election. There was no impact on the financial statements. |
| Fair value or revaluation as deemed cost of property and equipment | Under IFRS 1, an entity can elect to use fair value or revaluation as deemed cost for property, plant and equipment, investment property and certain intangible assets. An entity may elect to use a previous GAAP revaluation of an item of property and equipment at, or before, the date of transition to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:<br><br>1. fair value; or<br>2. cost or depreciated cost in accordance with IFRS. | The Company will take the election and use previous GAAP revaluations of fixed assets as deemed cost for assets acquired through business combinations.<br><br>The Company will use historic cost as deemed cost for all other property and equipment. |
| Non-controlling interest | Under International Accounting Standard (IAS) 27, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests. | The Company will apply the mandatory exemption. The Company early adopted CICA Handbook section 1602 Non-Controlling Interests at January 1, 2010 which is converged with IFRS. As a result, the exemption did not have an impact on the Company upon conversion to IFRS. |

**Business Combinations**

The Company early adopted CICA Handbook section 1582 Business Combinations effective January 1, 2010. This standard converged with IFRS 3 Business Combinations. The early adoption of this standard in conjunction with the Company's decision regarding the IFRS 1 business combination election eliminated any opening balance sheet differences for business combinations between Canadian GAAP and IFRS at January 1, 2010 as well as any differences during the 2010 comparative year.

### Property and Equipment

IFRS allows an entity to use either the cost method or revaluation method for asset valuation. IFRS also requires each component of property and equipment with a significant cost in relation to the total cost of asset to be evaluated with respect to useful life and, if appropriate, be depreciated separately, referred to as asset componentization. The Company has selected the cost method of asset valuation under IFRS. This, in conjunction with the fair value or revaluation as deemed cost election under IFRS 1, minimized IFRS transition adjustments with respect to property and equipment for the Company. No significant adjustments resulted from asset componentization.

### Asset Impairment

Under IFRS, the impairment of assets, excluding financial assets, is tested and measured by comparing the carrying value of an asset or cash generating unit to its recoverable amount. Recoverable amount is measured as the higher of fair value less costs to sell or value-in-use based upon discounted cash flow methodology. Unlike Canadian GAAP, IFRS requires impairment reversals for assets, with the exception of goodwill. As a result, IFRS treatment has the potential to increase income statement volatility due to the potential for increased write-downs and reversals of write-downs. IFRS requires goodwill to be allocated to the cash generating units ("CGUs") that benefit from the expected synergies of the related business combination and tests that goodwill for impairment at the CGU or group of CGUs level. More than one CGU can be aggregated when allocating the goodwill from a business combination. The Company has chosen to define the CGU at the individual store level for property and equipment and intangible assets and as a result, some operating segments may have increased potential for impairment losses in the future. The Company performed asset impairment testing as at January 1, 2010 and there were not any significant differences in the results from this test compared to testing performed with respect to the years ended December 31, 2010, under Canadian GAAP.

### Income Trust Structure

The Company finalized its analysis of certain differences between Canadian GAAP and IFRS relevant to its 2010 structure as an income trust. The most significant impacts dealt with the accounting for deferred income taxes and puttable financial instruments. The result was an increase in the deferred income tax liability and in recognizing non-controlling interest as a liability. These differences, including reconciliations of previously reported figures, are more fully explained in the first quarter financials statements.

## INTERNAL CONTROLS AND PROCESSES

### Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with GAAP. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate ICFR, as such term is defined in National Instrument 52-109. A material weakness in ICFR exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The chief executive and chief financial officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the year ended December 31, 2010. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

## RISK FACTORS

There are no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 15, 2011, and the Company's annual Management Discussion & Analysis for the year-ended December 31, 2010.

### NON-GAAP FINANCIAL MEASURES

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

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

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

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

Non-recurring items include costs incurred by the Company for expenses that are not part of on-going operations and that are not expected to recur. Among others, these include professional fees paid in respect of law suits that originated with regards to the Company's acquisition of Liquor Barn Income Fund in 2007.

### FORWARD LOOKING STATEMENTS

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors". Specific forward-looking statements contained in this MD&A include, among others, the future payment and timing of dividends, the range of estimates related to sales, gross margin, provision for non-growth property and equipment, and management's expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

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

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

# 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<br>% | Kentucky<br>% | Alaska<br>% |
|---|---|---|---|
| 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<br>#| Net capital contributions<br>$ |
|---|---|---|
| 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<br>#| Net capital contributions<br>$ |
|---|---|---|
| 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<br>#| Series I Exchangeable LP Units<br>#| Total<br>#| Total<br>$ |
|---|---|---|---|---|
| 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**<br>**#** | **2007 Plan**<br>**#** | **Total**<br>**#** |
|---|---|---|---|
| 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**<br>**#** | **2007 Plan**<br>**#** | **Total**<br>**#** |
|---|---|---|---|
| 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<br>$ | US<br>$ | Intersegment eliminations<br>$ | Consolidated<br>$ |
| 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.