LIQUOR STORES N.A. LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2016 and 2015

(Unaudited, expressed in thousands of Canadian dollars)

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	September 30, 2016 $	December 31, 2015 $
Assets			
Current assets:			
Cash		3,996	3,790
Accounts receivable		3,540	6,020
Inventory		158,157	157,102
Prepaid expenses and deposits		10,125	11,088
		175,818	178,000
Deferred tax assets		9,686	10,474
Purchase option	3	1,847	-
Property and equipment		63,336	64,781
Intangible assets		49,593	43,312
Goodwill		170,597	158,987
		470,877	455,554
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		52,081	61,628
Income taxes payable		2,020	-
Dividends payable	8	1,006	2,470
Derivative instrument		697	583
Current portion of long-term debt		250	114
		56,054	64,795
Long-term debt	4	156,790	129,566
Deferred tax liabilities		4,247	5,457
Non-controlling interest put option	3	13,893	-
		230,984	199,818
Shareholders' Equity			
Equity attributable to shareholders		236,081	255,659
Equity attributable to non-controlling interest		3,812	77
		239,893	255,736
		470,877	455,554

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Attributable to Shareholders of the Company							
	Share capital $	Equity component of convertible debentures $	Contributed surplus $	Accumulated other comprehen-sive income $	Deficit $	Total $	Non-controlling interest $	Total equity $
Opening balance – January 1, 2015	246,826	3,328	174,927	7,653	(68,082)	364,652	106	364,758
Net earnings for the period	-	-	-	-	6,310	6,310	106	6,416
Foreign currency translation adjustment	-	-	-	13,089	-	13,089	-	13,089
Comprehensive income for the period	-	-	-	13,089	6,310	19,399	106	19,505
Share-based payments	-	-	535	-	-	535	-	535
Adjustment to net proceeds on share issuance	(34)	-	-	-	-	(34)	-	(34)
Dividends declared (note 8)	-	-	-	-	(22,120)	(22,120)	-	(22,120)
Dividend reinvestment plan issuance (note 8)	1,808	-	-	-	-	1,808	-	1,808
Dividends declared by subsidiaries	-	-	-	-	-	-	(197)	(197)
Transactions with owners	1,774	-	535	-	(22,120)	(19,811)	(197)	(20,008)
Balance – September 30, 2015	248,600	3,328	175,462	20,742	(83,892)	364,240	15	364,255
Opening balance – January 1, 2016	249,303	3,328	175,761	24,460	(197,193)	255,659	77	255,736
Net earnings for the period	-	-	-	-	6,749	6,749	1,060	7,809
Foreign currency translation adjustment	-	-	-	(5,800)	-	(5,800)	(293)	(6,093)
Comprehensive income for the period	-	-	-	(5,800)	6,749	949	767	1,716
Share-based payments	-	-	953	-	-	953	-	953
Reclass to share capital on settlement of equity-based payments	279	-	(279)	-	-	-	-	-
Equity component of convertible debenture issuance (note 4)	-	2,420	-	-	-	2,420	-	2,420
Dividends declared (note 8)	-	-	-	-	(10,749)	(10,749)	-	(10,749)
Dividend reinvestment plan issuance (note 8)	1,323	-	-	-	-	1,323	-	1,323
Initial recognition of non-controlling interest put liability (note 3)	-	-	-	-	(14,474)	(14,474)	-	(14,474)
Acquisition of Birchfield Ventures LLC (note 3)	-	-	-	-	-	-	4,854	4,854
Dividends declared by subsidiaries	-	-	-	-	-	-	(1,886)	(1,886)
Transactions with owners	1,602	2,420	674	-	(25,223)	(20,527)	2,968	(17,559)
Balance – September 30 , 2016	250,905	5,748	176,435	18,660	(215,667)	236,081	3,812	239,893

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Earnings and Comprehensive Income

Three and Nine Months Ended September 30, 2016 and 2015

(in thousands of Canadian dollars)

		Three months ended		**Nine months ended**	
	Note	**September 30, 2016 $**	**September 30, 2015 $**	**September 30, 2016 $**	**September 30, 2015 $**
Sales		208,760	194,186	590,067	532,218
Cost of sales		155,793	144,349	440,996	395,467
Gross margin		52,967	49,837	149,071	136,751
Operating and administrative expenses	12	40,356	38,940	121,970	111,759
		12,611	10,897	27,101	24,992
Amortization					
Property and equipment		3,107	2,813	9,270	7,928
Intangible assets		101	62	341	195
		9,403	8,022	17,490	16,869
Finance costs	5	2,710	2,034	7,862	5,853
Net loss (gain) on foreign exchange from financing activities		378	315	(1,669)	546
Fair value adjustments	6	282	(25)	1,152	79
Earnings before income taxes		6,033	5,698	10,145	10,391
Income tax expense	9	1,418	1,529	2,336	3,975
Net earnings		4,615	4,169	7,809	6,416
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net earnings:					
Currency translation difference on foreign subsidiaries		1,743	6,461	(7,329)	13,089
Net investment hedge	7	(300)	-	1,236	-
Comprehensive income		**6,058**	**10,630**	**1,716**	**19,505**
Net earnings attributable to					
Owners of the parent		4,371	4,142	6,749	6,310
Non-controlling interest		244	27	1,060	106
		4,615	4,169	7,809	6,416
Comprehensive income attributable to					
Owners of the parent		5,747	10,603	949	19,399
Non-controlling interest		311	27	767	106
		6,058	10,630	1,716	19,505
Earnings per share					
Basic	11	0.16	0.15	0.24	0.23
Diluted	11	0.16	0.15	0.24	0.23

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.
Condensed Interim Consolidated Statements of Cash Flow
Three and Nine Months Ended September 30, 2016 and 2015
(in thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Note	September 30, 2016 $	September 30, 2015 $	September 30, 2016 $	September 30, 2015 $
Cash provided by (used in)					
Operating activities:					
Net earnings for the period		4,615	4,169	7,809	6,416
Adjustments to reconcile net income to net cash flows from operating activities:					
Amortization of property and equipment		3,107	2,813	9,270	7,928
Amortization of intangible assets		101	62	341	195
Amortization of financing charges	5	127	105	335	214
Non-cash interest on convertible debentures	5	362	328	1,036	941
Unrealized foreign exchange loss (gain)		299	-	(1,980)	-
Fair value adjustments	6	282	(25)	1,152	79
Deferred income tax		1,387	1,510	(1,911)	(119)
Equity-settled share-based payments		411	283	953	535
Cash provided by operating activities before changes in non-cash working capital		10,691	9,245	17,005	16,189
Net change in non-cash working capital items	13	12,322	(2,148)	(1,230)	(15,496)
		23,013	7,097	15,775	693
Investing activities:					
Purchase of property and equipment		(2,423)	(3,505)	(9,522)	(17,835)
Purchase of intangible assets		-	(233)	(668)	(2,290)
Acquisition, net of cash acquired	3	-	-	(20,912)	-
		(2,423)	(3,738)	(31,102)	(20,125)
Financing activities:					
Proceeds (repayment) of long-term debt		(83,976)	2,045	(35,602)	34,386
Proceeds from sale and leaseback of assets		-	-	-	5,664
Net proceeds from issuance of convertible unsecured subordinated debentures	4	64,800	-	64,800	-
Deferred financing fees paid on loans and borrowings		(468)	(132)	(468)	(561)
Dividends paid	8	(2,227)	(6,708)	(11,066)	(20,300)
Dividends paid to non-controlling interest by subsidiaries		(973)	(72)	(1,703)	(197)
		(22,844)	(4,867)	15,961	18,992
Foreign exchange gain (loss) on cash held in foreign currency		44	241	(428)	227
Increase (decrease) in cash		(2,210)	(1,267)	206	(213)
Cash – Beginning of period		6,206	4,057	3,790	3,003
Cash - End of period		3,996	2,790	3,996	2,790

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 300, 10508 – 82 Avenue, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ", "LIQ.DB.A" and "LIQ.DB.B".

The Company's principal activity is the retailing of wines, beers and spirits. As at September 30, 2016, the Company operated 252 (2015 - 247) retail liquor stores, of which 179 (2015 - 175) were in Alberta, 34 (2015 - 35) were in British Columbia, 22 (2015 - 22) were in Alaska, 15 (2015 - 15) were in Kentucky and two (2015 - none) were in New Jersey. Of the stores operated, 195 (2015 - 197) were acquired and 57 (2015 - 50) were developed by the Company.

These condensed interim consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on November 9, 2016.

2 Basis of preparation and significant accounting policies

These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2015.

The preparation of condensed consolidated financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2015, with the exception of the following significant estimates and judgements that were made in the current period:

i) Liability related to non-controlling interest put option

Estimates and assumptions used to calculate the value of the liability related to the non-controlling put option include the discount rate used to measure the present value of the exercise price of the option, the expected timing of exercise of the put option, and the forecasted gross settlement amount of the put option, which will vary depending on the trailing earnings of Birchfield Ventures LLC ("Birchfield") at the time of exercise.

The put option is classified as a financial liability. Non-controlling interest continues to be recognized because the non-controlling shareholders have access to the returns associated with their underlying ownership interests. As such, the impact of recognizing the financial liability has been included in the Deficit of the Company at the acquisition date and had no impact on the measurement of non-controlling interest. The liability will be remeasured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

2 Basis of preparation and significant accounting policies (continued)

ii) Purchase option asset

Estimates and assumptions were used to calculate the value of the asset related to the Company's purchase option to acquire the remaining 49% of Birchfield for a fixed price in the first 18 months subsequent to January 4, 2016. Fair value was determined using a Black-Scholes option pricing model, and estimates and assumptions were made with respect to the strike price compared to current price of the option, and expected volatility of Birchfield's earnings. The asset will be remeasured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

iii) Consolidation of Birchfield (note 3)

Based on the Company's current proportion of ownership and voting rights, and considering substantive potential voting rights available through exercise of the purchase option, the Company has determined that it controls Birchfield and as such, has consolidated Birchfield in the financial statements.

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

With the exception of the accounting policies disclosed above, the accounting policies applied by the Company in these financial statements are the same as those applied by the Company as described in its consolidated financial statements as at and for the year ended December 31, 2015.

(in thousands of Canadian dollars)

3 Business combination

Effective January 4, 2016, the Company acquired a 51% ownership interest in Birchfield Ventures LLC ("Birchfield") and the right to acquire the remaining 49% interest at pre-negotiated terms. Birchfield operates two stores in New Jersey under the banner "Joe Canal's Discount Liquor Outlets". The aggregate consideration paid to the sellers in consideration of the transfer of the purchased units and other undertakings was an aggregate amount in cash equal to USD $15 million plus or minus a closing net working capital adjustment. The acquisition was funded by the Company's existing credit facilities, and was accounted for using the acquisition method. The Company is using USD borrowings to manage its exposure to foreign currency fluctuations associated with the net assets of the acquired business. The purchase of this business is consistent with the Company's U.S. growth strategy. The acquisition costs associated with the business combination were $539, which were recognised in the Statement of Earnings and Comprehensive Income. Included in the Consolidated Statement of Earnings and Comprehensive Income for the nine months ended September 30, 2016 is $38,027 of sales and $2,181 of net earnings of Birchfield since acquisition, of which $1,001 of the net earnings are attributable to the non-controlling interest for the nine months ended September 30, 2016.

The following table summarizes the preliminary purchase consideration and estimated preliminary purchase price allocation for the acquisition, subject to completion of a closing working capital audit and finalization of a third party valuation report to assist with the estimation of the fair values of assets acquired and liabilities at the date of acquisition:

	Preliminary Fair Value As at January 4, 2016
Fair value of consideration transferred ($15,000 USD)	20,912
Fair value of purchase option	(2,782)
Non-controlling interest	4,854
	22,984
Net identifiable asset or liability:	
Current assets net of current liabilities	774
Property and equipment	1,177
Intangible asset – non compete agreement	971
Intangible asset – liquor licenses	6,986
Fair value of net identifiable assets acquired and liabilities assumed	9,908
Goodwill	13,076

The goodwill recognized is attributable mainly to the synergies expected to be achieved through integrating Birchfield into the Company's U.S. operations. The entire amount of goodwill is deductible for U.S. tax purposes.

Non-controlling interest of $4,854 was recognized on the basis of a 49% interest in the fair value of the net identifiable assets acquired and liabilities assumed.

(in thousands of Canadian dollars)

3 Business combination (continued)

The terms of the purchase option to acquire the remaining 49% are as follows:

i) If the Company exercises the purchase option within the first 18 months subsequent to the acquisition date, the purchase price will be a fixed USD$12.5 million;

ii) If the Company exercises the purchase option between 18 and 36 months subsequent to the acquisition date, the purchase price will be calculated at 4.5 times store level earnings before interest, tax, depreciation and amortization ("EBITDA") for the trailing twelve months;

iii) If the Company exercises the purchase option more than 36 months subsequent to the acquisition date, the purchase price will be calculated at 4.5 times average annual store level EBITDA for the trailing 36 months with a floor price of 4.5 times 10% of gross sales for the trailing twelve months.

In addition, the Company has provided the non-controlling interest shareholders a put option whereby if the Company has not exercised the above call option in the first 36 months subsequent to the acquisition date, the non-controlling interest can, at their option, require the Company to purchase the remaining 49% interest in Birchfield at a price of 4.5 times average annual store level EBITDA for the trailing 36 months, exercisable on January 15th or July 15th of each subsequent year. This put option has been presented as a liability related to non-controlling interest put option in the Statement of Financial Position.

4 Long term debt

Long-term debt comprises the following:

	Maturity date	September 30, 2016 $	December 31, 2015 $
Credit facility advance[(a)]	September 30, 2019	30,534	65,412
5.85% debenture	April 30, 2018	65,988	65,351
4.70% debenture[(b)]	January 31, 2022	63,958	-
Finance lease liability	November 27, 2019 to August 22, 2020	938	462
		161,418	131,225
Unamortized deferred financing costs:			
Credit facility		(569)	(315)
Debentures		(3,809)	(1,230)
		157,040	129,680
Less: Current portion of finance lease liability		(250)	(114)
		156,790	129,566

4 Long term debt (continued)

a) Credit facility advance

On August 31, 2016, the Company and a syndicate group of lenders agreed to amend and restate the credit facility described in note 10(a) to the December 31, 2015 financial statements. The primary purpose of the amendment was to extend the maturity date of the credit facility to September 30, 2019, and to increase the total size of the credit facility to $CAD 165 million plus $USD 15 million (previously $CAD 170 million plus $USD 5 million). The amendment resulted in an increase in the fixed charge coverage ratio covenant of greater than or equal to 1.05:1.00 commencing April 1, 2017 (previously 1.00:1.00). The remaining financial covenants were unchanged.

b) 4.70% unsecured subordinated convertible debentures

On September 29, 2016 the Company issued $67,500 of convertible unsecured subordinated debentures due January 31, 2022 (the "Debentures"). The Debentures are subordinated, unsecured obligations of the Company and bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year, commencing July 31, 2017. The Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the "Conversion Price") of $14.60 per share.

The Debentures will not be redeemable prior to January 31, 2020. On or after January 31, 2020 and prior to January 31, 2021, the Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after January 31, 2021 and prior to the maturity date, the Company may, at its option, redeem the Debentures, by way of cash payment or through the issuance of common shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

The value of the conversion feature, which was determined to be $3,376, net of $166 in transaction costs, has been recorded as equity with the remaining $60,974, net of $2,984 in transaction costs recorded as long-term debt. A deferred income tax liability of $956 related to the conversion feature was recorded directly to the carrying amount of the equity component. The debentures are being accreted such that the liability will be equal to the face value of $67,500 upon maturity.

On October 4, 2016, the underwriting syndicate exercised in full their over-allotment option, resulting in the issuance of an additional $10,125 aggregate principal amount of Debentures at the same terms and conditions as the Debentures described above. The value of the conversion feature on the over-allotment option, which has been determined to be $817, net of $40 in transaction costs, will be recorded as equity with the remaining $8,835, net of $433 in transaction costs to be recorded as long-term debt. A deferred income tax liability of $232 related to the conversion feature on the over-allotment will be recorded directly to the carrying amount of the equity component. The debentures will be accreted such that the liability will be equal to the face value of $10,125 upon maturity.

(in thousands of Canadian dollars)

5 Finance costs

Finance costs comprise the following:

	Three months ended September 30, 2016 $	Three months ended September 30, 2015 $	Nine months ended September 30, 2016 $	Nine months ended September 30, 2015 $
Interest expense				
Long-term debt(i)	1,343	719	3,846	1,951
Convertible debenture(ii)	1,367	1,315	4,016	3,902
	2,710	2,034	7,862	5,853

i) Included in interest expense on long-term debt for the three and nine months ended September 30, 2016 was amortization of deferred financing costs of $127 and $335 (2015 - $105 and $214), respectively.

ii) Interest expense on the convertible debentures for the three and nine months ended September 30, 2016, respectively, of $1,367 and $4,016 (2015 - $1,315 and $3,902) represents coupon interest of $1,005 and $2,980 (2015 – $987 and $2,961) and $362 and $1,036 (2015 – $328 and $941) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

6 Fair value adjustments

The fair value adjustments recognized in the period comprise the following:

	Fair Value Hierarchy	Three months ended September 30, 2016 $	Three months ended September 30, 2015 $	Nine months ended September 30, 2016 $	Nine months ended September 30, 2015 $
Loss (gain) on interest rate swap	Level 2	(98)	(25)	114	79
Loss on non-controlling interest put option (note 3)	Level 3	92	-	277	-
Loss on purchase option (note 3)	Level 2	288	-	761	-
		282	(25)	1,152	79

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

(in thousands of Canadian dollars)

6 Fair value adjustments (continued)

The fair value of the interest rate swap is calculated as the net present value of the future cash flows expected to arise on the variable and fixed rate tranches, determined using applicable yield curves at each measurement date. The fair value of the non-controlling interest put option and purchase options are calculated using the methods as described in note 2.

7 Hedge of a net investment in foreign operation

The Company is applying hedge accounting to foreign currency differences arising between the $USD functional currency of Birchfield (note 3) and the $CAD functional currency of the Company. The Company has therefore designated a portion of the principal amount outstanding of the $USD borrowings made by the Company as a net investment hedge of the net assets of Birchfield. The Company's investments in other subsidiaries are not hedged.

No ineffectiveness was recognized in the current period from the net investment hedge.

8 Dividends

	Three months ended September 30,		Nine months ended September 30,	
	2016 $	**2015** $	**2016** $	**2015** $
Dividends declared	2,487	7,386	10,749	22,120
Dividends paid				
Dividends paid in cash	2,227	6,708	11,066	20,300
Dividends paid in shares	258	671	1,323	1,808

Dividends were declared on October 14, 2016 in the amount of $0.03 per common share (previously $0.09 per month up to and including the dividend declared on February 12, 2016) and will be paid on November 15, 2016 to the holders of common shares as at the close of the record date of October 31, 2016. Dividends are generally paid mid-month following the month of declaration.

9 Income tax

Income tax is recognized based on management's estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual effective tax rate for 2016 is 24% (2015 - 31%).

Income tax expense for the nine months ended September 30, 2015 was impacted by the Alberta government enacting a two percent increase in the corporate income tax rate on June 29, 2015. The rate increase was effective July 1, 2015. As a result, the Company's deferred tax liability increased by $1,290 as at June 30, 2015, offset by a reduction in deferred tax previously recognized in equity of $47.

(in thousands of Canadian dollars)

10 Share capital

a) Authorized:

An unlimited number of voting common shares are authorized to be issued.

b) Issued and outstanding:

	#	$
Balance – January 1, 2015	27,240,760	246,826
Shares issued under dividend reinvestment plan	132,558	1,808
Adjustment to net proceeds on share issuance	-	(34)
Balance – September 30, 2015	27,373,318	248,600
Balance – January 1, 2016	27,449,891	249,303
Shares issued under dividend reinvestment plan	168,789	1,323
Shares issued on settlement of equity based compensation awards	19,742	279
Balance – September 30, 2016	27,638,422	250,905

11 Earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Net earnings attributable to owners of the parent	4,371	4,142	6,749	6,310
	2016 #	**2015 #**	**2016 #**	**2015 #**
Weighted average number of common shares outstanding – Basic	27,625,069	27,346,024	27,575,878	27,302,204
Effect of dilutive securities				
Equity-settled share-based payment awards	143,944	20,017	95,598	30,370
Weighted average number of common shares outstanding – Diluted	27,769,013	27,366,041	27,671,476	27,332,574
	2016 $	**2015 $**	**2016 $**	**2015 $**
Basic earnings per share	0.16	0.15	0.24	0.23
Diluted earnings per share	0.16	0.15	0.24	0.23

Due to their anti-dilutive effect, the potential shares issuable in exchange for convertible debentures were not included in the diluted earnings per share calculation for the three and nine months ended September 30, 2016 and 2015.

(in thousands of Canadian dollars)

12 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses:

	Three months ended September 30,		Nine months ended September 30,	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Professional fees[i]				
Recognized in operating and administrative expenses	19	24	44	77
Included in the initial carrying value of long-term debt	34	-	34	50
	53	24	78	127

(i) A Director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services.

b) Included in operating and administrative expenses for the nine months ended September 30, 2015 are payments of $675 related to the departure of the Company's former Executive Vice President, Business Development, General Counsel and Corporate Secretary. These expenses have been included in corporate costs and other reconciling items in the disclosure of operating segments (note 14).

13 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Accounts receivable	785	(2,229)	5,321	(2,325)
Inventory	13,775	(3,458)	6,721	(8,914)
Prepaid expenses and deposits	771	(649)	1,091	(2,391)
Accounts payable and accrued liabilities	(3,534)	4,729	(16,383)	(1,866)
Income tax payable	525	(541)	2,020	-
	12,322	(2,148)	(1,230)	(15,496)

Interest and income taxes paid (received) are included in cash provided by operating activities in the Statements of Cash Flow.

(in thousands of Canadian dollars)

13 Supplementary disclosure of cash flow information (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2016 $	2015 $	2016 $	2015 $
Interest paid	1,216	614	5,469	3,695
Income taxes paid (received)	(466)	1,607	(680)	4,981

14 Operating segments

The Company has two reportable segments: Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. The Canada and US segments operate retail liquor stores in their respective jurisdictions.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating margin, which is defined as earnings before amortization, finance costs, net loss (gain) on foreign exchange activities, fair value adjustments, and income tax expense (recovery), as included in the internal management reports that are reviewed regularly by the Company's President and Chief Executive Officer (the Company's chief operating decision maker, or "CODM") and follow the organization, management and reporting structure of the Company. Operating margin is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating margin to earnings before income taxes, an earnings measure used in the Company's consolidated Statement of Earnings and Comprehensive Income, has been included in the table below.

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

(in thousands of Canadian dollars)

14 Operating segments (continued)

	Three months ended September 30, 2016			
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	140,174	68,586	-	208,760
Operating margin	15,082	3,666	(6,137)	12,611
Property and equipment amortization				3,107
Intangible asset amortization				101
Finance costs				2,710
Net loss (gain) on foreign exchange from financing activities				378
Fair value adjustments				282
Earnings before income taxes				6,033
Other information				
Expenditures for additions to				
Property and equipment[(i)]	1,069	1,390	-	2,459
Intangible assets[(i)]	-	-	-	-
Total assets at September 30, 2016[(i)]	323,845	147,032	-	470,877

	Three months ended September 30, 2015			
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	138,315	55,871	-	194,186
Operating margin	15,229	3,277	(7,609)	10,897
Property and equipment amortization				2,813
Intangible asset amortization				62
Finance costs				2,034
Net loss (gain) on foreign exchange from financing activities				315
Fair value adjustments				(25)
Earnings before income taxes				5,698
Other information				
Expenditures for additions to				
Property and equipment[(i)]	4,925	1,423	-	6,348
Intangible assets[(i)]	101	132	-	233
Total assets at December 31, 2015[(i)]	332,495	123,059	-	455,554

(i) Total corporate assets are not regularly reported to the CODM but rather, a split between US and Canadian assets is provided. The disclosure above reflects what is regularly provided to the CODM.

(in thousands of Canadian dollars)

14 Operating segments (continued)

	Nine months ended September 30, 2016			
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	389,107	200,960	-	590,067
Operating margin	36,499	11,054	(20,452)	27,101
Property and equipment amortization				9,270
Intangible asset amortization				341
Finance costs				7,862
Net loss (gain) on foreign exchange from financing activities				(1,669)
Fair value adjustments				1,152
Earnings before income taxes				10,145
Other information				
Expenditures for additions to				
Property and equipment[i]	3,215	4,693	-	7,908
Intangible assets[i]	81	143	-	224
Total assets at September 30, 2016[i]	323,845	147,032	-	470,877

	Nine months ended September 30, 2015			
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	382,323	149,895	-	532,218
Operating margin	39,054	8,037	(22,099)	24,992
Property and equipment amortization				7,928
Intangible asset amortization				195
Finance costs				5,853
Net loss (gain) on foreign exchange from financing activities				546
Fair value adjustments				79
Earnings before income taxes				10,391
Other information				
Expenditures for additions to				
Property and equipment[i]	10,978	7,729	-	18,707
Intangible assets[i]	2,158	132	-	2,290
Total assets at December 31, 2015[i]	332,495	123,059	-	455,554

(i) Total corporate assets are not regularly reported to the CODM but rather, a split between US and Canadian assets is provided. The disclosure above reflects what is regularly provided to the CODM.