LIQUOR DEPOT

LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2012

As of August 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A"), which is current as of August 8, 2012, should be read in conjunction with the unaudited condensed interim consolidated financial statements (the "interim financial statements") and accompanying notes of Liquor Stores N.A. Ltd. for the three and six months ended June 30, 2012, the audited consolidated financial statements and MD&A for the year ended December 31, 2011, the annual information form ("AIF") of Liquor Stores N.A. Ltd. dated March 13, 2012, and the cautionary statements regarding risk factors and forward-looking statements on page 16 and 17 of this MD&A. Additional information relating to the Company, including other public filings, is available on SEDAR (www.sedar.com) and on the Company's website at www.liquorstoresna.ca. In this MD&A, the terms "we", "us", "our", and "the Company" refer to Liquor Stores N.A. Ltd. and its subsidiaries.

Unless otherwise stated, financial information is expressed in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"), for interim financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the interim financial statements unless otherwise stated. Throughout this MD&A references are made to non-IFRS financial measures, including "EBITDA", "operating margin", "operating margin before non-recurring items", and "operating margin as a percentage of sales". A description of these measures and their limitations are discussed on page 16 under "Non-IFRS Financial Measures".

In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors on a quarterly basis. The Board of Directors has approved this MD&A as of August 8, 2012.

HIGHLIGHTS

Three months ended June 30, 2012

- Consolidated sales increased 6.3% to $159.6 million (2011 - $150.2 million);
- Same-store sales increased by 3.2% in Canada and 2.2% in the US;
- Gross margin was 24.8% (2011 – 24.5%);
- Operating margin before non-recurring items increased by 7.6% to $13.3 million (2011 - $12.4 million); and
- Net earnings were $4.8 million (2011 - $5.8 million).

Six months ended June 30, 2012

- Consolidated sales increased 7.5% to $286.3 million (2011 - $266.2 million);
- Same-store sales increased by 5.0% in Canada and 3.5% in the US;
- Gross margin was 25.2% (2011 – 24.8%);
- Operating margin before non-recurring items increased by 15.1% to $20.3 million (2011 - $17.6 million); and
- Net earnings were $7.2 million (2011 - $5.9 million).

Our financial performance in the second quarter was highlighted by strong same-store sales growth: up 3.2% in Canada and up 2.2% in the US, as compared to the second quarter of 2011. The same-store sales increase in Canada was the seventh consecutive quarterly increase recorded by the Company, and increased despite Vancouver's early departure from the 2012 hockey playoffs (Vancouver's lengthy 2011 playoff success had a positive impact on the Company's sales in Q2 2011). Same-store sales in the US have also increased for six consecutive quarters. Gross margin percentage increased from 24.5% to 24.8%, which represents the third consecutive quarter that the gross margin percentage has increased over the comparative quarter, and operating margin before non-recurring items grew by 7.6% to $13.3 million. Management attributes these positive results to our sustained focus on improved merchandising techniques, category management and purchasing strategies, continued success of the Company's expanded store hours program (with stores in selected markets open until 2 am), and a strong emphasis on cost control.

OUTLOOK

The fundamentals of the business continue to be strong in the third quarter due to the strength of the Western Canadian economy and the relative stability of the economies in Alaska and Kentucky. However, third quarter 2012 financial results may face pressure from uncontrollable factors including, but not limited to: (i) the possibility of unseasonably cooler weather and (ii) the impact of Alberta's new impaired driving legislation.

The Company expects to open two (2) large-format Alberta liquor stores, each in excess of 15,000 square feet and with a strong focus on wine, in Q3 2012. Management anticipates that these upscale stores will carry the largest selection of wines, spirits and beers in Western Canada. Fashioned similar to the Company's large-format stores located in the United States, Management believes these destination-type stores will complement the Company's existing convenience-focused Liquor Depot stores. The timing of these two large-format store openings is contingent upon numerous factors, including but not limited to the completion of construction and fixturing of the store premises.

OVERVIEW OF THE COMPANY

The Company was incorporated on November 8, 2010 under the Federal laws of Canada and is the successor entity to Liquor Stores Income Fund. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols LIQ and LIQ.DB.A.

The Company's principal activity is the retailing of wines, beers and spirits. As at June 30, 2012, the Company operated 242 (2011 - 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 August 8, 2012)

<table>
<tr><th></th><th colspan="3">Alberta</th><th colspan="3">British Columbia</th><th>Alaska</th><th colspan="3">Kentucky</th><th>Total</th></tr>
<tr><th></th><th>Edmonton(1)</th><th>Calgary(1)</th><th>Other(2)</th><th>Lower Mainland</th><th>Vancouver Island</th><th>Interior</th><th>Anchorage</th><th>Lexington</th><th>Louisville</th><th>Danville</th><th></th></tr>
<tr><td>Number of Stores</td><td>80</td><td>46</td><td>50</td><td>13</td><td>11</td><td>11</td><td>20</td><td>6</td><td>4</td><td>1</td><td>242</td></tr>
</table>

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 (25), 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 176 liquor stores in Alberta where there are 1,279 liquor stores and 97 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 672 private stores and 194 government operated stores. There are also 223 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 393 retail liquor stores with 92 stores in the greater Anchorage area. There are also 25 seasonal retail liquor stores for golf courses and resort properties. Save for limited community liquor stores that are operated by certain municipal governments, 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's "Brown Jug" trade name is well recognized throughout the state as the leading alcoholic beverage retailer.

The Company operates 11 stores in Kentucky of which seven are large format stores. 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 855 package retail license stores in Kentucky with 258 in Jefferson County, 82 in Fayette County and 7 in Boyle County [Source: Kentucky's Alcoholic Beverage Control Board]. The Company currently operates 6 stores in Lexington (Fayette County), 4 stores in Louisville (Jefferson County) and 1 store in Danville (Boyle 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 continued marketing and development of its well-known industry-leading brands. Management is also confident that its emphasis in Canada on establishing and maintaining convenient and high-traffic locations assists the Company in differentiating it from industry competitors.

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, and on the Company's two (2) new large-format liquor stores in Alberta.

DIVIDENDS

Policy

The payment of dividends by the Company is 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, and fluctuations in working capital and ongoing capital requirements. Presently, the Board of Directors has approved a monthly dividend of $0.09 per share ($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 IFRS 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. Basic and diluted earnings per share for the three and six months ended June 30, 2012 are $0.21

and $0.31 respectively (2011 - $0.25 and $0.26 respectively). 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 than basic and diluted earnings per share.

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

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 IFRS alternative, cash provided by operating activities before changes in non-cash working capital:

	Three months ended June 30,		**Six months ended June 30,**	
(expressed in thousands of Canadian dollars, except per Share amounts)	**2012**	**2011**	**2012**	**2011**
Cash provided by operating activities	$ 14,684	$ 12,860	$ 14,910	$ 7,822
Changes in non-cash working capital	4,329	2,670	1,582	(5,184)
Cash provided by operating activities before changes in non-cash working capital	10,355	10,190	13,328	13,006
Non-recurring items (1)	1,243	142	1,243	679
Cash provided by operating activities before changes in non-cash working capital and non-recurring items	$ 11,598	$ 10,332	$ 14,571	$ 13,685
Weighted average number of shares outstanding	22,783,941	22,598,575	22,733,077	22,593,859
Per share amount	0.45	0.45	0.59	0.58
Per share amount before non-recurring items	0.51	0.46	0.64	0.61
Cash dividends per share	0.27	0.27	0.54	0.54

(1) For the three and six months ended June 30, 2012, non-recurring items include costs associated with an anticipated store investment that was not completed (see the 'Operating and Administrative Expense' section on page 7 for further discussion). For the three months ended June 30, 2011, non-recurring items include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund. For the six months ended June 30, 2011, non-recurring items included professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund, costs related to the Company's conversion from an income trust, less proceeds of a settlement with one of the parties to the Liquor Barn Income Fund litigation.

The increase in cash provided by operating activities before changes in non-cash working capital and non-recurring items for the three and six months ended June 30, 2012 of $1.3 million and $0.9 million respectively results primarily from an increase in operating margin before non-recurring items for the three and six months ended June 30, 2012 of $0.9 million and $2.7 million respectively, offset by approximately $2.1 million of current income tax expense for the six months ended June 30, 2012. The income tax expense for the three months ended March 31, 2012 and three months ended June 30, 2012 represents the first quarters since the Company's December 2010 adoption of a corporate structure that current income tax expense related to partnership income has been recognized (as previous quarters had the benefit from a deferral of partnership income).

Seasonality

The retail liquor industry is subject to seasonal variations with respect to sales and consequently operating results and the Company's results regularly exhibit this seasonality. The Company's sales are typically lowest early in the year and increase in the latter half. In 2011, 19% (2010 - 20%) of annual same store sales occurred in the first quarter, 26% (2010 - 26%) in the second quarter, 27% (2010 - 26%) in the third quarter and 28% (2010 - 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 has a Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Presently, 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 July 31, 2012, shareholders enrolled in the DRIP held approximately 2.0 million shares.

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

Policy on Same-Store Sales Comparisons

Comparable same-store sales, a measure that is generally used by retailers, includes sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics we use to assess our performance and provides a useful comparison between periods. Stores which have significant wholesale business have been excluded. On an annual basis, as at January 1st, management reviews the classification of store locations to assess the significance of the wholesale business at each store location. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business.

Three months ended June 30, 2012

The following table summarizes the operating results for the three months ended June 30, 2012 and 2011.

	Three months ended June 30,			
	2012		2011	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	113,119	70.9%	109,563	72.9%
Canadian wholesale operations (1)	6,260	3.9%	6,274	4.2%
Other Canadian stores (2)	1,877	1.2%	204	0.1%
Total Canadian store sales	121,256	76.0%	116,041	77.3%
US same-stores (US$)	36,080	22.6%	35,299	23.5%
Other US stores (US$) (3)	1,902	1.2%	-	-
Foreign exchange on US store sales	383	0.2%	(1,130)	(0.8)%
Total US store sales	38,365	24.0%	34,169	22.7%
Total sales	159,621	100.0%	150,210	100.0%
Gross margin	39,656	24.8%	36,778	24.5%
Operating and administrative expense	27,569	17.2%	24,530	16.4%
Operating margin	12,087	7.6%	12,248	8.1%
Non-recurring items(4)	1,243	0.8%	142	0.1%
Operating margin before non-recurring items	13,330	8.4%	12,390	8.2%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from these stores. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business. The comparative sales figures have been adjusted to reflect the eleven stores that were reclassified from Canadian wholesale operations to Canadian same-stores.*

(2) *Sales for the three months ended June 30, 2012 and 2011 include those of 5 stores opened and 1 store closed subsequent to March 31, 2011.*

(3) *Sales for the three months ended June 30, 2012 and 2011 include those of 2 stores opened in Kentucky subsequent to March 31, 2011.*

(4) *For the three months ended June 30, 2012, non-recurring items include an expense for costs associated with an anticipated store investment that was not completed (see the 'Operating and Administrative Expense' section on page 7 for further discussion). For the three months ended June 30, 2011, non-recurring items include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund..*

Second Quarter 2012 Operating Results Compared to Second Quarter 2011 Operating Results

Sales

Total sales grew by $9.4 million or 6.3% to $159.6 million in the second quarter of 2012 (2011 - $150.2 million). The increase is primarily the result of new store expansion, same-store sales growth in both Canada and the U.S., and a $1.5 million increase in the Canadian currency equivalent for US sales as a result of foreign exchange rate differences.

Same-Store Sales

- Canadian same-store sales increased by $3.6 million or 3.2%.
  - The increase in Canadian same-store sales represents the seventh consecutive quarter over quarter increase.
  - The positive results in Canada are attributable, in part, to the continued success of the Company's expanded store hours program (with stores in selected markets open until 2 am) and continued management focus on the execution of operational initiatives related to merchandising techniques, category management and purchasing strategies. The increase in Canadian same-store sales occurred despite Vancouver's early departure from the 2012 hockey playoffs (Vancouver's lengthy 2011 playoff success had a positive impact on the Company's sales in Q2 2011).
- US same store sales increased by $0.8 million or 2.2%.
  - The increase in US same-store sales represents the sixth consecutive quarter over quarter increase.
  - Management believes this increase is attributable primarily to continued management focus on the execution of operational initiatives related to merchandising techniques, category management, purchasing strategies and the enhanced customer experience at the Alaska stores arising as a result of store renovations.

Other Sales

- Sales for the Canadian wholesale operations, which include sales to both licensee and retail customers from stores included in this segment, were $6.3 million for the three months ended June 30, 2012, which is consistent with sales in the prior year (2011 - $6.3 million). Due to increased competition for wholesale business and reduced margins, the Company decided in early 2011 to reduce its business in this area and as such, no increases in sales were expected for these stores as compared to the prior year.
- Other Canadian stores include one store that was acquired in the second quarter of 2012, four stores that were opened in the fourth quarter of 2011 and one store that closed subsequent to March 31, 2011; other US stores include one store that was acquired in the first quarter of 2012 and one store that was opened in the fourth quarter of 2011. Sales for all of the new stores have exceeded expectations and management is encouraged that this will continue throughout the remainder of 2012.

Gross Margin

For the three months ended June 30, 2012, gross margin was $39.7 million, up 7.8% from $36.8 million for the same period last year. Gross margin as a percentage of sales increased to 24.8% from 24.5% in 2011. The quarter over quarter increase in gross margin percentage represents the third consecutive quarterly increase. Gross margin as a percentage of sales has increased primarily as a result of continued focus on merchandising techniques, category management and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products.

Operating and Administrative Expense

Operating and administrative expenses before non-recurring charges for the three months ended June 30, 2012 were $26.3 million, up 7.9% from $24.4 million a year earlier. This increase was attributable, in part, to the additional store locations and increased rental, utility and payroll costs. However, as a percentage of sales, operating and administrative expense before non-recurring charges for the period increased by 20 basis points to 16.5% compared to the prior year (2011 – 16.3%). Operating and administrative expenses for the three months ended June 30, 2012 include a $1.2 million non-recurring charge for costs associated with a store investment (with a prospective partner) that was not completed, and which costs were determined by the Company not to be recoverable.

Operating Margin

Operating margin before non-recurring items was $13.3 million for the three months ended June 30, 2012, up 7.6% from $12.4 million in 2011. As a percentage of total sales, operating margin before non-recurring items was 8.4%, up from 8.2% a year earlier primarily due to an improvement in gross margin percentage and cost control. Operating margin decreased 1.3% from $12.2 million in the prior year, primarily as a result of the $1.2 million in costs associated with a store investment that was not completed as referenced under Operating and Administrative Expense.

Operating margin for Canadian stores for the second quarter of 2012 was $10.6 million or 8.8% as a percentage of Canadian sales compared with $10.2 million and 8.7% as a percentage of Canadian sales for 2011.

The US operating margin for the second quarter of 2012 was $1.5 million or 3.8% as a percentage of US sales compared with $2.0 million and 6.0% as a percentage of US sales for 2011. US operating margin before the $1.2 million in non-recurring items referenced above was $2.7 million or 7.0% as a percentage of US sales.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $1.9 million (2011 - $2.2 million); non-cash interest of $1.7 million (2011 - $0.6 million) and an unrealized loss of $0.4 million as a result of mark-to-market adjustments related to an interest rate swap. Non-cash interest expense increased by $1.1 million as compared to the comparative quarter primarily as a result of accelerating the accretion of the Company's 6.75% convertible unsecured subordinated debentures to their principal amount of $57.5 million as they were redeemed on May 28, 2012, which was in advance of their original maturity date. Cash interest expense has declined compared to the comparative quarter primarily as a result of lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012 and on the new credit facility that was entered into in February 2012. These savings were offset by higher interest expense as a result of carrying two debentures that overlapped for approximately one month.

Income Taxes

Income taxes for the second quarter of 2012 were $1.6 million (2011 - $1.7 million), which equates to an effective income tax rate of approximately 25% (the effective rate for the year ended December 31, 2011 was approximately 23%). The increase in income taxes compared to the prior year was primarily a result of an increase in earnings before tax and the approximate 2% increase in the effective income tax rate. The increase in the rate is primarily related to an expected change in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year.

Net Earnings

Net earnings for the three months ended June 30, 2012 were $4.8 million compared to $5.8 million for the same period in 2011. The decrease in net earnings is primarily the result of the $1.2 million non-recurring charge for costs associated with a store investment that was not completed, a $1.1 million increase in non-cash interest, an unrealized loss of $0.4 million being recognized as a result of the mark-to-market adjustment related to an interest rate swap and a $1.2 million increase in income tax expense, offset by a $2.9 million increase in gross margin.

Six months ended June 30, 2012

The following table summarizes the operating results for the six months ended June 30, 2012 and 2011.

	Six months ended June 30,			
	2012		2011	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	201,591	70.4%	192,000	72.2%
Canadian wholesale operations (1)	11,644	4.1%	11,444	4.3%
Other Canadian stores (2)	3,162	1.1%	377	0.1%
Total Canadian store sales	216,397	75.6%	203,821	76.6%
US same-stores (US$)	66,097	23.1%	63,884	24.0%
Other US stores (US$) (3)	3,345	1.2%	-	-
Foreign exchange on US store sales	417	0.1%	(1,528)	(0.6)%
Total US store sales	69,860	24.4%	62,356	23.4%
Total sales	286,257	100.0%	266,177	100.0%
Gross margin	72,091	25.2%	65,933	24.8%
Operating and administrative expense	53,070	18.5%	49,006	18.4%
Operating margin	19,021	6.7%	16,927	6.4%
Non-recurring items(4)	1,243	0.4%	679	0.2%
Operating margin before non-recurring items	20,264	7.1%	17,606	6.6%

Notes:

(1) *Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers from these stores. As at January 1, 2012, management determined that there were seven stores in Canada (2011 - eighteen stores) that had significant wholesale business. The comparative sales figures have been adjusted to reflect the eleven stores that were reclassified from Canadian wholesale operations to Canadian same-stores.*

(2) *Sales for the six months ended June 30, 2012 and 2011 include those of 5 stores opened and 1 store closed subsequent to December 31, 2010.*

(3) *Sales for the six months ended June 30, 2012 and 2011 include those of 2 stores opened in Kentucky subsequent to December 31, 2010.*

(4) *For the six months ended June 30, 2012, non-recurring items include costs associated with an anticipated store investment that was not completed (see the 'Operating and Administrative Expense' section on page 10 for further discussion). For the six months ended June 30, 2011, non-recurring items include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund, costs related to the Company's conversion from an income trust, less proceeds of a settlement with one of the parties to the Liquor Barn Income Fund litigation.*

Six Months Ended June 30, 2012 Operating Results Compared to Six Months Ended June 30, 2011 Operating Results

Sales

Total sales grew by $20.1 million or 7.5% to $286.3 million for the six months ended June 30, 2012 (2011 - $266.2 million). The increase is primarily the result of new store expansion, same-store sales growth in both Canada and the U.S., and a $1.9 million increase in the Canadian currency equivalent for US sales as a result of foreign exchange rate differences.

Same-Store Sales

- Canadian same-store sales increased by $9.6 million or 5.0%.
    - The positive results in Canada are attributable, in part, to the continued success of the Company's expanded store hours program (with stores in selected markets open until 2 am) and continued management focus on the execution of operational initiatives related to merchandising techniques, category management and purchasing strategies. The increase in Canadian same-store sales occurred despite Vancouver's early departure from the 2012 hockey playoffs (Vancouver's lengthy 2011 playoff success had a positive impact on the Company's sales in Q2 2011).
- US same store sales increased by $2.2 million or 3.5%.
    - Management believes this increase is attributable primarily to continued management focus on the execution of operational initiatives related to merchandising techniques, category management, purchasing strategies and the enhanced customer experience at the Alaska stores arising as a result of store renovations.

Other Sales

- Sales for the Canadian wholesale operations, which include sales to both licensee and retail customers from stores included in this segment, were $11.6 million for the six months ended June 30, 2012, an increase of 1.7% from the prior year (2011 - $11.4 million). Due to increased competition for wholesale business and reduced margins, the Company decided in early 2011 to reduce its business in this area and as such, no increases in sales were expected for these stores as compared to the prior year. The increase from prior year primarily relates to retail sales.
- Other Canadian stores include one store that was acquired in the second quarter of 2012, four stores that were opened in the fourth quarter of 2011 and one store that closed subsequent to January 1, 2011; other US stores include one store that was acquired in the first quarter of 2012 and one store that was opened in the fourth quarter of 2011. Sales for all of the new stores have exceeded expectations and management is encouraged that this will continue throughout the remainder of 2012.

Gross Margin

For the six months ended June 30, 2012, gross margin was $72.1 million, up 9.3% from $65.9 million for the same period last year. Gross margin as a percentage of sales increased to 25.2% from 24.8% in 2011. Gross margin as a percentage of sales has increased primarily as a result of continued focus on merchandising techniques, category management, and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products.

Operating and Administrative Expense

Operating and administrative expenses before non-recurring charges for the six months ended June 30, 2012 were $51.8 million, up 7.2% from $48.3 million a year earlier. This increase was attributable, in part, to the additional store locations and increased rental, utility, and payroll costs. However, as a percentage of sales, operating and administrative expense before non-recurring charges for the period decreased by 10 basis points to 18.1% compared to the prior year (2011 – 18.2%). Operating and administrative expenses for the six months ended June 30, 2012 include a $1.2 million non-recurring charge for costs associated with a store investment (with a prospective partner) that was not completed, and which costs were determined by the Company not to be recoverable.

Operating Margin

Operating margin before non-recurring items was $20.3 million for the six months ended June 30, 2012, up 15.1% from $17.6 million in 2011. As a percentage of total sales, operating margin before non-recurring items was 7.1%, up from 6.6% a year earlier primarily due to an improvement in gross margin percentage and cost control. Operating margin was up 12.4% from $16.9 million in the prior period.

Operating margin for Canadian stores for the second quarter of 2012 was $16.2 million or 7.5% as a percentage of Canadian sales compared with $13.7 million and 6.7% as a percentage of Canadian sales for 2011.

The US operating margin for the second quarter of 2012 was $2.8 million or 4.1% as a percentage of US sales compared with $3.2 million and 5.1% as a percentage of US sales for 2011. US operating margin before non-recurring items, which related to the $1.2 million in costs associated with a store investment that was not completed, for the six months ended June 30, 2012 was $4.1 million or 5.8% as a percentage of US sales.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $3.8 million (2011 - $4.1 million); non-cash interest of $2.2 million (2011 - $1.2 million) and an unrealized gain of $0.2 million as a result of mark-to-market adjustments related to an interest rate swap. Non-cash interest expense increased by $1.0 million as compared to the comparative quarter primarily as a result of accelerating the accretion of the Company's 6.75% convertible unsecured subordinated debentures to their principal amount of $57.5 million as they were redeemed on May 28, 2012, which was in advance of their original maturity date. Cash interest expense has declined compared to the comparative quarter primarily as a result of lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012 and on the new credit facility that was entered into in February 2012. These savings were partially offset by higher interest expense as a result of carrying two debentures that overlapped for approximately one month.

Income Taxes

Income taxes for the six months ended June 30, 2012 were $2.4 million (2011 - $1.7 million), which equates to an effective income tax rate of approximately 25% (the effective rate for the year ended December 31, 2011 was approximately 23%). The increase in income taxes compared to the prior year was primarily a result of an increase in earnings before tax and the approximate 2% increase in the effective income tax rate. The increase in the rate is primarily related to an expected change in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year.

Net Earnings

Net earnings for the six months ended June 30, 2012 was $7.2 million compared to $5.9 million for the same period in 2011. The increase in net earnings is primarily the result of a $6.2 million increase in gross margin, offset by the $1.2 million non-recurring charge for costs associated with a store investment that was not completed, a $1.1 million increase in non-cash interest, and a $2.4 million increase in income tax expense.

Condensed Quarterly Information

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

	2012		2011 (1)				2010 (1)	
	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31 (2)	Sep 30 (2)
Statement of Financial Condition								
Cash and cash equivalents	$765	$1,725	$ 1,707	$ 895	$ 1,558	$ 2,106	$ 2,815	$ 2,215
Total assets	502,315	500,674	503,147	494,444	488,748	492,029	495,393	492,881
Bank indebtedness	96	2,178	40,424	39,605	47,706	54,075	41,468	41,310
Total current liabilities	29,483	79,687	123,013	62,150	70,327	75,503	71,839	67,802
Long-term debt	135,673	92,196	46,469	101,699	101,248	100,878	100,417	100,957
Total liabilities	183,608	187,291	185,947	177,641	182,408	185,448	181,206	242,340
Shareholders' equity	318,707	313,383	317,200	316,799	306,340	306,581	314,187	250,541
Non-controlling interest	83	38	85	(15)	258	186	285	183
Statement of Earnings								
# stores, end of period	242	241	240	236	236	236	237	237
Sales	$ 159,621	$ 126,636	$ 168,244	$ 157,080	$ 150,210	$ 115,967	$ 163,555	$ 151,605
Operating margin before non-recurring items	13,330	6,934	15,662	13,660	12,390	5,216	14,772	13,146
Net earnings for the period	4,766	2,406	7,904	10,970	5,783	145	12,657	2,970
Basic and diluted earnings per Share	$ 0.21	$ 0.10	$ 0.35	$ 0.48	$ 0.25	$ 0.00	$ 069	$ 0.15
Dividends declared per Share	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.405	$ 0.405

(1) *As was previously disclosed in the Company's December 31, 2011 annual MD&A, in the process of completing impairment models under IFRS in Q4 2011, it was determined that goodwill in the Kentucky CGU was impaired by $2.4 million as of January 1, 2010 and as a consequence, deferred tax assets were understated by $0.9 million as at January 1, 2010. This adjustment was not included in quarterly filings in 2011. The information in this table includes the necessary adjustments in respect of goodwill, deferred tax assets and shareholders' equity.*

(2) *Information for the quarters in 2010 has been restated in accordance with the adoption of IFRS. 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.*

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' Equity

As at August 8, 2012, 22,877,433 common shares of the Company were outstanding.

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 2012. The Company would require additional capital or financing for a larger acquisition.

The Company acquired one store in Edmonton, Alberta during the quarter ended June 30, 2012 and one store in Lexington, Kentucky during the quarter ended March 31, 2012 and did not open or close any other stores during the six months ended June 30, 2012.

The Company will continue to pursue acquisition opportunities and to open and develop new stores in 2012. The Company currently has commitments to open a number of new stores in Canada and the US in 2012 with an estimated aggregate cost of $5.6 million. Management expects that these stores will open on various dates between September and December 2012, subject to, among other things, store opening delays which might occur as a result of the late delivery of such leased premises by the landlords that are constructing the stores and/or a delay in the completion of store fixturing.

Credit Facilities and Subordinated Debentures

The Company has a credit facility with a syndicate of Canadian banks, which is effective until February 10, 2015 and consists of a $150 million extendible revolving operating loan. At August 7, 2012 there was approximately $84 million drawn on the Canadian credit facility and the Company has a US$5.0 million in letter of credit that has been issued pursuant to the credit facility. Pursuant to the terms of the credit facility, the Company has the ability to request an additional $50 million (to be provided by the lenders on a best-effort basis). The Company also has a US$5.0 million facility with a U.S. bank.

On April 23, 2012, the Company issued $67,500,000 aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "2012 Debentures"). The 2012 Debentures bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2012. The 2012 Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $24.90 per share. The Company used a portion of the proceeds from the issue of the 2012 Debentures to redeem the outstanding 6.75% convertible unsecured subordinated debentures (the "2007 Debentures") with a principal amount of $57.5 million and accrued interest of approximately $1.5 million effective May 28, 2012.

The Company's Canadian credit facility is subject to a number of financial covenants. Under the terms of the Company's Canadian credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. There are no financial covenants attributable to the Company's convertible unsecured subordinated debentures due April 30, 2019 or the U.S. credit facility.

<u>Funded debt to EBITDA ratio</u>

Funded debt is all the Company's obligations, liabilities and indebtedness which would, in accordance with IFRS, 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.

<u>Adjusted debt to EBITDAR</u>

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

<u>Fixed charge coverage ratio</u>

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 June 30, 2012, the Company was in compliance with all financial covenants.

Ratio	Covenant	Company at June 30, 2012
Funded debt to EBITDA	< 3.00:1.00	1.37:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	2.90:1.00
Fixed charge coverage	> or = 1.00:1.00	1.49:1.00

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. As at August 7, 2012, the Company has available credit of approximately $61 million to finance operating requirements and 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 Company is party to an interest rate swap with a Canadian Schedule I bank that matures December 14, 2015 whereby the interest rate paid by the Company on Cdn$60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At August 8, 2012, the fixed rate paid by the Company under the interest rate swap is 2.888% per annum. The Company is not using hedge accounting for this swap and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming outstanding bank indebtedness of $75 million of which $60 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at June 30, 2012.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 150	$ (150)
Increase (decrease) in net earnings	(113)	113

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's net earnings of one half cent 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, primarily all 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 U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to U.S. intercompany management fees and interest payments which totalled US$7.1 million for the twelve months ended June 30, 2012.

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. Other than as noted above, foreign currency transactions are generally not material.

Contractual Obligations

The table below sets forth, as of June 30, 2012, 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)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 and thereafter**
Operating leases	$ 10,576	$ 19,511	$ 15,712	$ 12,021	$ 8,689	$ 16,752
5.85% Debentures	-	-	-	-	-	67,500
Long-term bank indebtedness	-	-	-	135,673	-	-
Total	$ 10,576	$ 19,511	$ 15,712	$ 147,694	$ 8,689	$ 84,252

OFF BALANCE SHEET ARRANGEMENTS

As at August 8, 2012, the Company does not have any off balance sheet arrangements other than operating leases identified under the heading Contractual Obligations.

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, an interest rate swap, 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, other than derivatives which are held for trading. Refer to "Liquidity and Capital Resources" for discussion of risks associated with financial instruments.

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 six months ended June 30, 2012, the Company incurred professional fees of $85 thousand to a law firm of which a director of the Company is a partner. Rent paid to companies controlled by a director (and former Executive Chairman) of the Company amounted to $290 thousand for the six months ended June 30, 2012. There was $1 thousand included in accounts payable and accrued liabilities as at June 30, 2012 relating to these transactions.

CRITICAL ACCOUNTING ESTIMATES

There are no updates to the Company's critical accounting estimates. For further discussion, refer to the Company's annual MD&A for the year-ended December 31, 2011.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

There are no updates to the accounting standards or amendments issued but not yet effective that would be applicable to the Company. For further discussion, refer to the Company's annual MD&A for the year-ended December 31, 2011.

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.

Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in National Instrument 52-109. A material weakness in internal controls over financial reporting 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, 2011. 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 and six months ended June 30, 2012 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 13, 2012 and the Company's annual MD&A for the year-ended December 31, 2011.

CEO WORKS FROM HOME OFFICE TEMPORARILY

The Company's Chief Executive Officer, Mr. Rick Crook, is currently managing his work duties from his home office as he recovers from a non-life threatening health issue. He is in regular contact with the executive team on all key strategic and operational matters.

NON-IFRS FINANCIAL MEASURES

Operating margin, operating margin as a percentage of sales, operating margin before non-recurring items, EBITDA, cash provided by operating activities before changes in working capital and non-recurring items, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. 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, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales should not replace net earnings or loss (as determined in accordance with IFRS) 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, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, 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, cash provided by operating activities before changes in working capital and non-recurring items on a per share basis, and same store sales may not be comparable to similar measures presented by other issuers.

EBITDA, which is used only with reference to the calculation of covenants under the Company's credit facility, is defined under the amended and restated credit facility 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 is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore is 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 and recoveries received by the Company that are not part of on-going operations and that are not expected to recur. Among others, these non-recurring items include costs associated with a store investment that was not completed, and professional fees paid in respect of lawsuits that originated following and arising from the Company's acquisition of Liquor Barn Income Fund in 2007 and the proceeds received on settlement of these matters.

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 of the Company, the Company's assessment of the impact of the transition to IFRS under the section "International Financial Reporting Standards", business strategy, projected store openings, costs, as well as 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 anticipated opening dates of new stores, and management's general 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.