

LIQUOR STORES N.A. LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015 and 2014

(Unaudited, expressed in thousands of Canadian dollars)



Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, in thousands of Canadian dollars)

	Note	March 31, 2015 \$	December 31, 2014 \$
Assets			
Current assets:			
Cash	3	11,360	3,003
Accounts receivable		1,390	2,099
Inventory		143,040	135,363
Prepaid expenses and deposits		8,663	9,153
		164,453	149,618
Deferred tax assets		5,074	3,918
Property and equipment		50,313	51,008
Intangible assets		39,334	36,714
Goodwill		286,636	284,607
		545,810	525,865
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		41,554	48,629
Income tax payable		1,631	-
Dividends payable to shareholders	5	2,455	2,452
Derivative instrument		232	43
		45,872	51,124
Long-term debt		122,244	92,037
Deferred tax liabilities		14,350	17,946
		182,466	161,107
Shareholders' Equity			
Equity attributable to shareholders		363,346	364,652
Equity (deficit) attributable to non-controlling interest		(2)	106
		363,344	364,758
		545,810	525,865

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

(Unaudited, in thousands of Canadian dollars)

	Attributable to Shareholders of the Company						Non-controlling interest	Total equity
	Share capital	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income	Deficit	Total		
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance – January 1, 2014	188,824	3,328	174,695	342	(55,361)	311,828	94	311,922
Net earnings (loss) for the period	-	-	-	-	(2,525)	(2,525)	27	(2,498)
Foreign currency translation adjustment	-	-	-	3,058	-	3,058	-	3,058
Comprehensive income for the period	-	-	-	3,058	(2,525)	533	27	560
Share-based payments	-	-	42	-	-	42	-	42
Dividends declared	-	-	-	-	(6,249)	(6,249)	-	(6,249)
Dividend reinvestment plan issuance	584	-	-	-	-	584	-	584
Dividends declared by subsidiaries	-	-	-	-	-	-	(91)	(91)
Transactions with owners	584	-	42	-	(6,249)	(5,623)	(91)	(5,714)
Balance – March 31, 2014	189,408	3,328	174,737	3,400	(64,135)	306,738	30	306,768
Opening balance – January 1, 2015	246,826	3,328	174,927	7,653	(68,082)	364,652	106	364,758
Net earnings (loss) for the period	-	-	-	-	(2,322)	(2,322)	9	(2,313)
Foreign currency translation adjustment	-	-	-	7,897	-	7,897	-	7,897
Comprehensive income (loss) for the period	-	-	-	7,897	(2,322)	5,575	9	5,584
Share-based payments	-	-	(2)	-	-	(2)	-	(2)
Adjustment to net proceeds on share issuance	(81)	-	-	-	-	(81)	-	(81)
Dividends declared (note 5)	-	-	-	-	(7,362)	(7,362)	-	(7,362)
Dividend reinvestment plan issuance (note 5)	564	-	-	-	-	564	-	564
Dividends declared by subsidiaries	-	-	-	-	-	-	(117)	(117)
Transactions with owners	483	-	(2)	-	(7,362)	(6,881)	(117)	(6,998)
Balance – March 31, 2015	247,309	3,328	174,925	15,550	(77,766)	363,346	(2)	363,344

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 Months Ended March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

	Note	March 31, 2015 \$	March 31, 2014 \$
Sales		147,426	137,375
Cost of sales		109,403	103,469
Gross margin		38,023	33,906
Operating and administrative expenses		36,542	32,910
Amortization		1,481	996
Property and equipment		2,249	2,060
Intangible assets		78	88
		(846)	(1,152)
Finance costs	4	2,260	2,168
Loss before income taxes		(3,106)	(3,320)
Income tax recovery	6	(793)	(822)
Net loss		(2,313)	(2,498)
Other comprehensive income			
Items that may be reclassified subsequently to net earnings:			
Currency translation difference on foreign subsidiaries		7,897	3,058
Comprehensive income		5,584	560
Net earnings (loss) attributable to			
Owners of the parent		(2,322)	(2,525)
Non-controlling interest		9	27
		(2,313)	(2,498)
Comprehensive income attributable to			
Owners of the parent		5,575	533
Non-controlling interest		9	27
		5,584	560
Loss per share			
Basic	8	(0.09)	(0.11)
Diluted	8	(0.09)	(0.11)

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 Months Ended March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

	Note	March 31, 2015 \$	March 31, 2014 \$
Cash provided by (used in)			
Operating activities:			
Net loss for the period		(2,313)	(2,498)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Amortization of property and equipment		2,249	2,060
Amortization of intangible assets		78	88
Amortization of financing charges	4	109	10
Non-cash interest on convertible debentures	4	295	271
Fair value adjustment on derivative instrument		189	35
Deferred income tax		(4,400)	(7,003)
Equity-settled share-based payments		(2)	42
Cash used in operating activities before changes in non-cash working capital		(3,795)	(6,995)
Net change in non-cash working capital items	11	(8,274)	(11,085)
		(12,069)	(18,080)
Investing activities:			
Purchase of property and equipment		(6,987)	(1,674)
Purchase of intangible assets		(1,350)	(6)
		(8,337)	(1,680)
Financing activities:			
Proceeds from bank indebtedness		-	4,373
Proceeds from sale and leaseback of assets	3	5,664	-
Proceeds from long-term debt		29,803	21,570
Dividends paid	5	(6,794)	(5,660)
Dividends paid to non-controlling interest by subsidiaries		(117)	(91)
		28,556	20,192
Foreign exchange gain on cash held in foreign currency		207	236
Increase in cash		8,357	668
Cash - Beginning of quarter		3,003	4,529
Cash - End of quarter		11,360	5,197

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

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act on November 8, 2010 and is the successor entity to Liquor Stores Income Fund. The address of the Company's registered office is 300, 10508 – 82 Avenue, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB.A".

The Company's principal activity is the retailing of wines, beers and spirits. As at March 31, 2015 and 2014, the Company operated 246 (2014 - 243) retail liquor stores, of which 175 (2014 - 174) were in Alberta, 35 (2014 - 35) were in British Columbia, 23 (2014 - 22) were in Alaska and 13 (2014 - 12) were in Kentucky. Of the stores operated, 199 (2014 - 201) were acquired and 47 (2014 - 42) were developed by the Company.

These condensed interim consolidated financial statements (the "interim financial statements") were approved and authorized for issuance by the Board of Directors on May 7, 2015.

2 Basis of preparation and significant accounting policies

These condensed interim consolidated 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 condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2014.

The preparation of condensed interim 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 interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2014.

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

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company and there have been no changes to critical accounting estimates or judgements made from those as described in its consolidated financial statements as at and for the year ended December 31, 2014.

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

3 Sale and leaseback of assets

On March 31, 2015, the Company completed a transaction with a third party whereby the Company sold and leased-back property and building in Fairbanks, Alaska for gross proceeds of \$5,957 less transaction costs of \$293. The Company has classified the lease as an operating lease, and given the transaction occurred at fair market value, the gain on sale of \$134 was recognized within amortization of property and equipment in the Statement of Earnings and Comprehensive Income.

4 Finance costs

Finance costs comprise the following:

	Three months ended March 31,	
	2015	2014
	\$	\$
Interest expense		
Bank indebtedness	-	134
Long-term debt ⁽ⁱ⁾	640	784
Convertible debenture ⁽ⁱⁱ⁾	1,282	1,259
Change in fair value of interest rate swap	189	35
Net loss (gain) on foreign exchange from financing activities	149	(44)
	2,260	2,168

- i) Included in interest expense on long-term debt was amortization of deferred financing costs of \$109 (2014- \$10).
- ii) Interest expense on the convertible debentures of \$1,282 (2014 - \$1,259) represents coupon interest of \$987 (2014 - \$988) and \$295 (2014 - \$271) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

5 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance. During the three months ended March 31, 2015, the Company declared monthly dividends of \$0.09 per share or \$7,362 (2014 - \$0.09 per share or \$6,249). Dividends of \$7,358 (2014 - \$6,244) were paid during the period, of which \$564 (2014 - \$584) was paid in shares pursuant to the Company's dividend reinvestment plan. Dividends of \$2,455 were payable as at March 31, 2015 (2014 - \$2,082). Dividends are paid mid-month following the month of declaration.

Dividends were declared on April 15, 2015 in the amount of \$0.09 per common share and are payable to the holders of common shares as at the close of the record date of April 30, 2015.

6 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 2015 is 26% (the effective tax rate for the year ended December 31, 2014 was 24%).

7 Share capital

- a) Authorized:
An unlimited number of voting common shares are authorized to be issued.
- b) Issued and outstanding:

	#	\$
Balance – January 1, 2014	23,113,172	188,824
Shares issued under dividend reinvestment plan	47,395	584
Balance – March 31, 2014	23,160,567	189,408
Balance – January 1, 2015	27,240,760	246,826
Shares issued under dividend reinvestment plan	38,900	564
Adjustment to net proceeds on share issuance	-	(81)
Balance – March 31, 2015	27,279,660	247,309

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

8 Loss per share

	Three months ended March 31,	
	2015	2014
	\$	\$
Loss attributable to owners of the parent	(2,322)	(2,525)
	2015	2014
	#	#
Weighted average number of common shares outstanding – Basic	27,260,508	23,135,874
Effect of dilutive securities		
Equity-settled share-based payment awards	7,902	-
Weighted average number of common shares outstanding - Diluted	27,268,410	23,135,874
	2015	2014
	\$	\$
Basic loss per share	(0.09)	(0.11)
Diluted loss per share	(0.09)	(0.11)

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 months ended March 31, 2015 and 2014.

9 Share-based payments

During the three months ended March 31, 2015, the Company granted 50,697 restricted share units (2014 – 39,552), 14,344 units vested (2014 – nil), and 5,927 units were forfeited (2014 – nil). The Company granted 50,697 performance share units (2014 – nil), and 954 deferred share units in the period (2014 – 1,310). There were no awards granted related to the one-time performance share units in the period, however 14,215 units were forfeited (2014 – nil).

Aggregate compensation expense of \$119 was recognized related to the Company's share based payment award plans (2014 - \$3).

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

10 Related party transactions

The following transactions were carried out with related parties:

- a) Operating and administrative expenses

	Three months ended March 31,	
	2015	2014
	\$	\$
Professional fees ⁽ⁱ⁾	29	17
Rent expense ⁽ⁱⁱ⁾	-	116
	29	133

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

⁽ⁱⁱ⁾ Rent in 2014 includes amounts paid to entities controlled by a former Director of the Company up until May 15, 2014, when the Director retired from the Company's Board and ceased to be a related party. The commitment remaining under this lease agreement at March 31, 2015 is \$958 for the term ending on March 31, 2017.

There was \$14 included in accounts payable and accrued liabilities (December 31, 2014 – \$19) relating to these transactions.

- b) Included in operating and administrative expenses for the three months ended March 31, 2015 are payments of \$675 related to the departure of the Company's former Executive Vice President, Business Development, General Counsel and Corporate Secretary. This expense has been included in the Canadian operating segment (note 12).

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, in thousands of Canadian dollars)

11 Supplementary disclosure of cash flow information

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

	2015 \$	2014 \$
Accounts receivable	727	48
Inventory	(3,796)	(4,056)
Prepaid expenses and deposits	571	(133)
Accounts payable and accrued liabilities	(7,407)	(7,332)
Income tax payable	1,631	388
	(8,274)	(11,085)

Interest and income taxes paid are included in cash flows from operating activities in the Statement of Cash Flows.

	2015 \$	2014 \$
Interest paid	531	908
Income taxes paid	1,817	5,796

12 Operating segments

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

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating margin, which is defined as earnings before amortization, finance costs and income tax expense (recovery), as included in the internal management reports that are reviewed regularly by the Company's Chief Executive Officer (the Company's chief operating decision maker) 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. Investors are cautioned that operating margin should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

Liquor Stores N.A. Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited, in thousands of Canadian dollars)

	Three months ended March 31, 2015		
	Canadian Operations \$	US Operations \$	Consolidated \$
Sales to external customers	104,790	42,636	147,426
Operating margin	1,729	(248)	1,481
Property and equipment amortization			2,249
Intangible asset amortization			78
Finance costs			2,260
Loss before income taxes			(3,106)
Other information			
Expenditures for additions to Property and equipment	3,882	1,878	5,760
Intangible assets	1,464	-	1,464
Total assets at March 31, 2015	431,833	113,977	545,810

	Three months ended March 31, 2014		
	Canadian Operations \$	US Operations \$	Consolidated \$
Sales to external customers	100,420	36,955	137,375
Operating margin	1,010	(14)	996
Property and equipment amortization			2,060
Intangible asset amortization			88
Finance costs			2,168
Earnings before income taxes			(3,320)
Other information			
Expenditures for additions to Property and equipment	2,215	139	2,354
Intangible assets	127	5	132
Total assets at December 31, 2014	424,571	101,294	525,865