LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2015

As at August 14, 2015

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1. Basis of Presentation

Management's Discussion and Analysis ("MD&A") provides a comparison of Liquor Stores N.A. Ltd.'s (the "Company" or "Liquor Stores") performance for the three and six months ended June 30, 2015 with the three and six months ended June 30, 2014. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto (the "interim financial statements") for the three and six months ended June 30, 2015, the audited consolidated financial statements for the years ended December 31, 2014 and 2013, the annual MD&A for the year ended December 31, 2014, and the Annual Information Form dated March 4, 2015. The information in this MD&A is current to August 14, 2015, unless otherwise noted.

In this MD&A, all references to "we", "us", "our", and "the Company" refer to Liquor Stores N.A. Ltd. and its subsidiaries. All references to "Management" refer to the directors and senior officers of the Company.

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 Chartered Professional Accountants – Part I ("CICA Handbook"), for interim financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

Throughout this MD&A references are made to non-IFRS financial measures, including "same-store sales", "adjusted gross margin", "operating margin", "operating margin as a percentage of sales", "adjusted operating margin", "adjusted earnings per share", "adjusting items", and "cash provided in operating activities before changes in non-cash working capital and adjusting items". A description of these measures and their limitations are discussed under *"Non-IFRS Financial Measures"*.

Additional information relating to Liquor Stores can be found at www.liquorstoresna.ca. The Company's continuous disclosure materials, including its annual and quarterly MD&A, audited annual and unaudited interim financial statements, its Annual Information Form, Information Circulars, and various news releases issued by the Company are also available on its website or directly through the SEDAR system at www.sedar.com.

2. Forward Looking Statements

In the interest of providing current shareholders and potential investors with information regarding current results and future prospects, this MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, and results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to the Company's future plans, strategies and initiatives and the anticipated results thereof, including the anticipated timing of such results are included in, among others, the *"Company Strategy", "Outlook", "Liquidity and Capital Resources", "Business Strengths", "Business Overview", "Summary of the Three Months June 30, 2015", and "Summary of the Six Months Ended June 30, 2015"* sections of this MD&A. 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, business strategies, costs, as well as plans and objectives of or involving the Company. Forward-looking statements are typically identified by words such as "believe", "expect", "will", "intend", "project", "anticipate", "estimate", "continue", "forecast", "could", "goal", "foresee", "seek", "strive", "may", "should" and similar expressions or the negatives thereof, as they relate to the Company and its Management. These forward-looking statements include, but are not limited to, statements with respect to the future payment and timing of the payment of the Company's dividends, the anticipated opening dates of new stores, Management's general expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory, and the Company's business strategies and goals (including its Seven Point Plan) and the impact thereof and of other events on the Company's financial performance and results of operations.

Forward-looking statements reflect the Company's current plans, intentions, and expectations, which are based on Management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's plans, intentions, and expectations are inherently subject to significant business, economic, competitive, regulatory and other uncertainties and contingencies regarding future events and as such, are subject to change. 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 related to government regulation, competition, the state of the economies in which the Company operates, acquisition and development risks, weather, availability of credit and other alternative means of financing and the other risks and uncertainties discussed under "Risk Factors" in this MD&A and in the Company's Annual Information Form. In addition, other risks and uncertainties not presently known to the Company or that Management presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

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 are 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.

3. Summary of the Three and Six Months Ended June 30, 2015

Three months ended June 30, 2015

- Consolidated sales increased 7.0% to $190.6 million (Q2 2014 - $178.2 million);
- Same-store sales[1] increased by 2.6% in Canada and by 1.0% in the U.S.;
- Gross margin percentage increased 60bps to 25.7% (Q2 2014 – 25.1%); and
- Adjusted operating margin[1] increased by $2.2 million to $12.8 million (Q2 2014 - $10.6 million), primarily as a result of increased same store sales and improved gross margin percentage.

Six Months Ended June 30, 2015

- Consolidated sales increased 7.1% to $338.0 million (2014 - $315.5 million);
- Same-store sales[1] increased by 3.3% in Canada and by 1.0% in the U.S.;
- Gross margin percentage increased 80bps to 25.7% (2014 – 24.9%); and
- Adjusted operating margin[1] increased by $3.8 million to $15.4 million (2014 - $11.6 million), primarily as a result of increased same store sales and improved gross margin percentage.

[1] *Same-store sales and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on these non-IFRS measures see the 'Non-IFRS Financial Measures' section of this MD&A.*

See the *'Analysis of Financial Results'* sections of this MD&A for further discussion and analysis of the Company's financial results for the three and six months ended June 30, 2015.

The Company continues to focus on executing our Seven Point Plan (see the *'Company Strategy'* section of this MD&A for further discussion). Initiatives include: enhancing our senior leadership team (completed), investing in our people, implementing an industry leading information technology platform, investing in our store network, increasing our brand awareness and customer loyalty, increasing our operating margins and pursuing expansion. These investments are designed to build on our competitive position, invest in opportunities to support long-term profitability, and drive growth across our business. While we have seen positive results from these initiatives, including improved operating margins, we anticipate that their full benefits will be realized in 2016 and beyond.

4. Corporate Profile

Liquor Stores N.A. Ltd. is incorporated under the Canada Business Corporations Act ("CBCA") and commenced operations as such on December 31, 2010. We are the successor to Liquor Stores Income Fund, whose units traded on the TSX from September 28, 2004 to December 31, 2010. Our head office is located at Suite 300, 10508 – 82nd Avenue, Edmonton, Alberta, T6E 2A4, and our registered office is located at Suite 2500, 10303 Jasper Avenue, Edmonton, Alberta T5J 3N6. Our Common Shares and Convertible Debentures trade on the TSX under the trading symbols "LIQ" and "LIQ.DB.A", respectively.

5. Business Overview

Liquor Stores is a leading liquor retailer in the North American marketplace. We have a strong base in Western Canada and we are a market leader in Kentucky and Alaska. Management believes the Company is the largest liquor store operator in Alberta, Canada's largest private liquor retailer and North America's largest publicly-traded liquor retailer (based upon number of stores and revenue). We have positioned our business to capture customers who are focused on convenience and those who are looking for a destination-type shopping experience.

The Company operates under the brand names: "Liquor Depot", "Liquor Barn" and "Wine and Beyond" in Alberta; "Liquor Depot", "Liquor Barn", and "Wine Cellar" in British Columbia; "Brown Jug" in Alaska; and "Liquor Barn, The Ultimate Party Source" and "Liquor Barn Express" in Kentucky.

As of August 14, 2015, the Company operated 249 stores in Alberta, British Columbia, Alaska and Kentucky, comprised of 13 destination/large-format stores, 234 full liquor stores, and two wine only stores. Product selection is tailored to each location. Stores in Canada generally range in size from 2,000 to 5,000 square feet. Our U.S. stores are larger in size. The Company's stores in Alaska range in size from 1,400 to 14,000 square feet and we have one combined store and warehouse in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 30,000 square feet along with a flagship store of 44,000 square feet. Our two Wine & Beyond stores, our destination/large-format stores in Alberta, with areas of approximately 17,000 and 20,000 square feet, respectively, are the largest liquor retail stores in western Canada.

The following chart shows a break-down of Liquor Store locations as at August 14, 2015:

	January 1/15 to June 30/15				July 1/15 to August 14/15		
	1-Jan-15	Opened(5)	Closed(6)	30-Jun-15	Opened(5)	Closed(6)	14-Aug-15
Alberta							
Edmonton(1)	79	1	-	80	-	-	80
Calgary(1)	43	1	-	44	-	-	44
Other(2)	50	2	-	52	-	-	52
	172	4	-	176	-	-	176
British Columbia							
Interior	11	-	-	11	-	-	11
Lower Mainland	13	1	(1)	13	-	-	13
Vancouver Island	11	-	-	11	-	-	11
	35	1	(1)	35	-	-	35
Alaska							
Anchorage	19	-	-	19	-	-	19
Other(3)	4	-	-	4	-	-	4
	23	-	-	23	-	-	23
Kentucky							
Lexington	6	-	-	6	-	-	6
Louisville	4	-	-	4	2	-	6
Other(4)	3	-	-	3	-	-	3
	13	-	-	13	2	-	15
Total	**243**	**5**	**(1)**	**247**	**2**	**-**	**249**

Notes:

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

(2) *Other stores in Alberta by region: Northern (26), Southern (nine), Central (15) and resort communities (two).*

(3) *Other communities served in Alaska include Wasilla (three stores) and Fairbanks (one store).*

(4) *Other communities served in Kentucky include Danville, Bowling Green and Elizabethtown.*

(5) *All stores opened were developed by the Company with the exception of one retail liquor store acquired by the Company in the Edmonton region during the three months ended June 30, 2015.*

(6) *The liquor retail store license associated with the store closed in the Lower Mainland of British Columbia was relocated to another location within the same municipality.*

Competitive Differentiation

Management focuses on differentiating the Company's stores from the competition by promoting a broad selection of products, by emphasizing our in-store customer experience, and through continued marketing and development of well-known industry-leading brands. Management believes that its emphasis on offering a range of stores from large-format/destination-type stores (with a strong focus on product selection and customer experience) to convenience-focused stores (convenient and high-traffic locations) assists the Company in differentiating itself from its competitors.

Seasonality

The retail liquor industry is subject to seasonal variations. The Company's sales are typically lowest early in the year and increase in the latter half. In 2014, 20% (2013 - 21%) of annual same store sales occurred in the first quarter, 26% (2013 - 25%) in the second quarter, 26% (2013 - 26%) in the third quarter, and 28% (2013 - 28%) in the fourth quarter. Our working capital requirements are greatest in the second and third quarters as we ramp up inventory for the summer and the holiday seasons, respectively.

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 that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers, (ii) stores where sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores we've opened in the last 12 full months, and (iii) stores where sales have increased due to the closure of closely-located stores in the last 12 full months.

6. Business Strengths

Our Brands - The retail liquor store industry in Alberta, British Columbia, Kentucky and Alaska is a fragmented market. We operate some of the leading liquor retail brands in our respective markets. Our brands include:

- *Liquor Depot/Liquor Barn* – Convenience-focused stores located in Alberta and British Columbia, focused on convenient locations and store layouts, and great selection at fair prices.
- *Wine and Beyond* – Destination/large-format stores located in Alberta that are dedicated to having the best selection of wine, spirits and beer and strong customer service.
- *Wine Cellar* – Wine centric stores located in British Columbia, with a unique wine selection and a staff as passionate as our customers about the product that we sell.
- *Brown Jug* - Convenience-focused stores located in Alaska, focused on convenient locations and store layouts, and great selection at fair prices.
- *Liquor Barn, The Ultimate Party Source* - Destination/large-format stores located in Kentucky that are dedicated to having the best selection of wine, spirits, beer, and party supplies and strong customer service.
- *Liquor Barn Express* - Convenience-focused stores located in Kentucky, focused on convenient locations and store layouts, and great selection at fair prices.

Location - Liquor Stores' business model is based on highly visible and accessible store locations. We endeavour to locate our stores in areas where access to customers is maximized such as near grocery stores or on main arteries in or near residential areas. Approximately 60% of Liquor Stores' Canadian outlets are located in or near shopping centres with major grocery stores or other anchor tenants. With respect to its U.S. operations, Management believes that location is a key factor in the success of a liquor store and consequently we endeavour to locate our stores in high-traffic areas and major thoroughfares. Although very few of Liquor Stores' U.S. outlets are located in or near shopping centers with grocery stores and large anchor tenants, Management believes its U.S. stores enjoy easy-customer access and enhanced street visibility.

Product Selection - Our stores offer an impressive selection of wine, spirits, coolers, liqueurs, beer, and specialty products. Product selection is individually tailored to our store brands and formats. In our convenience-focused stores, product selection varies between 1,000 and 4,000 wine, spirit, cooler and beer items, which management believes is a larger product selection and inventory than the industry average. Our Wine and Beyond large-format destination stores offer over 10,000 items. New, exclusive and preferred label varieties and products arrive in our stores throughout the year. Similar to our Wine and Beyond stores, our U.S. stores offer a significantly larger product selection than our convenience-focused stores, and although selection is again location-specific, alcoholic product selection in certain U.S. stores generally exceeds 7,000 items. In addition, we sell non-alcoholic beverages including pop, juice, bottled water and mixes, along with accessories for gift giving and everyday use such as gift bags, wine charms, bottle stoppers, aerators, bar supplies and unique items. In Kentucky we have a specialty grocery offering focused on party and entertainment food items such as cheese, deli meats, olives, chips and crackers, desserts, and select frozen food items.

Effective Sales Staff - We pride ourselves on our customer service with employees who are well-versed in each liquor category to best serve our customers. We strive to have dedicated staff with product knowledge that they are enthusiastic to share. Liquor Stores endeavours to maintain product knowledgeable managers, assistant managers and line staff through frequent seminars and training. In 2013, we implemented a new company-wide training program called Liquor Stores University offered in person and online, with a goal of further fostering a customer-focused sales-driven culture in our stores. All new staff members receive training in Company policies and basic product knowledge, selling skills, operations overview, loss prevention and robbery prevention. In the destination/large-format stores, store staff includes well-trained wine, beer, and spirits specialists.

Strategic Markets - Management's primary strategy in Canada and the United States is to focus on urban centres such as the Calgary, Edmonton, Vancouver, and the Anchorage, Louisville and Lexington metropolitan areas. Here we find the best opportunities for larger per store revenues and likelihood of population increases. The Company is also exploring potential growth opportunities in other U.S. cities. While our focus is primarily on urban centres, we also have stores in other communities including rural or smaller urban centres where demographic and economic conditions warrant. Such communities include Ft. McMurray, Alberta (seven stores), Grande Prairie (nine stores) and the destination/large-format store in Fairbanks, Alaska.

Store Design and Format - Liquor Stores generally designs its stores to optimize traffic flow and present its products in an upscale environment. Management has recently initiated a store "refresh" program and intends to update, modernize and refurbish a large number of stores. Our stores feature wooden cases and tasteful shelving as a primary display mechanism. Innovative new store layouts feature a fresh, contemporary design and interactive experiences. In certain stores, we offer in-store tasting sessions, seminars, recipes, social events and other in-store initiatives to enhance our customers' experience and to promote new products.

Economies of Scale - Liquor Stores' leading market position, large-scale operations (relative to most other industry participants), and cross-border presence provide it with a number of competitive advantages including: the benefit of operating efficiencies relative to non-liquor expenses (including finance, marketing, human resources, and corporate); and greater access to capital. In both Alaska and Kentucky, we benefit from purchasing efficiencies and we have the ability to negotiate volume-discounts on our liquor purchases. As we continue to expand in these two U.S. jurisdictions, and possibly others, we expect our competitive purchasing advantage to increase.

Stable and Growing Industry - The retail liquor business in our current geographic markets is characterized by relatively stable demand. Total wholesale liquor sales in Alberta grew by 4.4%[2] and was down by 0.2%[2] in British Columbia during the year ended March 31, 2014. Comparable annual sales information is not available for either of Alaska or Kentucky.

7. Company Strategy

As previously communicated in our 2014 MD&A, we are focused on the following Seven Point Plan (the "Plan") to build on our competitive position, invest in opportunities to support long-term profitability and drive growth across our business:

- Enhance the Senior Leadership Team
- Invest in our People
- Implement an Industry Leading Information Technology Platform
- Invest in our Store Network
- Increase Brand Awareness and Loyalty
- Increase Operating Margins
- Pursue Expansion

The following is a summary of the 2015 goals, as included in our 2014 MD&A, and progress made to date in 2015.

Business Strategy	Goals for 2015	2015 Progress
1. Enhance the Senior Leadership Team We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives with deep retail experience in both Canada and the United States.	We are targeting to hire two new executives in the next six to twelve months who come from leading Canadian or U.S. companies to lead our Marketing and Real Estate teams. The costs associated with these positions are anticipated to be cost neutral, as a result of offsetting cost savings in these departments.	**Status: Completed** We have successfully recruited two individuals, each of whom brings highly specialized retail expertise to our business, to provide senior leadership for our Marketing and Real Estate teams. Working out of our corporate headquarters in Edmonton and Louisville, Kentucky, these individuals are now leading the implementation of refined business processes and strategies to optimize and scale Liquor Stores' existing platform and support the future growth of our enterprise in our existing markets and new markets, primarily in the United States. **Dan Pellissier joined Liquor Stores as Senior Vice President, Real Estate**, with responsibility to lead the Company's Real Estate and Business Development department. Dan was most recently with PPG Architectural Finishes, Inc., where he served as their National Real Estate Manager. **Anthony Price joined Liquor Stores as Senior Vice President, Marketing**, with a mandate to implement industry leading marketing strategies. Anthony joins Liquor Stores with a wealth of retail experience in all facets of marketing, including a deep well of knowledge on the digital front. He was most recently the Vice President of Digital, Media & Social Marketing for Michaels Stores.

[2] *Source: Statistics Canada, May 2015*

Business Strategy	Goals for 2015	2015 Progress
2. Invest in our People We have an opportunity to attract more customers to existing locations and increase sales per customer by improving our customer service. Our investments will include enhancing our hiring and retention strategies, the introduction of industry leading training programs, implementing competitive store level compensation and benefit programs, and a focus on providing our employees with career and performance management.	Deliver the next phase of our sales, workforce management and store operational training programs to at least 75% of our store managers by the end of 2015. Enhance our current store level incentive program to further align our store teams with our strategy related to preferred label products.	**Status:** **On Track** During Q2 2015 we continued developing and delivering new training material to our staff. We also completed refinements to our store level incentive plan where, commencing in Q3 2015, our store teams will have a portion of their incentive plan determined based on sales of our preferred label products.
3. Implement an Industry Leading Information Technology Platform We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business.	Achieve significant milestones in the implementation of the Company's new ERP system with little or no impact on customers. Milestones include completing the planning and design phase of the implementation process by the end of 2015, implementation of the financial modules by mid-2016, and the remainder of the core modules by the end of 2016.	**Status:** **On Track** In the current quarter, we have continued to work on the design phase of the project, including the commencement of 'data clean-up' and enrichment activities. We remain on track for core implementation of the selected ERP system by late 2016.
4. Invest in our Store Network We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers.	Renovate/refresh 5% to 8% of our existing stores in 2015. This range has been set to allow for the number of projects to be scaled up or down depending on economic conditions and the Company's financial position.	**Status:** **On Track** The Company remains on track to renovate 5% to 8% of our existing stores during 2015.

Business Strategy	Goals for 2015	2015 Progress
5. Increase Brand Awareness and Loyalty We will continue to increase our brand awareness and customer loyalty through investment in our store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts.	Hire a Senior Vice President of Marketing to lead the enhancement and execution of our marketing and promotions strategies. Continue to enhance our customer relationship management strategy, and grow the number of customers enrolled in this program in 2015. Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.	**Status:** **On Track** As noted above, our Senior Vice President of Marketing was hired in early Q2 2015. We continue to enhance our marketing and promotion strategies, with a focus on digital forms of advertising to increase our brand awareness and sign-ups in our customer relationship management program, the Celebration Members Club. Our merchants have remained focused on sourcing exclusive and control brands from our suppliers. We continue to introduce a selection of new items and have provided all of our store managers with training on how to merchandise and sell these items.
6. Increase Operating Margins We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.	Continue to implement product assortment plans (i.e. planograms) into our store locations in 2015. Continue to grow our control/exclusive brands across all regions as a percentage of their respective categories.	**Status:** **On Track** We are currently implementing product assortment plans into all new and renovated stores, and into a selection of our existing stores. Our merchants have been focused on sourcing exclusive and control brands from our suppliers. Control/exclusive brand sales as a percentage of their respective categories continue to grow.
7. Pursue Expansion We plan to strategically expand our business in existing markets in Canada and the United States, and into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal.	Targeting a 2% to 3% organic store growth rate per year for the next two to three years. Strategically invest in new square footage in our existing regions as a result of population growth and, in the case of Kentucky, capitalize on opportunities resulting from certain counties going from 'dry' to 'wet'. The Company continually explores opportunities to develop and/or acquire stores in Alberta, British Columbia and the United States where regulatory regimes permit private liquor stores. Management will continue to evaluate and assess potential store development and store acquisition opportunities for their ability to add accretive cash flow and shareholder value. Developing new destination-focused/ large-format stores in our current regions to complement our existing convenience-focused store network and expand market share. Sourcing opportunities to expand geographically through new store development and/or acquisitions to capitalize on opportunities in new regions and to reduce the concentration risk of any particular region. Based on a proven track record of success, the Company anticipates it will invest significantly in large format expansion in both Canada and the United States.	**Status:** **On Track** To date in 2015, we have opened 5 new convenience-format stores in Canada and 2 large-format stores in the United States. We have commitments to open a further 14 stores in the next twenty-four months (Canada: 11 stores; U.S.: three stores).

8. Industry Regulation and Competitive Environment

Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. We currently operate 176 liquor stores in Alberta where there are 1,368 liquor stores and 91 agency stores[3]. Our "Liquor Depot" and "Liquor Barn" trade names are well recognized throughout the province as leading alcoholic beverage retailers.

We operate 35 stores in British Columbia. British Columbia's model for liquor distribution is a blend of 730 private stores and 196 government operated stores. There are also 224 private agency stores that service small communities[4].

We operate 23 stores in Alaska, with 19 stores in the greater Anchorage area, three stores in Wasilla, and one in Fairbanks. Save for limited community liquor stores 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. In Alaska, there are 365 retail liquor stores with 113 stores in the greater Anchorage, Wasilla and Fairbanks areas[5]. The Company's "Brown Jug" trade name is well recognized throughout the state as a leading alcoholic beverage retailer.

We operate 15 stores in Kentucky of which seven are large format stores with six stores in Lexington (Fayette County), six stores in Louisville (Jefferson County), and one store in each of Danville (Boyle County), Bowling Green (Warren County), and Elizabethtown (Hardin County). In Kentucky, there are no government owned or operated liquor stores. Liquor licenses are permitted based on whether the sale of alcoholic beverages is allowed in 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 918 package retail license stores in Kentucky with 271 in Jefferson County, 82 in Fayette County, 8 in Boyle County, 24 in Warren County, 22 in Hardin County[6].

[3] *Source: Alberta Gaming and Liquor Commission, as at March 31, 2015.*
[4] *Source: British Columbia Liquor Distribution Branch, as at February 2015.*
[5] *Source: Alaska's Alcoholic Beverage Control Board, as at July 2015.*
[6] *Source: Kentucky's Alcoholic Beverage Control Board, as at July 2015.*

9. Dividends

Dividend 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 at all times 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 per share on an annualized basis).

Dividends are declared payable each month to the Company's shareholders on the last business day of each month and are paid by the 15th of the following month. 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).

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, 2015, shareholders enrolled in the DRIP held approximately 2,492,181 million shares.

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

10. Analysis of Financial Results – Three Months Ended June 30, 2015

The following table summarizes the operating results for the three months ended June 30, 2015 and 2014.

	Three months ended June 30,			
	2015		2014	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores	125,190	65.7%	122,057	68.5%
Other Canadian stores (1)	6,332	3.3%	5,065	2.8%
Canadian wholesale	7,696	4.0%	6,536	3.7%
Total Canadian store sales	139,218	73.0%	133,658	75.0%
U.S. same-stores (US$)	41,226	21.7%	40,826	22.9%
Other U.S. stores (US$) (2)	584	0.3%	-	-%
Foreign exchange on U.S. store sales	9,578	5.0%	3,684	2.1%
Total U.S. store sales	51,388	27.0%	44,510	25.0%
Total sales	190,606	100.0%	178,168	100.0%
Gross margin	48,891	25.7%	44,715	25.1%
Operating and administrative expense	36,277	19.1%	35,459	19.9%
Operating margin(3)	12,614	6.6%	9,256	5.2%
Adjusting items (3)	191	0.1%	1,386	0.8%
Adjusted Operating Margin(3)	12,805	6.7%	10,642	6.0%

Notes:

(1) *Sales for Other Canadian stores for the three months ended June 30, 2015 and 2014 include those of ten stores opened and seven stores closed subsequent to March 31, 2014.*

(2) *Sales for Other U.S. stores for the three months ended June 30, 2015 and 2014 include those of one new store opened in Alaska and one new store opened in Kentucky subsequent to March 31, 2014.*

(3) *Adjusting items for the three months ended June 30, 2015 include $0.2 million for expenses related to the implementation of our new enterprise resource management system. Adjusting items for the three months ended June 30, 2014 include payments made to a former officer of the Company upon his departure from the Company ($0.6 million), a settlement with a vendor for software license fees from prior years ($0.4 million), legal and tax professional fees not expected to reoccur related to changes made to our corporate structure ($0.3 million), and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year. Operating margin, adjusting items and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Financial Measures' section of this MD&A.*

Second Quarter 2015 Operating Results Compared to Second Quarter 2014 Operating Results

Sales

Total sales increased by $12.4 million or 7.0% to $190.6 million in the second quarter of 2015 (Q2 2014 - $178.2 million). The increase is primarily the result of the contribution from the increase in same-stores sales, new store expansion in the United States and Canada offsetting store closures in Canada (two new stores opened in the United States, ten new stores opened in Canada, and seven stores closed since March 31, 2014), and a $5.9 million positive change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales

- Canadian same-store sales increased by $3.1 million, or 2.6%.
    - The increase in Canadian same-store sales in Q2 2015 was the result of growth in both average basket sizes and transaction counts. We believe that these positive improvements were related to:
        - Changes that were made to our pricing and marketing strategies over the last year.
        - The Province of Alberta increased its alcohol tax by $0.22 per litre effective March 27, 2015, which we primarily passed on to customers through increased retail prices. This tax increase primarily impacted beer prices, and had a fairly insignificant impact on wine and spirits.
        - The introduction of store level training programs in the latter portion of 2014.
    - The increase in Canadian same-store sales is also attributable to: (i) increased sales contribution from those stores that have been renovated over the last 18 months, and (ii) newer stores that are now included in same-store sales (i.e. those that have been open for 13 months to 36 months) contributing higher than average sales increases as they continue to mature.
    - The increase in Canadian same-store sales were in spite of an economic slowdown in certain Alberta resource markets, where we are seeing declines in same-store sales consistent with the prior quarter.
- U.S. same store sales increased by $0.4 million or 1.0%.
    - Same-store sales in the United States have been positively impacted by same-store sales growth in Kentucky. The increase in Kentucky is the result of making changes to our pricing and marketing strategies and store level training programs, similar to Canada. Both our basket size and transaction count in Kentucky increased compared to Q2 2014.
    - The increases in Kentucky were offset slightly by a decrease in same-store sales in Alaska during the period. This market has been negatively impacted by a slowdown in the economy as a result of a decline in oil and gas exploration activity in recent months. Management has been focused on improving performance in this market and has seen moderate improvement from Q1 2015 results. While our transaction count was lower in Alaska, we improved our basket size in this market compared to Q2 2014.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $7.7 million for the three months ended June 30, 2015, representing an increase of $1.2 million or 17.7% increase from the prior year, as a result of adding new licensee customer accounts over the past year and growth in sales of our existing licensee accounts.

- Sales for the Other Canadian stores have increased $1.3 million compared to the prior year primarily as a result of the sales from the ten new stores opened since March 31, 2014 contributing more than the lost contribution from the closure of seven stores over the same period. Sales for Other U.S. stores have increased by $0.6 million compared to 2014 as a result of one new store opened in Kentucky and one new store opened in Alaska since March 31, 2014.

Gross Margin

For the three months ended June 30, 2015, gross margin was $48.9 million, up 9.3% from $44.7 million for the same period last year. Gross margin as a percentage of sales for the period has increased to 25.7% (Q2 2014 – 25.1%). The increase in gross margin was primarily attributable to the improvement in same-store sales ($1.0 million), an improvement in gross margin as a percentage of sales ($1.2 million), the margin increase from new stores net of store closures ($0.6 million), and a positive change in foreign exchange on translation of U.S. dollar denominated gross margin to Canadian dollars ($1.4 million).

The improvement in our gross margins as a percentage of sales was primarily attributable to the strengthening sales of our control and exclusive products, which have stronger gross margins compared to national brands, and improvements made to our pricing and marketing strategies that were initiated in mid-2014, and continued into the first half of 2015.

Operating and Administrative Expenses

Operating and administrative expenses for the three months ended June 30, 2015 were $36.3 million, up 2.3% from $35.5 million a year earlier, but down 90 basis points on a percentage of sales basis to 19.1% of sales in the current quarter compared to 19.9% a year earlier. Excluding adjusting items of $0.2 million in the current quarter related to the implementation of our enterprise resource management system, and adjusting items of $1.4 million in Q2 2014 (payments made to a former member of the senior management team, $0.6 million; settlement with a vendor for software license fees from prior years, $0.4 million; legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, $0.3 million; and for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year, $0.1 million), these expenses increased by 5.9% or $2.0 million, but decreased on a percentage of sales basis (18.9% in the current quarter compared to 19.1% a year earlier).

Of this $2.0 million increase, $1.3 million related to an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars. The remaining $0.7 million was primarily attributable to the increased costs associated with running our twelve new stores opened since March 31, 2014 net of seven store closures, which were partially offset by a decrease in head office administrative expenses from the prior year ($0.2 million) and decreases in costs of running our same-stores ($0.2 million).

Adjusted Operating Margin

Operating margin for the three months ended June 30, 2015 increased by $3.4 million to $12.6 million or 6.6% as a percentage of sales (Q2 2014 – 5.2%).

Adjusted operating margin for the three months ended June 30, 2015 increased by $2.2 million from $10.6 million in Q2 2014, primarily due to the increases in gross margin, offset by increases in store level operating expenses as explained above. Adjusted operating margin as a percentage of sales was 6.7%, up from 6.0% in the prior year.

Since March 31, 2014, the Company has added twelve new stores in Canada and the United States. New stores generally take up to three years to mature and fully contribute to operating margin, and as such, these new stores will reduce the adjusted operating margin as a percentage of sales. Management believes that this impact is temporary and that these new stores will positively contribute to adjusted operating margin as a percentage of sales as they mature. The Company has also closed seven stores since March 31, 2014.

Amortization

Amortization expense of $2.9 million for the second quarter of 2015 increased by $0.6 million from the prior year (Q2 2014 - $2.3 million). Additional amortization in the current year related to the new stores opened subsequent to March 31, 2014 and accelerated amortization recorded for store closures and renovations.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long-term debt and convertible debentures of $1.5 million (Q2 2014 - $2.0 million); non-cash interest of $0.3 million (Q2 2014 - $0.4 million), a marginal unrealized gain on the mark-to-market adjustments related to an interest rate swap (Q2 2014 – marginal unrealized gain), and a $0.1 million loss on foreign exchange from financing activities (Q2 2014 - $nil). Cash interest expense has declined compared with the prior year as a result of our lower average long-term debt balances compared to the prior year as a result of our common share issuance in Q4 2014, from which we used the proceeds to repay long-term debt. Average borrowing rates during the period have been consistent with the prior year.

Income Taxes

In the second quarter of 2015, we recorded an income tax expense of $3.2 million for an effective rate of approximately 42% (Q2 2014 - $1.1 million and an effective tax rate of approximately 25%).

Effective July 1, 2015, the Alberta corporate income tax rate increased from 10 percent to 12 percent, which will increase our Canadian statutory tax rate in future periods.

Our effective tax rate for the period differs from the statutory rate due to a one-time re-measurement of our deferred income tax liability arising from the Alberta corporate income tax rate increase. As a result of this re-measurement, a deferred tax expense of $1.3 million was recorded in the second quarter of 2015.

Net Earnings

For the three months ended June 30, 2015, net earnings of $4.6 million were recorded (Q2 2014 –$3.4 million). The increase in net earnings in Q2 2015 is primarily the result of the increases in gross margin in the current period ($4.2 million) and reduction in finance costs ($0.5 million) offset by the increase in operating and administrative expenses ($0.8 million) increased amortization expense ($0.6 million), and increase in income tax expense ($2.1 million) as discussed earlier in this MD&A.

Normalized for the one-time adjustment to the corporate income tax rates in the Province of Alberta discussed above, our adjusted net earnings increased by $2.5 million to $5.9 million for Q2 2015 compared to Q2 2014.

11. Analysis of Financial Results - Six Months Ended June 30, 2015

The following table summarizes the operating results for the six months ended June 30, 2015 and 2014.

	Six months ended June 30,			
	2015		2014	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores	220,300	65.2%	213,245	67.6%
Other Canadian stores (1)	10,342	3.0%	9,186	2.9%
Canadian wholesale	13,366	4.0%	11,649	3.7%
Total Canadian store sales	244,008	72.2%	234,080	74.2%
U.S. same-stores (US$)	75,080	22.2%	74,311	23.5%
Other U.S. stores (US$) (2)	1,083	0.3%	-	-%
Foreign exchange on U.S. store sales	17,861	5.3%	7,152	2.3%
Total U.S. store sales	94,024	27.8%	81,463	25.8%
Total sales	338,032	100.0%	315,543	100.0%
Gross margin	86,914	25.7%	78,621	24.9%
Operating and administrative expense	72,819	21.5%	68,369	21.7%
Operating margin(3)	14,095	4.2%	10,252	3.2%
Adjusting items (3)	1,321	0.4%	1,386	0.5%
Adjusted operating margin(3)	15,416	4.6%	11,638	3.7%

Notes:

(1) *Sales for Other Canadian stores for the six months ended June 30, 2015 and 2014 include those of the ten stores opened and eleven stores closed subsequent to December 31, 2013.*

(2) *Sales for Other U.S. stores for the six months ended June 30, 2015 and 2014 include those of one new store opened in Alaska and one new store opened in Kentucky subsequent to December 31, 2013.*

(3) *Adjusting items for the six months ended June 30, 2015 includes payments made to a former member of the senior management team ($0.7 million) and to certain members of a regional operations team ($0.2 million) upon their departure from the Company, and $0.4 million for expenses related to the implementation of our new enterprise resource management system. Adjusting items for the six months ended June 30, 2014 include payments made to a former officer of the Company upon his departure from the Company ($0.6 million), a settlement with a vendor for software license fees from prior years ($0.4 million), legal and tax professional fees not expected to reoccur related to changes made to our corporate structure ($0.3 million), and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year. Operating margin, adjusting items and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Financial Measures' section of this MD&A.*

Six Months ended June 30, 2015 Operating Results Compared to Six Months ended June 30, 2014 Operating Results

Sales

Total sales increased by $22.5 million or 7.1% to $338.0 million in the first six months of 2015 (2014 - $315.5 million). The increase is primarily the result of the sales contribution from same-stores, sales contribution from new store expansion in Canada and the United States offsetting store closures in Canada (two new stores opened in the United States and ten stores opened in Canada, and eleven stores closed since December 31, 2013) and a $10.7 million positive change in foreign exchange on translation of U.S. dollar denominated sales to Canadian dollars.

<u>Same-Store Sales</u>

- Canadian same-store sales increased by $7.1 million, or 3.3%.
  - The increase in Canadian same-store sales for the six months ended June 30, 2015 was the result of growth in both average basket sizes and transaction counts. We believe that these positive improvements were primarily related to changes that were made to our pricing and marketing strategies over the last year, the introduction of store level training programs in 2014, due to slightly more favourable weather in the first three months of 2015 compared to that experienced in 2014, and the $0.22 litre increase in alcohol tax in the Province of Alberta effective March 27, 2015.
  - The increase in Canadian same-store sales is also attributable to: (i) increased sales contribution from those stores that have been renovated over the last 18 months, and (ii) newer stores that are now included in same-store sales (i.e. those that have been open for 13 months to 36 months) contributing higher than average sales increases as they continue to mature.
  - The increase in Canadian same-store sales were in spite of an economic slowdown in certain Alberta resource markets, where we are continuing to see declines in same-store sales.
- U.S. same store sales increased by $0.8 million or 1.0%.
  - Same-store sales in the United States have been positively impacted by same-store sales growth in Kentucky. The increase in Kentucky is the result of making changes to our pricing and marketing strategies and store level training programs, similar to Canada. Both our basket size and transaction count in Kentucky increased compared to the prior year.
  - The increases in Kentucky were offset by a decrease in same-store sales in Alaska during the period. This market has been negatively impacted by a slowdown in the economy as a result of a decline in oil and gas exploration activity in recent months. Management is focused on improving performance in this market. In the current year, the local leadership team in the Alaska region was replaced and we continue to enhance our pricing and marketing strategies. While our transaction count was lower in Alaska, we improved our basket size in this market compared to Q2 2014.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $13.4 million for the six months ended June 30, 2015, representing an increase of $1.7 million or 14.7% from the prior year, primarily due to adding new licensee customer accounts in the current year.
- Sales for the Other Canadian stores have increased $1.2 million compared to the prior year primarily as a result of the sales from the ten new stores opened since December 31, 2013 contributing more than the lost contribution from the closure of eleven stores over the same period. Sales for Other U.S. stores have increased by $1.1 million compared to 2014 as a result of one new store opened in Kentucky and one new store opened in Alaska since December 31, 2013.

Gross Margin

For the six months ended June 30, 2015, gross margin was $86.9 million, up 10.5% from $78.6 million for the same period last year. Gross margin as a percentage of sales for the period has increased to 25.7% (2014 – 24.9%). The increase in gross margin was primarily attributable to the improvement in same-store sales ($2.0 million), an improvement in gross margin as a percentage of sales ($2.9 million), the margin increase from new stores net of store closures ($0.9 million), and a positive change in foreign exchange on translation of U.S. dollar denominated gross margin to Canadian dollars ($2.5 million).

The improvement in our gross margins as a percentage of sales was primarily attributable to the strengthening sales of our control and exclusive products, which have stronger gross margins compared to national brands, and improvements made to our pricing and marketing strategies that were initiated in mid-2014, and continued into the first half of 2015.

Operating and Administrative Expenses

Operating and administrative expenses for the six months ended June 30, 2015 were $72.8 million, up 6.5% from $68.4 million a year earlier. Excluding adjusting items of $1.3 million in the current year (payments made to a former member of the senior management team, $0.7 million, and to certain members of a regional operations team, $0.2 million, upon their departure from the Company, and $0.4 million related to the implementation of our enterprise resource management system) and adjusting items of $1.4 million in the prior year (payments made to a former member of the senior management team, $0.6 million; settlement with a vendor for software license fees from prior years, $0.4 million; legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, $0.3 million; and for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year, $0.1 million), these expenses increased by 6.7% or $4.5 million.

Of this $4.5 million increase, $2.6 million related to an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars. The remaining $1.9 million was primarily attributable to the increased costs associated with running our twelve new stores opened since December 31, 2013 net of eleven store closures, rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.3 million), and other increases in operating costs associated with running same-stores ($1.1 million), which were partially offset by a decrease in head office administrative expenses from the prior year ($0.2 million).

Adjusted Operating Margin

Operating margin for the six months ended June 30, 2015 increased by $3.8 million to $14.1 million, or 4.2% as a percentage of sales (2014 – 3.2%).

Adjusted operating margin for the six months ended June 30, 2015 increased by $3.8 million from $11.6 million, primarily due to the increases in gross margin, offset by increases in store level operating expenses as explained above. Adjusted operating margin as a percentage of sales was 4.6%, up from 3.7%.

Since December 31, 2013, the Company has added twelve new stores in Canada and the United States. New stores generally take up to three years to mature and fully contribute to operating margin, and as such, these new stores will reduce the adjusted operating margin as a percentage of sales. Management believes that this impact is temporary and that these new stores will positively contribute to adjusted operating margin as a percentage of sales as they mature. The Company has also closed eleven stores since December 31, 2013.

Amortization

Amortization expense of $5.2 million for the first six months of 2015 was up from $4.5 million from the prior year. Additional amortization in the current year related to new stores opened subsequent to December 31, 2013 and accelerated amortization recorded for store closures and renovations.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long-term debt and convertible debentures of $3.1 million (2014 - $3.9 million); non-cash interest of $0.8 million (2014 - $0.7 million), $0.1 million unrealized loss on the mark-to-market adjustments related to an interest rate swap (2014 - $nil), and a $0.2 million loss on foreign exchange from financing activities (2014 - $nil). Cash interest expense has declined compared with the prior year as a result of our lower average long-term debt balances compared to the prior year as a result of our common share issuance in Q4 2014, from which we used the proceeds to repay long-term debt. Average borrowing rates during the period have been consistent with the prior year.

Income Taxes

In the first six months of 2015, we recorded an income tax expense of $2.4 million for an effective rate of approximately 52% (2014 - $0.3 million and an effective tax rate of approximately 25%).

Effective July 1, 2015, the Alberta corporate income tax rate increased from 10 percent to 12 percent, which will increase our Canadian statutory tax rate in future periods.

Our effective tax rate for the period differs from the statutory rate due to a one-time re-measurement of our deferred income tax liability arising from the Alberta corporate income tax rate increase. As a result of this re-measurement, a deferred tax expense of $1.3 million was recorded in the second quarter of 2015.

Net Earnings

For the six months ended June 30, 2015, net earnings of $2.2 million were recorded (2014 –$0.9 million). The increase in net earnings in 2015 is primarily the result of the increases in gross margin in the current period ($8.3 million) and reduction in finance costs ($0.4 million), offset by an increase in operating and administrative expenses (inflationary increases and a $2.6 million increase related to an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars), increased amortization expense and an increase in income tax expense as discussed above.

Normalized for the one-time adjustment to the corporate income tax rates in the Province of Alberta discussed above, our net earnings were $3.5 million for the six months ended June 30, 2015, an increase of $2.6 million compared to the prior year.

12. Condensed Quarterly Information

(expressed in thousands of Canadian dollars, except per share amounts and number of stores)

	2015		2014			2013		
	June 30	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**
Statement of Financial Position								
Cash	$4,057	$ 11,360	$ 3,003	$ 4,331	$ 4,391	$ 5,197	$ 4,529	$ 5,550
Total assets	546,351	545,810	525,865	520,426	517,128	520,410	512,676	532,510
Current bank indebtedness	-	-	-	987	932	4,462	-	2,518
Total current liabilities	44,458	45,872	51,124	40,974	43,514	45,178	46,498	40,145
Long-term debt	124,670	122,244	92,037	157,685	157,907	155,670	133,819	154,965
Total liabilities	186,244	182,466	161,107	214,947	215,258	213,642	200,754	215,930
Shareholders' equity	360,127	363,344	364,758	305,479	301,809	306,738	311,922	316,580
Non-controlling interest	60	(2)	106	46	61	30	94	30
Statement of Earnings								
# stores, end of period	247	246	243	246	245	243	246	246
Sales	190,606	147,426	196,722	181,921	178,168	137,375	184,106	172,903
Adjusted operating margin (1)	12,805	2,611	13,742	12,536	10,642	996	14,147	13,725
Net earnings/(loss)	4,560	(2,313)	6,714	5,316	3,417	(2,498)	(1,106)	5,811
Basic and diluted earnings/(loss) per share	$0.16	($ 0.09)	$0.28	$0.23	$ 0.14	($ 0.11)	($0.05)	$0.25
Dividends declared per share	$0.27	$ 0.27	$0.27	$0.27	$0.27	$ 0.27	$0.27	$0.27

Note:

(1) *Adjusted operating margin is a non-IFRS measure that does not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A. There were no adjusting items for the three month periods ended December 31, 2014, September 30, 2014, and March 31, 2014 and therefore adjusted operating margin for these periods is equal to operating margin.*

Analysis of Consolidated Financial Position

The Company has a significant investment in working capital that is primarily due to the Company being required, consistent with other liquor retailers, to pay for inventory prior to receiving it in Alberta and British Columbia. As we do not have traditional payment terms on our inventory, our working capital is higher in these regions compared to that in Kentucky and Alaska where we generally have 30 day trade payment terms. At June 30, 2015, net working capital (current assets, excluding cash, less current liabilities) was $112.9 million, a $17.4 million increase from the prior year end (December 31, 2014 - $95.5 million).

- Accounts receivable of $2.2 million as at June 30, 2015 increased $0.1 million from December 31, 2014 primarily as a result of an increase in our wholesale business with licensee customers on account, partially offset by a decrease in tenant improvement allowances receivable related to new stores and store renovations completed in 2014.

- Inventory of $144.2 million as at June 30, 2015 increased $8.9 million from December 31, 2014 due to an approximate $3.3 million increase related to the strengthening of the U.S. dollar vs. the Canadian dollar and as a result of ramping up our inventory buys as we head into the spring/summer selling season and for our two new large format stores opened in Kentucky in July 2015.

- Accounts payable and accrued liabilities of $41.3 million as at June 30, 2015 decreased by $7.3 million from December 31, 2014 primarily due to a decrease in accruals related to capital expenditures on store renovations in the fourth quarter and decreased inventory purchases on terms in our U.S. regions after the year-end holiday selling season, offset partially by an increase related to the strengthening of the U.S. dollar vs. the Canadian dollar.

The carrying value of property and equipment was $53.9 million, which increased $2.9 million from year end (December 31, 2014 - $51.0 million). Cash additions during the period of $14.3 million (2014 - $3.9 million) were related to the five new stores opened in the first six months of the year and the two new large format stores opened in Kentucky in July 2015 (2014 – four) and maintenance capital expenditures. These additions were offset by amortization of property and equipment of $5.2 million (excluding gain on sale of Fairbanks of $0.1 million) (2014 - $4.3 million), a $2.0 million decrease in property and equipment included in accounts payable and accrued liabilities compared to at December 31, 2014, and the disposition of a property in Fairbanks, Alaska with carrying value of $5.5 million at the time of disposal (via a sale lease back transaction). Foreign exchange differences on property and equipment assets held in the U.S. resulted in an increase in the carrying value of $1.3 million (2014 – increase of $0.9 million).

Long-term debt was $124.7 million at June 30, 2015, a $32.7 million increase from year end (December 31, 2014 - $92.0 million). During the period, the proceeds from our long-term debt facilities were $32.3 million (2014 - $23.4 million), $0.4 million in deferred finance costs were recognized against the carrying value of long-term debt, $0.8 million in accretion of the subordinated convertible debentures and amortization of deferred financing charges was recognized (2014 - $0.7 million). The increase in long-term debt from year end primarily related to the increase in working capital from year end as we ramp up inventory for the spring/summer selling season, for the cash used in operating activities, and to finance capital expenditures.

13. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

(expressed in thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Changes in non-cash working capital	$(5,074)	$ 1,572	$(13,348)	$ (9,512)
Cash provided by (used in) operating activities	5,665	8,740	(6,404)	(9,237)
Cash used in investing activities	(8,050)	(2,245)	(16,387)	(3,925)
Cash provided by (used in) financing activities	(4,697)	(7,174)	23,859	12,991
Effect of exchange rate on changes in cash	(221)	(127)	(14)	33
Net increase (decrease) in cash and cash equivalents	(7,303)	(806)	1,054	(138)

Operating activities

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

Cash provided by operating activities before changes in non-cash 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, the replacement of existing fixed assets or the 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, 2015 were $0.16 and $0.08, respectively (2014 - $0.14 and $0.04). 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 non-cash working capital and the calculation of this measure and 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 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 adjusting items to its nearest IFRS alternative, cash provided by operating activities:

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands, except per share amounts)	**2015**	**2014**	**2015**	**2014**
Cash provided by operating activities	$ 5,665	$ 8,740	$ (6,404)	$ (9,237)
Changes in non-cash working capital [(2)]	(5,074)	1,572	(13,348)	(9,512)
Cash provided by operating activities before changes in non-cash working capital[(1)]	10,739	7,168	6,944	275
Adjusting items [(3)]	191	1,386	1,321	1,386
Cash provided by operating activities before changes in non-cash working capital and adjusting items[(1)]	$ 10,930	$ 8,554	$ 8,265	$ 1,661
Weighted average number of common shares outstanding – basic	27,299,433	23,187,867	27,280,078	23,162,014
Per share amount	0.39	0.31	0.25	0.01
Per share amount before adjusting items	0.40	0.37	0.30	0.07
Cash dividends per share	0.27	0.27	0.54	0.54

Notes:

(1) *Cash provided by operating activities before changes in non-cash working capital, adjusting items, and cash provided by operating activities before changes in non-cash working capital and adjusting items are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

(2) *Changes in non-cash working capital is excluded from the calculation as Management believes that it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as timing of disbursements (such as the payment for large inventory purchases, income taxes, etc.). As well, significant increases in working capital are generally required when new stores are developed or acquired.*

(3) *Adjusting items for the three months ended June 30, 2015 include $0.2 million for expenses related to the implementation of our new enterprise resource management system. Adjusting items for the six months ended June 30, 2015 include $0.9 million for payments made to a former member of senior management team and to certain members of a regional operations team upon their departure from the Company, and $0.4 million for expenses related to the implementation of our new enterprise resource management system. Adjusting items for the three and six months ended June 30, 2014 include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in the prior year. Operating margin, adjusting items and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Financial Measures' section of this MD&A.*

Cash provided by operating activities before changes in non-cash working capital and adjusting items for the three and six months ended June 30, 2015 has increased by $2.4 million and $6.6 million, respectively, as compared to the same period in 2014 primarily due to the increase in operating margins and lower cash interest costs compared to the prior year (see further discussion earlier in the MD&A in the 'Analysis of Financial Results' section).

Investing activities

For the three months ended June 30, 2015, cash used in investing activities was $8.0 million, a $5.8 million increase from $2.2 million used for the same period a year ago.

- Cash used for the purchase of property and equipment for the three months ended June 30, 2015 of $7.5 million related to four new stores under construction, acquired, or opened during Q2 2015 for settlement in Q2 2015 of accounts payable and accrued liabilities as March 31, 2015 related to property and equipment additions in the first quarter of 2015, and the acquisition of a retail liquor store in Edmonton in the current quarter.
- Cash used for the purchase of intangible assets during the second quarter primarily related to the implementation of our enterprise resource planning system and a lease at below market rates obtained in the acquisition of a retail liquor store in Edmonton in the current quarter.

For the six months ended June 30, 2015, cash used in investing activities was $16.4 million, a $12.5 million increase from $3.9 million used for the same period a year ago.

- Cash used for the purchase of property and equipment for the six months ended June 30, 2015 of $14.3 million related to the seven new stores under construction, acquired or opened in 2015 and for settlement in Q1 2015 of accounts payable and accrued liabilities as December 31, 2014 related to property and equipment additions in 2014, and the acquisition of a retail liquor store in Edmonton in the current quarter.
- Cash used for the purchase of intangible assets during the period primarily related to the implementation of our enterprise resource planning system and a lease at below market rates obtained in the acquisition of a retail liquor store in Edmonton in the current quarter.

Financing activities

For the three months ended June 30, 2015, cash used in financing activities was $4.7 million, a $2.5 million decrease from the same period a year ago. This decrease primarily relates to:

- Higher total proceeds from long term debt compared to the prior year, which was due to the investment made in the construction of new stores, acquisition of a retail liquor store in Edmonton, and expenditures on the implementation of our enterprise resource planning system. In the prior year, including the repayment of bank indebtedness, we had a net repayment of debt included in financing activities.
- Dividends paid that were $1.1 million higher in quarter compared to the prior year as a result of the common share issuance completed by the Company in the fourth quarter of 2014.

For the six months ended June 30, 2015, cash provided by financing activities was $23.9 million, a $10.9 million increase from the same period a year ago. This is primarily as a result of:

- Cash received on the disposal of assets related to a sale-leaseback transaction that the Company completed with a third party on March 31, 2015 to dispose of a property in Fairbanks, Alaska for gross proceeds of $5.9 million less transaction costs of $0.3 million. The carrying amount of the land and building at the time of disposal was $5.5 million. A gain on disposal of the assets of $0.1 million was recognized, and is included with amortization of property and equipment in the Statement of Earnings and Comprehensive Income.

- Higher proceeds from long-term debt compared to the prior year, which was due to the investment made in working capital, as well as the construction of new stores during the quarter, the acquisition of a retail liquor store in Edmonton, and expenditures on the implementation of our enterprise resource planning system.
- This increase was offset by dividends paid that were $2.3 million higher in the period compared to the prior year as a result of the common share issuance completed by the Company in the fourth quarter of 2014.

Foreign currency translation loss (gain) on cash

The accounts of the Company's subsidiaries with a U.S. dollar functional currency are translated into Canadian dollars as follows:

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; and
- revenue and expense items (including amortization) are translated at the average rate of exchange for the period.

The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in accumulated other comprehensive income. The effect of exchange rate changes on cash balances held in foreign currencies is separately reported as part of the reconciliation of the change in cash balances for the period. The U.S. dollar experienced both increases and decreases against the Canadian dollar at times during the three months ended June 30, 2015, and based on the timing and level of cash held in U.S. dollars, the Company has recorded a $0.2 million loss on cash held in foreign currency and an insignificant gain in the six months ended June 30, 2015.

Credit Facilities and Subordinated Debentures

On June 30, 2015, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility available to the Company, which is effective until September 30, 2017 and consists of a $175 million extendible revolving operating loan. At August 13, 2015, there was approximately $72 million drawn on 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 has $67.5 million in aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "Debentures"). The 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, the first interest payment having been paid on October 31, 2012. The 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's credit facility is subject to a number of financial covenants. Under the terms of the Company's 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, 2018.

<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.

EBITDA 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 $4.5 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.

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at June 30, 2015, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**As at June 30, 2015**
Funded debt to EBITDA	< 3.50:1.00	1.41:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.50:1.00
Fixed charge coverage	> or = 0.90:1.00[7]	1.07:1.00

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 13, 2015, the Company has undrawn credit of

[7] The fixed charge coverage covenant will increase to > or = 1.00:1.00 effective March 31, 2016.

approximately $80 million under its credit facility available 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 $60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At August 14, 2015, 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 an outstanding bank indebtedness of $72 million, of which $60.0 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, 2015.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 120	$ (120)
Increase (decrease) in net earnings	(89)	89

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Company's net earnings of approximately $0.01 per share.

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; however, wholesale customer 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; 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$3.2 million for the twelve months ended June 30, 2015.

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, 2015, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, software licenses and maintenance, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands)	2015	2016	2017	2018	2019	2020 and thereafter
Operating leases	$ 15,073	$ 28,078	$ 24,011	$ 20,482	$ 16,299	$ 53,104
5.85% Debentures	-	-	-	-	67,500	-
Long-term bank indebtedness	-	-	61,206	-	-	-
Software licenses and maintenance	-	297	297	-	-	-
Total	$ 15,073	$ 28,375	$ 85,514	$ 20,482	$ 83,799	$ 53,104

14. Shareholders' Equity

At June 30, 2015, the Company had 27,319,401 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended June 30, 2015 were 27,299,433 and 27,320,389, respectively (compared to 23,187,867 for the comparative period). The basic and diluted weighted average number of common shares outstanding for the six months ended June 30, 2015 were 27,280,078 and 27,301,300, respectively (compared to 23,162,014 for the comparative period). As at August 14, 2015, 27,353,737 common shares of the Company were issued and outstanding.

15. Off-Balance Sheet Arrangements

As at June 30, 2015 and August 14, 2015, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

16. Related Party Transactions

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, 2015, the Company incurred expenses in the normal course of business for professional fees of $53 thousand (2014 - $42 thousand) from a law firm of which a director of the Company is a partner and recognized professional fees of $85 thousand from this same firm in the carrying value of long-term debt. There was $100 thousand included in accounts payable and accrued liabilities as at June 30, 2015 relating to these transactions (December 31, 2014 - $19 thousand). The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

17. 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.

18. Critical Accounting Estimates and Accounting Policies

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, 2014.

19. Recent Accounting Pronouncements

There were no new IFRS pronouncements that have been issued or that are effective for the Company on January 1, 2015.

20. Non-IFRS Financial Measures

Same-store sales, operating margin, operating margin as a percentage of sales, adjusted gross margin, adjusted operating margin, adjusting items, adjusted net earnings or loss, adjusted basic and diluted earnings or loss per share, cash provided by operating activities before changes in working capital, and cash provided by operating activities before changes in non-cash working capital on a per share basis are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that these measures 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 same-store sales, operating margin, operating margin as a percentage of sales, adjusted gross margin, adjusted operating margin, adjusting items, adjusted net earnings or loss, adjusted basic and diluted earnings or loss per share, cash provided in operating activities before changes in non-cash working capital, and cash provided in operating activities before changes in non-cash working capital on a per share basis may differ from the methods used by other issuers. Therefore, these measures may not be comparable to similar measures presented by other issuers.

Same-store sales include sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers, (ii) stores where sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores we've opened in the last 12 full months, and (iii) stores where sales have increased due to the closure of closely-located stores in the last 12 full months.

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.

Adjusted gross margin represents gross margin adjusted for unusual, non-recurring or non-operating factors on a consolidated basis. Adjusted operating margin represents operating margin adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the *'Summary of the Three and Six Months Ended June 30, 2015'* and *'Analysis of Financial Results'* sections. Adjusted net earnings or loss is calculated as net earnings or loss less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Adjusted basic and diluted earnings or loss per share is calculated as adjusted net earnings or loss divided by basic or diluted weighted average number of common shares outstanding. Management believes the presentation of adjusted operating margin, adjusted net earnings or loss, and adjusted basic and diluted earnings or loss per share provides for useful information to investors and shareholders as it provides increased transparency and predictive value.

Management uses adjusted operating margin and adjusted net earnings or loss to set targets and assess performance of the Company.

Cash provided by operating activities before changes in non-cash working capital and adjusting 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.

EBITDA and EBITDAR, which are used by Management only with reference to the calculation of covenants under the Company's credit facility, have been defined in the Liquidity and Capital Resources section of this MD&A.

21. Outlook

The Company has initiated a number of strategic initiatives under our Seven Point Plan as identified in the *'Company Strategy'* section of this MD&A. These initiatives are necessary to enable the Company to effectively compete in an increasingly competitive environment. While we have seen positive results from these initiatives, and anticipate that these initiatives will be a catalyst for same-store sales increases throughout the balance of 2015, we anticipate that their full benefits will be realized in 2016 and beyond.

Our 2015 financial results may face pressure from factors including, but not limited to: (i) the economic slowdown in the Alberta and Alaska economies due to the current weak oil and natural gas prices which have curtailed investment in the energy sector, an anticipated higher level of unemployment, slowing in-migration to Alberta, and the likely decline in housing starts; and (ii) the potential negative impact on the Alberta economy as a result of recently implemented increases to both personal and corporate provincial income tax rates. We do anticipate that some of this impact may be offset by higher levels of consumer spending in British Columbia and Kentucky where consumers are likely to have higher levels of disposable income as a result of the lower cost of transportation relative to recent years.

We also expect that a portion of our growth in 2015 will come from the opening of new store locations. The Company currently has commitments to open three new stores in the U.S. and eleven new stores in Canada in the next 24 months with an estimated aggregate cost of approximately $11 million. The timing of the store openings is subject to, among other things, completion of store construction and/or fixturing. The execution of the Company's business strategy, including new large-format stores and growth in new regions, requires upfront investment and new stores generally take up to three years to reach maturity and fully contribute to operating margin.

As discussed in the *'Company Strategy'* section of this MD&A, the Company will be investing in our existing stores through a store refreshment program and in our information systems.

- Management estimates that the capital expenditures related to the store refurbishment program will be approximately $6 million to $7 million in 2015.

- We anticipate the costs related to the implementation of our new SAP ERP system over the next 24 months will be approximately $21 million to $24 million, of which $18 million to $20 million will be capitalized and $3 million to $4 million will be expensed as incurred (such as costs related to project scoping, business process changes, training, and travel). In addition to these expenditures, we anticipate incurring $3 million in capital expenditures related to the replacement of existing store hardware in 2015.

As a result of the spend on these initiatives and planned new store growth, operating and administrative costs are expected to trend higher, and therefore we anticipate that the growth in operating margin as a percentage of sales will be modest over the next 12 months.

Management believes that its annual cash flow from existing operations and available credit is sufficient to sustain the Company's dividend at the current level. Management also believes that its cash flow from existing operations, its current available credit and access to new capital are sufficient to finance the execution of the Company's business strategies.

22. Risk Factors

Other than as noted below, there are no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 4, 2015 and the Company's annual MD&A for the year ended December 31, 2014.

Update on Government Regulation – British Columbia

On January 31, 2014, the British Columbia Ministry of Justice released its Liquor Policy Review Report (the "Report"). The government has announced its intention to support all recommendations in the Report and many of the recommendations were formalized, effective April 1, by Order of the Lieutenant Governor In Council (the "Legislative Changes") approved and ordered March 16, 2015 wherein certain sections of the Liquor Control and Licensing Amendment Act were brought into force and the Liquor Control and Licensing Regulation was amended. Other changes may be implemented by way of policy statements or revisions to license terms and conditions (done directly by the regulator).

In the near term, we do not anticipate competition increasing significantly as no new retail liquor licenses are being issued by the province. As a result, should grocery stores decide to sell beer, wine and spirits, they will need to acquire licenses from existing operators and relocate those licenses to their store. However, they will still be required to comply with the rule that restricts a liquor store from locating within one km of any other liquor store. Grocery stores can opt to sell British Columbia Vintners Quality Alliance ("VQA") wines within the existing store on the shelves using one of the 21 existing VQA store licenses or one of the 12 independent wine store licenses (so long as the license is only used to sell 100% BC wine); these licenses will not be subject to the 1 km rule and a limited number of new licenses will also be made available specifically for 100% BC wine on grocery store shelves. We have noted that Kamloops has adopted a 1km rule applicable to all licenses (including VQA), and currently is the only municipality in BC that has adopted their own 1km rule.

Liquor Stores is in a position to participate in the shift as a holder of numerous retail licenses; including the potential to relocate licenses to more attractive locations (inside or outside grocery stores) and as an experienced operator of retail liquor sales.

Changes recommended in the Report also include items that will increase efficiency and may lead to increased profitability. Management believes many changes will assist in creating greater business efficiencies including: new rules permitting the warehousing of inventory, the ability to transfer inventory between stores, the retention of the existing "1 km rule" that requires that no new liquor retailer be located within 1 km of an existing liquor retailer, and the elimination of the existing "5 km rule" that currently limits liquor retailers from relocating their license outside of a 5 km radius of their current location. The Report also includes recommendations that could lead to, over the long-term, increased competition for liquor retail sales in that province, including a recommendation to introduce liquor sales into grocery stores.

Given the new regulatory model presents both opportunities and risks, and the short time that has passed since implementation, it is difficult to quantify the potential positive and negative impacts to assess the net effect the revised regulatory model will have on Liquor Stores.

23. Disclosure Controls and Procedures

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, 2014. 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 or six months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.