LIQUOR STORES N.A. LTD.

ANNUAL INFORMATION FORM

For the year ended December 31, 2013

March 6, 2014

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DEFINED TERMS

Please refer to the "Glossary of Terms" in **Schedule "A"** for a list of defined terms used in this Annual Information Form.

CURRENCY

All dollar amounts in this Annual Information Form are in Canadian dollars unless otherwise stated. On March 5, 2014, the Bank of Canada closing rate for one United States dollar was $1.1038 Canadian dollars.

FORWARD LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Information Form are forward-looking statements, including, without limitation, statements regarding the future financial position, cash dividends, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving Liquor Stores N.A. Ltd. (the "**Corporation**" or "**Liquor Stores**"). Prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words and the negative thereof. In particular, the forward-looking statements in this Annual Information Form include (but is not limited to) statements with respect to: new store acquisitions and development; performance of the Corporation's U.S. and/or Canadian operations; the updating of aesthetic elements of store designs; and the amount and timing of the payment of dividends of Liquor Stores. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this Annual Information Form. Although Management believes that the expectations represented in such forward looking statements are reasonable there can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to: risks relating to government regulation and changes thereto (whether by court decisions, citizen referenda, or otherwise); competition; the state of the economy; the unpredictability and volatility of Liquor Store's common share price; restrictions on potential growth; restrictions on the potential growth of Liquor Stores as a consequence of the payment of cash dividends by Liquor Stores representing a substantial amount of its operating cash flow; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; Liquor Stores' ability to locate and secure acceptable store sites and to adapt to changing market conditions; poor weather conditions; dependence on key personnel; labour costs, shortages and labour relations including Liquor Stores' ability to hire and retain staff at current wage levels and the risk of possible future unionization; supply interruption or delays; reliance on information and control systems; income tax changes; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores; credit risks arising from operations; dilution and future sales of Liquor Stores common shares; and the potential lack of an active trading market for Liquor Stores' common shares and convertible debentures. These factors should not be construed as exhaustive. The information contained in this Annual Information Form, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of Liquor Stores.

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

EFFECTIVE DATE OF INFORMATION

Except where otherwise indicated, the information in this Annual Information Form is presented as at the end of Liquor Stores' most recently completed financial year, being December 31, 2013.

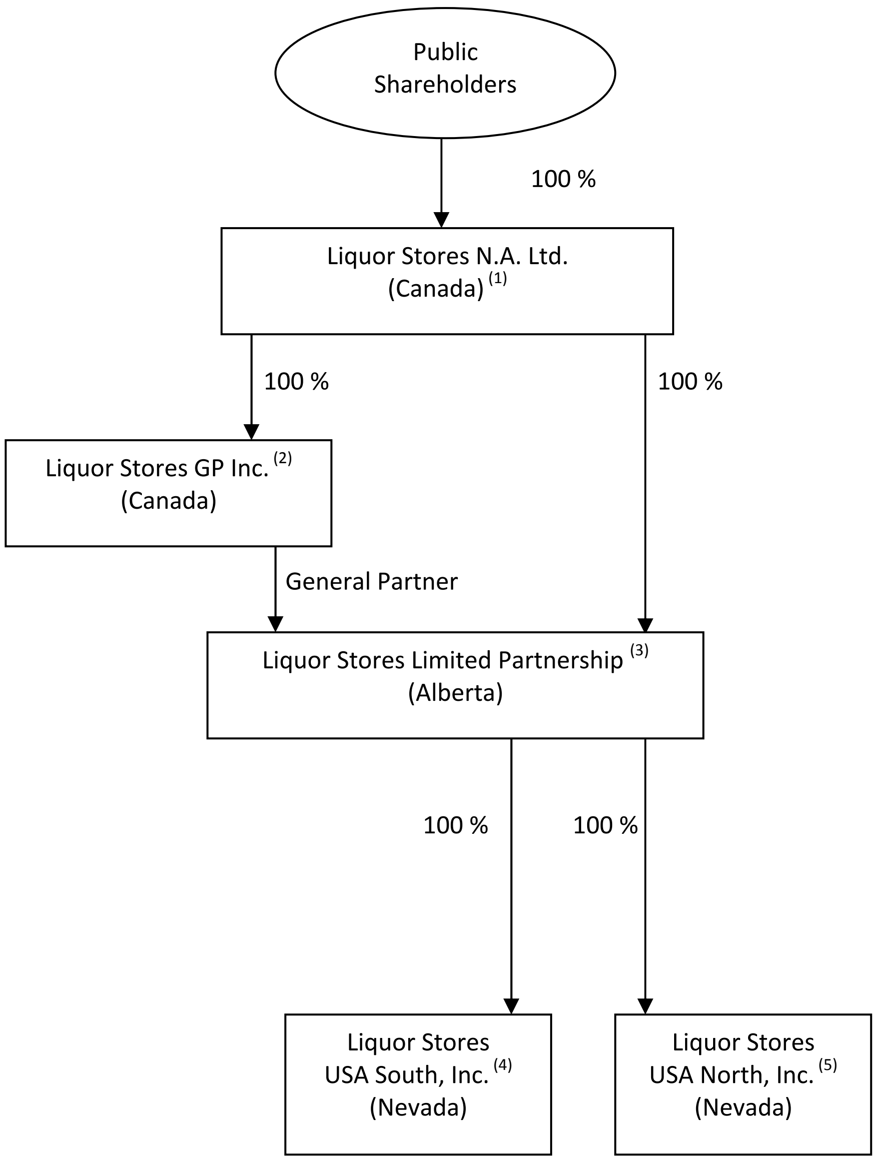
LIQUOR STORES N.A. LTD.

General

Liquor Stores N.A. Ltd. is a corporation incorporated under the CBCA. We are the successor to Liquor Stores Income Fund and commenced operations as such on 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.

Intercorporate Relationships

The following chart illustrates on a simplified basis the structure of Liquor Stores and its material Subsidiaries, including the jurisdiction of incorporation/registration of the corporations and partnerships, as at the date hereof.



(1) All material subsidiaries listed herein are indirectly 100% owned and controlled by Liquor Stores N.A. Ltd.
(2) Liquor Stores GP Inc. is the general partner of Liquor Stores Limited Partnership, and owns all of the GP units of Liquor Stores Limited Partnership.
(3) Liquor Stores Limited Partnership owns and operates all stores located in the Provinces of Alberta and British Columbia directly and through subsidiary entities.
(4) Liquor Stores USA South Inc. owns and operates all stores located in the State of Kentucky directly and through subsidiary entities.
(5) Liquor Stores USA North Inc. directly owns and operates all stores located in the State of Alaska.

DESCRIPTION OF OUR BUSINESS

Overview

Liquor Stores is North America's largest publicly-traded operator of retail liquor stores (as measured by number of stores). As of March 5, 2014 Liquor Stores operates or has interests in 245 retail liquor stores including 175 stores in Alberta, 36 stores in British Columbia, 22 stores in Alaska, and 12 stores in Kentucky. Liquor Stores also supplies liquor in Alberta on a wholesale basis to a number of restaurants, lounges, nightclubs, and other licensees. For each of the years ended December 31, 2013 and December 31, 2012, approximately 98.3% of Liquor Stores' sales in Canada and approximately 87.3% of its sales in the United States were derived from the sale of alcoholic beverages.

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

Product selection throughout the various brands is tailored to each location. Stores in Canada generally range in size from 2,000 to 4,000 square feet; however Liquor Stores' U.S. stores are larger in size. Liquor Stores' stores in Alaska range in size from 1,400 to 14,000 square feet. In addition, we have a combined store and warehouse premises in Alaska in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 32,000 square feet as well as a flagship store of 44,000 square feet. Our Wine & Beyond stores are large-format liquor emporiums (the largest in Western Canada) of approximately 17,000 and 22,000 square feet.

Since the end of fiscal 2010 to fiscal 2013 year-end, the Company has grown as illustrated by the following:

- Sales have grown 14.0% to $661 million.
- Adjusted operating margin grew 13.2% to $45.8 million.
- Number of store locations has increased from 236 stores to 246 stores.
- Property and equipment has grown from $40.9 million to $46. 8 million, a 14.5% increase.
- New brands were introduced, including Wine and Beyond in 2012.

Retail Brands

We operate leading liquor retail brands in all of our respective markets. Our brands include:

- *Liquor Depot/Liquor Barn* – Convenience-sized stores located in Alberta and British Columbia, focused on convenient high-traffic easy-in-and-out locations and store layouts, offering a great selection of beer, wine, and spirits at competitive prices.
- *Wine and Beyond* – Destination/large-format stores located in Alberta that are dedicated to having the largest selection of wine, spirits, beer and accessories in the province – a truly unique customer experience.
- *Wine Cellar* – Specialty stores located in strong-demographic areas in British Columbia, offering a unique selection of wines from around the world and staff as passionate as their customers about the product that we sell.
- Brown Jug - Convenience-focused stores located in Alaska, with an emphasis on easily-accessible locations and store layouts, and great selection at fair prices. Included in the Brown Jug brand is our new large-format destination store located in Fairbanks (our first in the Fairbanks market).
- *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 in the state.

- *Liquor Barn Express* – Similar to the Alberta Liquor Depot stores, these Kentucky-based express stores are smaller-format convenience-focused stores that complement our existing large-format stores in the state.

The following table shows the number of Liquor Stores outlets in Alberta, British Columbia, Alaska, and Kentucky, as well as major markets within those jurisdictions, as at March 5, 2014:

Alberta		**British Columbia**		**Alaska**		**Kentucky**	
Edmonton & Area	81	Lower Mainland	13	Greater Anchorage	21	Lexington	6
Calgary & Area	44	Victoria	3	Fairbanks	1	Louisville	4
Fort McMurray	6	Other Vancouver Island	8			Danville	1
Grande Prairie	9	Interior	12			Bowling Green	1
Slave Lake	3						
Red Deer	7						
Canmore / Banff	2						
Other	23						
Total	175	Total	36	Total	22	Total	12

The following table shows the number of stores which Liquor Stores operated or had an investment in, at the end of the most recent three calendar years. The slight decrease in store count between 2012 and 2013 is attributable primarily to the closure of certain underperforming stores in the Alberta market.

Year ending Dec. 31	Stores
2013	246
2012	249
2011	239

The Alcoholic Beverage Market

In Canada, sales of alcoholic beverages grew 3.0% to total $20.9 billion for the year ending March 31, 2012 according to Statistics Canada. Beer was the most popular category, accounting for 43.8% of sales, followed by wine at 31.1% and spirits at

25.1%. Sales in British Columbia totalled $3.0 billion, growing 2.4% in the year. Sales of wine showed the strongest growth at 3.6%. In Alberta, alcoholic beverage sales totalled $2.3 billion, a 5.7% increase over the previous year. Beer sales increased 7.1% and wine sales increased 6.8%. In the US, retail sales of alcoholic beverages in 2012 totalled $197.8 billion ($US) according to the Wine and Spirits Wholesalers of America. Beer sales accounted for almost 50% of total sales, while spirits were second at 36% and wine only accounted for 15% of sales. However, the industry is benefiting from demographic trends and shifts in consumer preferences to higher margin products such as wines and coolers. Over the previous five years (2007 to 2012), consumption of wine and spirits has grown significantly (13.3% and 9.0% growth respectively), while beer consumption declined 4.3%.

Business Strengths

Experienced and Proven Management Team – Liquor Stores has an experienced and entrepreneurial management team with strong backgrounds in retail business, real estate matters, and in the liquor industry.

Mr. Stephen Bebis was appointed to the position of President and CEO of Liquor Stores effective May 7th, 2013. Mr. Bebis is also a Director of Liquor Stores. Mr. Bebis has a deep resume of experience in the retail sector, and most recently served as President and Chief Executive Officer of U.S.-based Brookstone Inc., a specialty lifestyle retail company. From 1998 to 2011, Mr. Bebis served as the founder, President and CEO of Golf Town, the largest specialty golf retailer in Canada and one of the largest in the world. From 1996 to 1998, Mr. Bebis was Chairman, President, and CEO of Sports and Recreation Stores, Tampa, Florida. Prior thereto, Mr. Bebis held various executive-level positions, including (among others) President of Home Depot Canada, and founder and CEO of Aikenhead's Home Improvement Warehouse.

The founders of Liquor Stores, Irving Kipnes and Henry Bereznicki, continue to serve on the Board of Directors of Liquor Stores. Each of the founders has been involved in the retail liquor business since Alberta's privatization in 1993 and together they have a combined 40 years' experience in the retail liquor business and a combined 77 years' experience in commercial real estate development and leasing. Certain members of Liquor Stores' senior management team have many years of high-level retail experience (some with national & international retailers) and will continue to build on this retail knowledge as we expand into new markets and further develop our business. In 2014 Liquor Stores anticipates further strengthening its management team by adding additional senior-level management in the areas of human resources, information technology, logistics and store operations.

Convenience and Location –Although Liquor Stores has experienced financial success with its large-format destination-focused Wine and Beyond stores in Alberta, management continues to believe that convenience is the primary consideration for retaining and attracting liquor store customers. Location remains a significant factor in the success of a liquor store (both large format and small format). Liquor Stores' business model for its Canadian operations is based on highly visible and accessible store locations, anchored by major retailers and close to residential areas. Liquor Stores endeavours to locate its 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 anchored by major grocery stores or other mass retailers such as Sobeys, Save-On Foods, Walmart and Shoppers Drug Mart. In many cases, Liquor Stores has negotiated the exclusive right for retail sales of beer, wines and spirits for off-premises consumption in the shopping centres where its stores are located. With respect to its U.S. operations, Management also believes that location is a key factor in the success of a liquor store and consequently endeavours to locate its 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.

Strategic market focus – Management's primary strategy in Canada and the United States is to focus on urban centres where opportunities exist for larger per store revenues and where management believes that more substantial population increases are likely to occur. It is also presently exploring large municipalities in various geographic areas of the United States for growth opportunities. Although our focus is primarily on urban centres, Liquor Stores also has stores in other communities (including rural or smaller urban centers) where demographic and economic conditions warrant, including, for example, in Ft. McMurray, Alberta, where the Company has 6 stores, the Greater Anchorage, Alaska area (21 stores currently), and the recently opened one large-format store in Fairbanks, Alaska.

Store Format – Liquor Stores generally designs its stores to optimize traffic flow and present its product in an upscale environment. Management has recently initiated a store “refresh” program and intends to update, modernize and refurbish a large number of stores over the next three (3) years. Liquor Stores’ two (2) new Alberta-based Wine and Beyond stores, at 22,000 and 17,000 square feet, respectively, are substantially larger than our traditional convenience-focused Liquor Depot locations and offer Western Canada's largest selection of wine, spirits and beer (close to 10,000 stock keeping units (SKUs) at each location). Innovative new store layouts feature a fresh, contemporary design, and interactive experiences. At many stores we offer in-store tasting sessions, seminars, social events, and other in-store initiatives to enhance our customers’ experience and to promote new products.

Excluding the Wine and Beyond stores, stores in Canada generally range in size from 2,000 to 4,000 square feet; however Liquor Stores’ U.S. stores are generally larger in size. Liquor Stores’ stores in Alaska range in size from 1,400 to 14,000 square feet and include a combined store and warehouse premises in excess of 40,000 square feet, and its Kentucky stores range in size from 2,700 to 44,000 square feet (with a flagship store at the largest size).

Inventory - Liquor Stores provides a large selection in all product categories, especially wine, coolers, import beers, liqueurs and scotch, and offers value products in every category possible. Our liquor stores offer an impressive selection of wine, spirits, coolers, liqueurs and beer (including ales, lagers, stouts, wheat beer and specialty/craft beers). New and exclusive varieties and products arrive in our stores throughout the year. In addition, we sell non-alcoholic beverages including pop, juice, bottled water and mixes. Product selection is customized at each store to adapt to local demand. Large fine wine selections are maintained at several of the stores, with separate areas and specially trained and knowledgeable staff. Liquor Stores has also recently focused on increasing its private label product selection, sourcing unique products directly from manufacturers from around the globe. In 2013, Liquor Stores expanded its private label offerings and anticipates introducing additional private label brands in all categories to all of its store formats in the next few years. In 2013, Liquor Stores hired an individual with extensive knowledge of private label wines to create and lead its new private label wine program. Liquor Stores also offers our customers accessories for gift giving and everyday use.

Product selection in our Liquor Depot and Liquor Barn locations is generally tailored to each location and varies between 1,000 and 4,000 wine, spirit, cooler and beer items in its Canadian stores, providing a substantially larger product selection and inventory than the industry average. Similar to our Wine and Beyond stores, Liquor Stores’ U.S. stores offer a significantly larger product selection than our convenience-focused Liquor Depot stores, and although selection is again location-specific, alcoholic product selection in certain U.S. stores exceeds 10,000 items.

Pricing Strategy - As customer purchases are made predominantly on a convenience basis in its Canadian stores, Liquor Stores prices its products competitively but does not seek to position itself as a “discounter”. Pricing strategy is part of our overall marketing strategy. In response to an increasingly competitive marketplace, in late 2013 Liquor Stores launched a “Price Match Guarantee” program in Alberta and British Columbia (in which Liquor Stores promises to match any local advertised price on a product, subject to certain restrictions) and management has been pleased with initial customer response to the program. Liquor Stores’ inventory and pricing strategy in the United States differs somewhat from its Canadian operations, and in certain U.S. markets Liquor Stores is often viewed by its customers as a “price leader” with discount pricing in various product categories. Although many U.S. suppliers offer “trade terms” on inventory purchases, that option is not available in Canada. When required, Liquor Stores utilizes credit facilities to finance inventory, which typically turns over an average of 4 to 4.5 times per year in Canada and in the United States. See "Description of Capital Structure – Credit Facility" on page 29 herein for additional information on the credit facility.

Effective Sales Staff – We pride ourselves on great customer service with employees who are well-versed in each liquor category to best serve our customers. In every store, customers will find dedicated staff with knowledge they are enthusiastic to share. Liquor Stores endeavours to maintain a high level of product knowledge in our managers, assistant managers and line staff through frequent seminars and training. In 2013, Liquor Stores implemented a new company-wide training program to further foster a customer-focused, sales-driven culture in its stores, and to create a deeper understanding of product knowledge. In addition to this new sales and product training, all new staff members receive training in company policies and operations, loss prevention, and robbery prevention. In the Wine and Beyond stores, store staff include well-trained wine, beer, and spirits specialists.

Targeted Advertising– Liquor Stores uses advertising to generate brand and location awareness for its stores within their local markets in Canada and the United States. Liquor Stores conducts advertising programs with flyer and print advertising in local newspapers and mail drops to maintain local consumer awareness of specific stores and their location (and in some cases it also uses radio or television advertisements). In both Canada and the United States Liquor Stores runs advertisements on a regular basis (as opposed to holiday and special occasion marketing only). Similar to other retailers Liquor Stores is also increasing its utilization of social media, websites, and e-newsletters as a key component of its advertising program. In May 2013, Liquor Stores engaged the services of a leading Canadian advertising agency to assist it in enhancing its brand image in all jurisdictions and to develop a new brand-focused comprehensive marketing campaign.

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 Liquor Stores' enjoys the benefits of purchasing efficiencies and has the ability to negotiate volume-discounts on its liquor purchases. As we continue to expand in these two U.S. jurisdictions, and possibly others, our competitive advantage from a purchasing perspective increases.

Business Environment –The retail liquor business in Liquor Stores' current geographic markets is characterized by relatively stable demand. Total wholesale liquor sales in Alberta have grown at a compound annual rate of 4.97% during the ten years ended March 31, 2013[1], and by 3.72% from 2003 to 2013[2] in British Columbia. Comparable annual sales information is not readily available for either of Alaska or Kentucky.

Consistent Financial Performance –Since Liquor Stores' initial public offering as Liquor Stores Income Fund in September 2004, Liquor Stores has experienced a 23% compound annual growth rate in sales.

Growth Strategy

The Company plans to strategically expand its business in existing markets and select new markets over the next several years. We believe growth opportunities exist through a number of avenues including: acquisition, greenfield development, organic growth and expansion to new markets.

Liquor Stores intends to grow in Canada and the U.S. by acquiring existing stores or chains of stores, by opening new stores and through organic growth via attracting more customers to existing locations and increasing the average ticket price per customer. In September 2012 Liquor Stores opened two large-format Wine and Beyond stores in Edmonton and Sherwood Park, Alberta. With square footage of approximately 22,000 and 17,000 square feet, respectively, these stores are western Canada's largest liquor stores. Liquor Stores intends to strategically open additional Wine and Beyond stores within the next five years, including the anticipated opening of a new Wine and Beyond store in Calgary in 2015. Management believes these large-format "destination" stores will complement Liquor Stores' existing convenience-focused Liquor Depot locations and anticipates these stores will provide Liquor Stores with a competitive advantage and a means by which it may continue to maintain its market share.

Liquor Stores is continuously evaluating acquisition and new store opportunities and intends to proceed with measured growth in both its traditional convenience-focused smaller format stores and the larger format destination stores. Management believes that accretive acquisition opportunities exist in jurisdictions where Liquor Stores currently operates, and in other jurisdictions in Canada and the U.S.

In Alberta, Liquor Stores' largest and oldest market, management will focus primarily on the development of greenfield locations and the acquisition of stores in markets it does not occupy or that benefit its existing store base. It also intends to continue to update certain aesthetic elements of its standard store design. In British Columbia, where regulators are currently not issuing new retail liquor licenses, Liquor Stores will focus primarily on growth by acquisition and, in limited instances, the relocation of

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[1] Source: Alberta Gaming and Liquor Commission.
[2] Source: British Columbia Liquor Distribution Branch.

existing stores to stronger locations. Liquor Stores is also actively pursuing opportunities to further expand its business into additional geographic regions of the United States where the private distribution of alcoholic beverages is permitted by regulation (both in jurisdictions where it currently has store operations and in new jurisdictions).

In order to build on our competitive position and invest in opportunities to support long-term profitability and drive growth across our business, we are currently focused on the following growth strategies:

- **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 senior-level executives with deep retail experience in both Canada and the United States.

- **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.

- **Implement an Industry Leading Information Technology Platform**: We continue 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

- **Invest in our Store Network:** We are pursuing a strategy 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 retail brands with our customers

- **Increase Brand Awareness and Loyalty:** We will continue to increase our brand awareness and customer loyalty through investment in our current store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts.

- **Increase Operating Margins:** We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.

- **Pursue Expansion:** We have the opportunity to strategically expand our business in existing Canadian and United States markets and into select new markets in the Unites States over the next several years. Expansion may include developing new destination focused, large-format, stores in current regions, together with convenience stores, and expansion into new markets through new store development and/or acquisitions.

Competition, Regulation, and Strategic Positioning

The supply and distribution of alcoholic beverages in Canada and the U.S. is regulated mainly by provincial or state legislation. Regulations generally require, among others, the licensing of distribution outlets, the separation of liquor from other types of products and a prohibition on sales to minors or intoxicated persons.

In Alberta, Alaska, and Kentucky, retail alcohol sales are conducted by private industry only. In British Columbia, retail alcohol sales are conducted both by private industry and provincial government-owned stores. In all four jurisdictions, the liquor retail market is competitive and ownership of private retail liquor stores is fragmented. Liquor Stores' strategy is to take advantage of consolidation opportunities as they become available.

The Alberta Competitive and Regulatory Environment

Alberta is the only Canadian province with a fully privatized retail liquor industry. Liquor Stores' Alberta stores are located primarily in shopping centers with grocery store or other anchor tenants. A number of liquor stores associated with grocery chains also compete in the Alberta market. Management believes that Liquor Stores is the largest liquor store chain in Alberta by number of stores and revenue.

The Alberta Gaming and Liquor Commission ("**AGLC**") regulates the retail liquor business pursuant to the *Gaming and Liquor Act* (Alberta). Licenses to operate retail liquor stores must be renewed annually and are issued by the AGLC. The *Gaming and Liquor Act* (Alberta) does not restrict the total number of outlets or their location. Specific store locations, however, are subject to regulation through local and municipal bylaws and zoning requirements. AGLC inspectors regularly conduct inspections of liquor stores.

The table below shows, for each of the past three years, the total number of licensed Alberta liquor retail stores and the number of Liquor Stores outlets in the province.

AGLC Fiscal Year ending March 31	All Alberta liquor stores*	Liquor Stores outlets in Alberta	Liquor Stores as % of Alberta stores
2013	1,312*(1)	180	13.7%
2012	1,285*(2)	180	14%
2011	1,250*(3)	174	13.9%

*Source: Alberta Gaming and Liquor Commission
(excludes general merchandise liquor stores located in rural areas)

(1) Store count as at March 31, 2013 as stated in Alberta Gaming and Liquor Commission 2012-2013 Annual Report.
(2) Store count at March 31, 2012 as stated in Alberta Gaming and Liquor Commission 2011-2012 Annual Report.
(3) Store count at March 31, 2011 as stated in Alberta Gaming and Liquor Commission 2010-2011 Annual Report.

Alberta Store Operations

Liquor store operators in Alberta are free to set their own retail prices, including selling at or below the wholesale cost, and may adjust prices based on the customer, the amount of the sale or any other factor determined relevant by the store operator.

Liquor stores in Alberta are permitted to be open from 10:00 a.m. to 2:00 a.m., seven days per week (except for Christmas Day). Liquor Stores' operating hours vary by location depending on specific markets, however it has numerous stores in Alberta open until 2:00 a.m.

In addition to selling alcoholic beverages, liquor stores may also sell certain related items, such as soft drinks and other drink mixes, ice, de-alcoholized beverages, glassware and other accessories, although sales of such items may not exceed 10% of total sales. Liquor stores may sell liquor to other liquor stores, other licensed premises (e.g., lounges, restaurants, pubs, taverns, etc.) and special event license holders. Liquor stores may also sell special event licenses for private functions and may provide delivery service. A liquor store in Alberta must either be a freestanding building or, if it is in a building in which there are other businesses, must be physically separated from the other businesses. If the liquor store is in a building with other businesses, it must have its own entrance and exit, its own receiving and storage area, and a wall between the liquor store and any other business. A liquor store cannot be operated within the same commercial development as an existing non-liquor store business if the existing business is larger than 929 square meters (10,000 square feet). In that case, the premises for the liquor store must be physically separated and subject to approval by AGLC.

A person may own more than one liquor store and/or other licensed premises (other than a liquor manufacturing site), and operate them under the same or different names. While liquor stores must normally store their liquor products on site, the AGLC may approve a separate warehouse to enable a retail liquor store licensee to serve multiple liquor stores operated by the licensee. Liquor manufacturers or agents for manufacturers may not own or otherwise be financially involved in liquor stores or on premises operators.

Alberta Advertising and Promotion

Advertising is permitted in any medium, but is subject to restrictions imposed by advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta) as well as by the Canadian Radio-Television Telecommunications Commission (the "CRTC"). The common owner/operator of a liquor store and another non-liquor business may not conduct cross-market or co-operative advertising or promotions between the liquor store and the other business or company, nor can there be any co-operative advertising between a liquor store and an affiliated non-liquor business or a liquor store and a manufacturer.

Subject to restrictions in the advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta), liquor stores are permitted to promote specific brands of liquor within their stores by such means as in-store tastings, displaying brand posters or banners, giving away small value items with brand logos and holding contests. A liquor store may give away merchandise, other than liquor or food, to promote the store, provided the merchandise identifies the store and is not given to the store by suppliers. Suppliers' promotional activities must be directed to store customers and may not benefit a store owner directly.

Alberta Supply

The AGLC is the sole importer of liquor products into Alberta. Liquor stores must purchase liquor products at wholesale prices through the AGLC warehouse, from a manufacturer authorized by the AGLC to warehouse and distribute liquor products, or from other liquor stores. A number of domestic beers may be purchased from the AGLC by placing orders with the respective brewery. Breweries may set minimum order quantities for delivery service. Liquor stores are required to pay for products ordered before they are released from the warehouse.

Liquor Stores obtains wine, spirits and imported beer from Connect Logistics Services Inc. ("CLS"), which operates from its main warehouse in St. Albert and carries approximately 19,000 products. Liquor Stores obtains domestic beer from the three other licensed Alberta warehouse companies: Brewers Distributor Ltd., which warehouses and distributes beer products for Molson Canada and Labatt Brewing Company Limited in Edmonton and Calgary; Big Rock Brewery, which distributes its products from its brewery/warehouse in Calgary; and Sleeman Breweries Ltd., which warehouses and distributes its products from a warehouse in Calgary.

The AGLC operates a consignment system of inventory management, where the ordering, consolidation, shipment, and ownership of inventory are the responsibility of manufacturers and/or agents representing the manufacturers. In order to import liquor into Alberta, manufacturers must use a liquor agent registered with the AGLC. Manufacturers and/or their agents determine which products will be sold in Alberta and are responsible for promoting and marketing their products to retailers.

Alberta Wholesale and Delivery Pricing System

The AGLC requires that there be one wholesale price quoted for each product and individual retailers are not allowed to negotiate discounts with liquor suppliers. Supplier price changes are permitted on a biweekly basis. Approximately every two to four months, licensed manufacturers offer discounts through limited time offers ("LTO"), primarily on spirits and wine. Liquor Stores believes it achieves savings and has a competitive advantage by appropriately using its cash flow and warehousing capabilities to purchasing larger volumes at the discounted LTO prices and managing inventories to maintain stock until the next LTO, a practice known as "bridge buying".

The AGLC imposes a flat mark-up that is added to the supplier's price quotation and is levied in dollars per litre and varies by product class. The warehouse storage, handling, order processing and distribution charges are paid to the warehouse operator.

Wholesale prices for products shipped from CLS' warehouse are available when the order is a minimum of 25 cases. Customers must also pay order processing and distribution charges based on a delivery schedule (urgent or regular), pickup or delivery, and the number of cases ordered. Suppliers are charged for warehouse handling and storage. Wholesale prices are also available for beer purchased directly from a number of Alberta breweries that brew, warehouse, and distribute their own products to retailers. The individual breweries set minimum order quantities. The AGLC collects the wholesale price from the purchaser and, in turn, remits to the brewer its portion of the wholesale price.

A "postage stamp" delivery system applies for the delivery of liquor products from the warehouse, which means that the delivery charge per case shipped from CLS' warehouse is the same no matter where in Alberta the receiving store is located. A similar system exists for purchases of beer from certain beer manufacturers that are licensed to operate warehouses in Alberta.

Alberta Liquor Store Association

Liquor Stores is a member of the Alberta Liquor Store Association (ALSA), which has the objective of providing independent liquor store retailers with a strong collective voice when dealing with the provincial government and the AGLC. Members of the Alberta Liquor Store Association have historically owned approximately 50% of all liquor stores in the province. The association's principal function is to liaise with the AGLC on legislation, regulations, and operating guidelines as they affect the retail liquor store industry. Over the years, ALSA has played a significant role in promoting legislative and other regulatory initiatives in the interests of its members. Liquor Stores' Senior Vice President of Business Development, General Counsel is a member of the Board of Directors of ALSA.

The British Columbia Competitive and Regulatory Environment

The British Columbia government is the largest liquor retailer in the province, operating 195 stores as at March 31, 2013. Management believes that Liquor Stores is the largest private liquor store chain in British Columbia, currently with 36 stores.

The British Columbia government regulates the importation, distribution and retailing of liquor through the *Liquor Control and Licensing Ac*t (British Columbia) and the *Liquor Distribution Act (British Columbia)*. The British Columbia Liquor Control and Licensing Branch (the "BCLCLB") enforces the Liquor Control and Licensing Act and the British Columbia Liquor Distribution Branch (the "BCLDB") enforces the Liquor Distribution Act. Liquor store licenses may only be issued to residents of British Columbia who normally reside in the province, which includes a corporation whose agent or manager is a resident of, and normally resides in, the province.

The table below shows, for the years 2011, 2012, and 2013, the total number of licensed retail liquor stores and the number of Liquor Stores outlets in B.C.

Gov't fiscal year ending March 31	All BC liquor stores(1)	Liquor Stores outlets in BC(2)	Liquor Stores as % of BC stores	Private BC liquor & wine stores	Liquor Stores as % of private stores
2013	877*(3)	36	4.1%	682*	5.3%
2012	881*(4)	36	4.1%	684*	5.4%
2011	881*(5)	35	4%	686*	5.1%

*Source: British Columbia Liquor Distribution Branch.

(1) Includes government and private liquor stores and wine stores, but excludes rural agency stores, manufacturer's stores and duty-free stores. There were 221 rural agency stores, 314 manufacturer's stores and 11 duty free stores in BC in 2013
(2) Includes liquor stores and wine stores.
(3)Store count at March 31, 2013 as stated in British Columbia Liquor Distribution Branch 2012-2013 Annual Report.
(4) Store count at March 31, 2012 as stated in British Columbia Liquor Distribution Branch 2011-2012 Annual Report.
(5) Store count at March 31, 2011 as stated in British Columbia Liquor Distribution Branch 2010-2011 Annual Report.

In November of 2007 British Columbia extended indefinitely a moratorium (initially imposed in 2002) on new retail liquor store licenses. Anyone wishing to enter the market must acquire a license from an existing private operator. As a result, the aggregate number of private industry stores, government-owned stores and independent wine stores has remained relatively stable at approximately 880 stores.

In February 2014 the government of British Columbia completed a comprehensive review of provincial liquor policy and regulation, the results of which have the potential to materially alter the British Columbia marketplace. A considerable amount of information and resources regarding this policy review can be found through government resources. Further, please see “Risk Factors – Government Regulation” for additional information on potential liquor policy, regulatory and legislative changes.

British Columbia Store Operations

Privately-owned retail liquor stores may set their own prices for products, subject to the minimum price for each product established by the BCLDB. All government-owned liquor stores and rural agency stores charge an identical price for the same product throughout the province.

Liquor stores in British Columbia are permitted to be open from 9:00 a.m. to 11:00 p.m. 365 days a year. Outside of increased hours as permitted during holiday periods, the Corporation’s stores in British Columbia are open for the maximum number of daily hours, 365 days per year.

In addition to beer, wine, cider, coolers, liqueurs, and spirits, a privately-owned retail liquor store may sell liquor-related items such as glasses, bottle openers and corkscrews and, in most cases, other goods such as soft drinks and other drink mixes, tobacco, confectionary goods and British Columbia lottery tickets.

If a privately-owned retail liquor store is located on the same property as a primary liquor establishment, such as a bar, cabaret, pub or hotel, the two establishments may share a common lobby but must have full-height walls between them and separate entrances. If a privately-owned retail liquor store is not located on the same property as the primary establishment, it may not appear to be part of any other business in close proximity to it. Customers must enter the store from a public thoroughfare such as a street or mall entrance and not through any other business.

In 2010, the British Columbia government amended certain liquor control and licensing regulations which increased the relocation distance such that a private retail liquor store is not permitted to be relocated anywhere within 1.0 kilometer of an existing retail liquor store, or the site of an application to license a new private retail liquor store (subject to certain “grandfathering” exceptions). British Columbia Liquor Control and Licensing Branch inspectors regularly conduct inspections of private retail liquor stores. Such inspectors must be given full and unrestricted access to the licensed establishment, as well as to any documents and records associated with such establishment. Please see “Risk Factors – Government Regulation” for additional information on amendments and changes to British Columbia liquor control and licensing regulations.

British Columbia Advertising and Promotion

Advertising is permitted subject to restrictions imposed by advertising policy guidelines under the *Liquor Control and Licensing Ac*t (British Columbia) and the CRTC. Liquor advertising may include the prices and brands of liquor available (including pricing specials) and licensees may enter into agreements with liquor manufacturers to promote and feature their products. Advertisements that encourage intoxication or target minors are prohibited, amongst other rules.

British Columbia Supply

Liquor Stores, like other retailers, purchases most of its products from the BCLDB, the sole importer of liquor products into British Columbia. BCLDB has distribution centers in Vancouver and Kamloops and purchases products from suppliers and manufacturers in British Columbia and in other provinces and countries. Licensed manufacturing sites in British Columbia include 250 wineries, 66 breweries and brew pubs, and 20 distilleries. Overall, the BCLDB buys product from more than 400 domestic and foreign manufacturers.

Liquor Stores, again like other retailers, purchases B.C. wine directly from the wineries and domestic beer from Brewers Distributor Ltd. (“BDL”), a private joint venture company owned by InBev (parent company of Labatt Breweries) and Molson-Coors (parent company of Molson Breweries). Privately-owned retail liquor stores must purchase all other liquor products directly from BCLDB.

British Columbia Wholesale and Delivery Pricing System

Unlike Alberta, there is no requirement that British Columbia wholesalers must sell product to all public and private retailers at the same price. The BCLDB sells to privately-owned retail liquor stores at a discount of 16% from the listed BCLDB retail price. In addition, suppliers, including the BCLDB, decrease the wholesale prices of certain products from time-to-time pursuant to limited time offers. The 16% discount has been in effect since January 2007.

The BCLDB has month-long LTOs and three-month long temporary price reductions (TPR's) with a limited time frame to purchase. As in Alberta, Liquor Stores strives to achieve savings by purchasing larger volumes at the discounted prices and managing inventories to maintain stock until the next discount, however, in British Columbia, storing inventory off-site and transfers amongst stores are not permitted.

Akin to the Alberta system of liquor distribution, a "postage stamp" rate (i.e. every retailer pays the same delivered price per case for delivery regardless of the location of the retailer) applies to all products distributed from BCLDB in British Columbia. Similarly, the beer manufacturers deliver with freight charges included in the price per unit so every retailer pays the same landed price for beer.

The Alaska Competitive and Regulatory Environment

The supply and distribution of alcoholic beverages in the United States is regulated through state and federal legislation. The 50 states are split into two categories: control states, and licensure states. There are 18 control states that directly regulate alcohol sales by controlling retail and/or wholesale distribution. Each control state is also a member of the National Alcoholic Beverages Control Association. The remaining 32 states are licensure states that issue licenses to private sellers. Certain licensure states delegate control to a more regional level (for example, counties). Each state/region has its own Alcoholic Beverage Control Board. These boards are regulatory and quasi-judicial agencies that control the manufacture, barter, possession and sale of alcoholic beverages in each state. Alaska is a licensure state and regulates alcohol sales through the Alaska Alcoholic Beverage Control Board (a division of the Alaska Department of Commerce, Community, and Economic Development) ("**ABCB**").

Operating pursuant to the authority of Chapter 6, Title 4 of the *State of Alaska Statutes*, the ABCB enforces the Alcoholic Beverage Statutes and Regulations contained in the Alaska Statutes and Administrative Code. The ABCB issues operating licenses to private business under Alaska law, which limits the number of retail liquor (package liquor) stores in urban areas to one license per 3,000 people. Licenses are transferable within each municipality but cannot be used outside of the municipality. Licenses may be obtained by application for a newly available license if the population has grown to warrant a new license or by purchasing a license from an existing licensee.

Alaska's cities, such as Anchorage, Fairbanks, and Juneau have a wet designation (no restriction on volume of sales within community) with liquor stores, restaurants and bars that serve alcohol. Some grocery retailers have liquor stores adjacent to their location however the alcohol and grocery premises are separate. Local communities have the right to elect a dry designation (prohibiting barter, possession or sale of alcohol) or a damp designation (prohibiting licensed premises but allowing and limiting the possession and import of alcohol). Urban retailers, when receiving orders involving the shipment of alcohol, are required to respect dry and damp community regulations. As at March 5, 2014, Liquor Stores owns and operates 22 stores in Alaska, representing approximately 5.5% of the 397 licensed liquor stores in the state. There are 367 package store licenses, 5 community owned package store licenses, and 25 seasonal package store licenses in the state. Of the approximately 101 stores in the Greater Anchorage area, (including Wasilla and Palmer) Liquor Stores operates approximately 22% of total stores.

Alaska Store Operations

The minimum age to purchase alcohol in Alaska is 21 years, and persons under the age of 21 may not enter or remain in package store licensed premises unless accompanied by a parent, legal guardian or spouse over the age of 21 years. Liquor stores may exclude underage persons from licensed premises at any time.

In November of 2013, Liquor Stores opened, under the brand name Brown Jug, a flagship store in Fairbanks, which is its first venture outside the Greater-Anchorage region. There are 14 other package stores in Fairbanks, however the new Brown Jug is the largest, at 14,000 square feet and Management believes it offers the best selection of wine, spirits, and beer in the Greater Fairbanks trade area.

Licensed businesses, including liquor stores, are permitted to remain open from 8 a.m. to 5 a.m. every day of the week (save for election days). Municipalities are permitted to limit hours of operation by ordinance. The municipality of Anchorage has elected to restrict liquor store operating hours, as a result of which Brown Jug stores open at 10 a. m. Monday through Saturday, and 12 p.m. on Sunday. The stores in Anchorage are required to be closed by 1 a.m. Sunday through Thursday nights, and 2 a.m. on Friday and Saturday nights. Brown Jug's operating hours vary by location depending on specific markets. The Fairbanks store is required to be closed at midnight.

Business premises occupied by a holder of a liquor license may not be connected to a door, opening, or other means of passage intended for access to the general public to an adjacent retail business, unless approved by the ABCB (grocery stores operate in this manner).

Each license must be issued to a specific individual, corporation, limited liability organization or partnership. If issued to a corporation or a limited liability organization, the registered agent must be a resident of Alaska.

A liquor license may not be issued if the licensed premises would be located in a building where the public entrance is within 200 feet of a school ground or church building.

In addition to a liquor license, in most cases the holder must have a Conditional Use Permit issued by the municipality, approving the placement and operation of the license.

Alaska Advertising and Promotion

Alaska has few state requirements or regulations relative to the advertising of alcoholic beverages for liquor stores (dealing only with false advertising or disclosure of mixed beverages being wine based, if applicable), however, except for certain limited exceptions, federal laws prohibit co-operative advertising between a liquor store and a manufacturer or wholesaler.

Alaska Supply

Alaska utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers may only purchase product from the distributors.

Alaska Wholesale and Delivery

Unlike Alberta where there is a requirement that wholesalers must sell product to all public and private customer at the same price, in Alaska Liquor Stores is able to fully negotiate the wholesale cost of products directly from the distributors. Retailers are also offered retailer incentive programs (RIPS) for large volume discounts. Liquor Stores' operations and ordering system is aligned to take full advantage of RIPS, and has leased a large warehouse in Anchorage to store significant volumes of discounted products. Further advantages flow to the larger retailers in Alaska (such as Liquor Stores) at fiscal quarter-ends and year-ends of distributors because distributors routinely offer clearance pricing on products. Liquor Stores' ability to make larger volume purchases in Alaska can have significant impacts on our margins.

Alaska Industry and Lobbying Activities

Liquor Stores (through Brown Jug) is a member of the Alaska Cabaret, Hotel, Restaurant & Retailers Association ("**CHARR**"), a state-wide non-profit lobbying organization dedicated to serving the needs of the hospitality and retail liquor store industry in the State of Alaska. Lobbying activities at the local, state, and national levels assist CHARR in its top priorities of instituting legislative changes directed toward: reducing drunk driving, providing responsible service, and reducing the illegal consumption of alcohol by minors. Brown Jug is also a founding member of the Anchorage Responsible Retailers Association, ARBRA, which promotes responsible retailing, and works to alleviate problems associated with chronic inebriates.

The Kentucky Competitive and Regulatory Environment

Akin to Alaska, Kentucky is a licensure-type state and administers statutes and regulates traffic in alcohol beverages through the Office of Alcoholic Beverage Control ("KYABC"). Operating pursuant to the authority of the *Kentucky Revised Statutes Chapters 241-244,* the KYABC issues retail package liquor licenses to private business, with a restriction that the number of retail package liquor licenses in any county shall not exceed one for every 2,300 residents (however in Louisville, licenses are restricted to one license per 1,500 people).

As of January 30, 2013, the KYABC reports that of the 120 counties in Kentucky, 37 are completely dry, 48 are considered partially dry or "moist" and 35 are entirely wet. A dry county has no alcohol sales of any kind. The rest are either "moist" (allowing some form of alcohol sales in some part of the county) or "wet" (allowing full alcohol sales throughout the county). "Moist" can be as small as an historical site serving wine with lunch in an otherwise "dry" county, or as expansive full package and by-the-drink alcohol sales in cities within an otherwise "dry" county. "Moist" can involve golf courses, small farm wineries, restaurant sales only (50-seat limit or 100-seat limit), and package stores in a myriad of combinations. For example; Liquor Barn operates large, full-selection stores in Bowling Green and Danville. Both of those cities are located in counties (Boyle and Warren, respectively) that are otherwise "dry". Thus, the KYABC in their "Kentucky Wet/Dry Status as of 01/30/2013" document, categorizes those counties as "moist", though extensive package alcohol sales are legal and prevalent in their cities.

Although beer is sold in grocery stores and in gas stations in Kentucky, current liquor licensing legislation effectively prohibits the sale of wine and spirits in these businesses. Specifically, Kentucky statute *KRS 243.230(5)* expressly provides that "no retail package or drink license for the sale of distilled spirits or wine" shall be issued for any premises used as or in the connection with the operation of any business "in which a substantial part of the commercial transaction consists of selling at retail staple groceries or gasoline and lubricating oil." Applicable regulations define "substantial part of the commercial transaction" to mean "10 percent or greater of the gross sales receipts as determined on a monthly basis" and staple groceries are defined as "any food or food related product intended for human consumption, except alcoholic beverages, tobacco, soft drinks, candy, hot foods, and food products prepared for immediate consumption." Many drug stores in the state have obtained retail package liquor licenses and offer liquor, wine, and beer for sale because their staple grocery sales fall under the statutory threshold. On a similar note, certain Liquor Barn locations carry fine cheeses, deli items, and other non-alcoholic products for sale, with its sales of these limited items falling under the statutory threshold. Please see page 20 herein under "Government Regulation" for important information on a constitutional challenge in Kentucky which has the potential to fundamentally alter the current liquor licensing regime within the state.

"Distance rules" are a consideration in the placement of liquor stores in Kentucky. Although prior state statutes and local ordinances regulating how close liquor stores could be from churches and schools have generally been repealed, current state statutes and local ordinances still limit how close a retail package store may be located to another retail package store in certain "combination business and residential areas" (700 feet in Louisville and Lexington), which generally are areas of the county outside of the downtown business district. In the metro Louisville area, the City of St Matthews also has a similar 700 foot limitation.

As of March 5, 2014, Liquor Stores owns and operates twelve (12) stores in Kentucky. Management estimates that on a store count basis Liquor Stores' stores represents about 2% of the approximately 600 licensed package liquor stores in Kentucky; however, Management also believes that these stores represent approximately 9-10% of overall state alcohol sales (excluding sales of alcohol in restaurants and bars).

Kentucky Store Operations

The minimum age to purchase alcohol in Kentucky is 21 years, and persons under the age of 21 may not enter or remain in premises licensed for package liquor sales unless accompanied by a parent or legal guardian over the age of 21 years. Liquor stores may exclude underage persons from licensed premises at any time.

Hours of operation for alcohol sellers vary widely by type of license and location. Municipalities are permitted to limit hours of operation by ordinance. The municipalities of Louisville, Danville, Bowling Green and Lexington have elected to restrict liquor store operating hours. Liquor Barn stores open at 9 a.m. Monday through Saturday, and 1 p.m. on Sunday. They close at 10 p.m.

Monday through Thursday, 12 p.m. Friday and Saturday and 9 p.m. Sunday. Liquor Barn's operating hours can vary occasionally by location depending on holiday considerations – especially Kentucky Derby week. Liquor Barn's smaller-format Express stores are often open for extended hours (as compared to the larger-format Liquor Barn locations).

Kentucky Advertising and Promotion

Kentucky has a number of administrative regulations relative to the advertising of alcoholic beverages for liquor stores, including prohibitions on advertising which contains false, misleading or disparaging statements, and prohibitions on the usage of certain words (e.g. "bonded" or "pure"), statements of age, statements of curative or therapeutic effects, or pictorial representations of flags, seals, coats of arms, crests or other insignia. Except for certain limited exceptions, federal laws prohibit co-operative advertising between a liquor store and a manufacturer or wholesaler of liquor, wine, or beer.

Kentucky Supply

Kentucky utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers may only purchase alcohol products from distributors. Retailers are not allowed to purchase alcohol directly from manufacturers. This includes products from small Kentucky wineries – they must be purchased through a distributor.

Kentucky Wholesale and Delivery

Similar to Alaska, in Kentucky retailers are offered RIPS for large volume purchases. Liquor Barn's large-scale operations, ordering and warehousing system is designed to achieve full benefit of RIPS.

Kentucky Industry and Lobbying Activities

Liquor Stores participates in ongoing state-wide lobbying activities to advocate on behalf of retail package stores and the retail liquor industry in general. Kentucky Liquor Barn is one of the two primary members of the Kentucky Retailers' Coalition and is currently active in the reconstitution of the Kentucky Association of Beverage Retailers. This formerly was the state wide lobbying voice of the industry. A senior Liquor Barn employee is a governor-appointed member and the legislative committee chair of the Kentucky Grape and Wine Council (KGWC). The KGWC administers state funds to support the Kentucky wine industry. This individual is also an elected board member and the legislative committee chair of the Kentucky Vintners Society (the chief lobbying force for the Kentucky wine industry) and the Treasurer of the new Kentucky Association of Beverage Retailers. This individual also served as an appointed member of the Governor's Task Force on the Study of Kentucky's Alcohol Beverage Control Laws. This individual has just been appointed to the newly-formed Kentucky Tobacco Retailers Advisory Council ("KTRAC"). The KTRAC will work with the KYABC and public health officials to disseminate public policies and training for tobacco retailers.

Store Leases

In Canada and the United States Liquor Stores leases all but two of its store premises (and it also leases its head office and all warehouse premises). Liquor Stores' store leases typically have a 10 year initial term with numerous five (5) year options to renew, which may extend the lease a further 10 to 20 years. The average remaining term of our store leases is approximately 12 years (assuming the exercise by Liquor Stores of all renewal options). The leases are held by various landlords.

Maintenance and Capital Expenditures

Liquor Stores' expenditures on facilities and equipment fall into three categories: repairs and maintenance; renovations and replacements; and growth. Repairs and maintenance expenditures are budgeted in operations and expensed in the year incurred. Renovation and replacement expenditures are made to refurbish stores and replace equipment and are capitalized. Growth expenditures, which include the costs of building new stores, acquiring and renovating existing stores, and the purchase of new equipment, are also capitalized. Liquor Stores is targeting to renovate approximately 5% of its existing stores in 2014 and plans on instituting a renovation plan with similar targets in subsequent years.

Management Information Systems

Liquor Stores presently utilizes a centralized point of sale system in all of its stores called Retail Management System ("RMS"). This Microsoft-designed system is specifically designed for multi-store retail businesses and it provides Liquor Stores with access to real-time and accurate inventory reporting and cash control. Following a recently-completed in-depth review of RMS, Management believes it has the ability to further build on its competitive position by replacing RMS with a new enterprise resource planning ("ERP") information technology system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide us with a scalable growth platform that will allow us to grow organically and smoothly integrate newly-acquired businesses. The ERP implementation is presently in the early stages and will not be fully implemented into mid-to-late 2016.

Seasonality

The liquor retailing industry is subject to seasonal variations. Based on Liquor Stores' same store sales for the year ended December 31, 2013, approximately 46% of Liquor Stores' sales occurred in the first half of the year and 54% occurred in the second half of the year.

Employees

Liquor Stores had approximately 2,500 full and part time employees as of December 31, 2013, comprised of approximately 1,800 employees with respect to its Canadian operations and 700 employees with respect to its U.S. operations. Liquor Stores has no unionized employees. Liquor Stores' Canadian and U.S. management teams, certain head-office employees, store managers and assistant managers are salaried.

Dependence on Foreign Operations

Approximately 23.8% of Liquor Stores' annual sales for the year ended December 31, 2013 were attributable to Liquor Stores' operations in the United States. Based upon Liquor Stores' current store-numbers in the United States, Management anticipates that its U.S. operations will contribute a similar percentage of Liquor Stores' annual sales for the year ended December 31, 2014. A significant U.S. acquisition or a material increase in Liquor Stores' U.S. store-numbers in 2014 may result in Liquor Stores' U.S. operations contributing a greater percentage of Liquor Stores' annual sales.

DEVELOPMENT OF OUR BUSINESS

The following is a description of the general development of our business over the last three completed financial years.

Corporate Conversion

On December 31, 2010, Liquor Stores completed a corporate conversion which resulted in the reorganization of Liquor Stores Fund (an income trust) into Liquor Stores (a corporation) and the unitholders of Liquor Stores Fund became the shareholders of Liquor Stores. Liquor Stores and its Subsidiaries now carry on the business formerly carried on by Liquor Stores Fund and its Subsidiaries. On January 7, 2011, our Common Shares and convertible debentures commenced trading on the TSX.

Business Growth

In the last three financial years Liquor Stores has grown through a combination of greenfield opportunities and acquisitions. In 2011, Liquor Stores opened three greenfield stores in Alberta and added one greenfield store in Kentucky. 2012 was a year of increased growth that saw Liquor Stores open seven stores in Alberta, one store in British Columbia, and one store in Kentucky. In 2012 Liquor Stores also acquired two stores in Alberta and one store in Kentucky. In 2013 Liquor Stores opened two greenfield stores in Alaska.

Of the seven stores opened in Alberta in 2012, two of those stores were large-format Wine and Beyond stores (located in Edmonton and Sherwood Park, respectively). Management believes that in light of the increased competitive landscape in the

Alberta retail liquor market, creating a successful large-format destination store (as opposed to a more convenience-focused store) is a true market differentiator. Management anticipates measured growth with these large-format stores (and expansion of this new concept store model is dependent, partially, on securing appropriate real estate opportunities for new locations)

2013 was a transition year from a real estate perspective with the opening of two new stores in Alaska. In 2013 Management was focused on ensuring it will have stores in new commercial developments which may not be completed until 2014 and beyond and we anticipate opening in excess of five new locations in 2014.

Ongoing Acquisition and Financing Activities

Potential Acquisitions

Liquor Stores is frequently engaged in the process of evaluating several potential liquor store acquisitions at any one time which individually or in the aggregate could be material. As of the date hereof, Liquor Stores has not reached agreement on the price or terms of any potential material acquisitions. Liquor Stores cannot predict whether any current or future opportunities will result in one or more acquisitions for Liquor Stores.

Potential Financings

Liquor Stores continuously evaluates its capital structure, liquidity and capital resources, and financing opportunities that arise from time to time. Liquor Stores may in the future complete financings of Common Shares or debt (which may be convertible into Common Shares) for purposes that may include the financing of acquisitions, the financing of Liquor Stores' operations and capital expenditures, and the repayment of indebtedness, including the repayment of the Liquor Stores Convertible Debentures. Liquor Stores cannot predict whether any current or future financing opportunity will result in one or more material financings being completed.

Significant Acquisitions

Liquor Stores did not complete an acquisition during its most recently completed financial year that constituted a significant acquisition for the purposes of Part 8 of National Instrument 51-102.

RISK FACTORS

The following is a summary of certain risk factors relating to the affairs and business of Liquor Stores. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Shareholders and potential Shareholders (and other security holders) should consider carefully the information contained herein and, in particular, the following risk factors. These risks and uncertainties are not the only ones facing Liquor Stores. Additional risks and uncertainties not currently known to Liquor Stores, or that Liquor Stores currently considers immaterial, may also impair the operations of Liquor Stores. If any of these risks actually occur, the business, sales, financial condition, liquidity or results of operations of Liquor Stores could be materially adversely affected, with a resulting decrease in dividends paid on, and the market price of, the Common Shares.

Government Regulation

Liquor Stores operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky. Decisions by the Alberta Gaming and Liquor Commission (“AGLC”), British Columbia Liquor Control and Licensing Branch (“BCLCLB”), Alaska Alcoholic Beverage Control Board (“ABCB”), and Kentucky Department of Alcoholic Beverage Control (“KYABC”) and rules enacted by them or by other governmental authorities (including state, provincial, county, municipal or other local governments), new legislation, regulations, rules, or bylaws, or changes to existing legislation, regulations, rules, or bylaws, can materially impact the operations of Liquor Stores, both favourably and unfavourably. Changes in legislation, regulations, rules or bylaws may arise as a result of a multitude of factors, including but not limited to citizen referenda.

There is no assurance that the operations or licensing of Liquor Stores (or the amount of cash available to Liquor Stores for the payment of dividends) will not be adversely affected by: i) new legislation, regulations, rules, or bylaws; ii) changes and court challenges to existing legislation, regulations, rules, or bylaws; iii) new interpretations of existing legislation, regulations, rules or bylaws; or iv) decisions of the AGLC, the BCLCLB, the ABCB, the KYABC, or other governmental entities (including state, provincial, county, municipal, or other local governments) or applicable courts.

Of particular note:

- On January 31, 2014, the British Columbia Ministry of Justice released its Liquor Policy Review Report (the "Report"). Included within the Report are recommendations that, if implemented, Management believes will assist in creating greater business efficiencies, including new rules permitting the warehousing of inventory and the ability to transfer inventory between stores. However, the Report also includes recommendations that could lead to increased competition for liquor retail sales in that province, including a recommendation to introduce liquor sales into grocery stores. The government has announced its intention to support all recommendations in the Report, although the timing of any regulatory changes and the specifics of the grocery store model, should it proceed, remain uncertain. Given the uncertainties surrounding the actual timing of any provincial legislation and the regulatory model that may eventually be used to phase-in liquor sales to B.C. grocery stores, it is difficult to quantify the potential impact that this may have on our B.C. stores at this time.

- Since 2011, a coalition of grocers in Kentucky has been challenging the state statute which prohibits the sale of wine and distilled spirits within grocery stores and gas stations (these retailers are presently only permitted to sell beer). However, on January 15, 2014, the United States Court of Appeals for the Sixth Circuit ("Appeals Court") upheld the constitutionality of the Kentucky state statue which prohibits the sale of wine and distilled spirits within grocery stores and gas stations. In late January 2014, the grocer-plaintiffs sought a rehearing of the Appeals Court opinion, and the Court has not yet made a decision regarding this request. The grocer-plaintiffs in this matter can also seek review of the Appeals Court decision by the U.S. Supreme Court, which would then decide, in its discretion, whether to review the decision or not. In the event the grocer-plaintiffs seek a review and are successful at the U.S. Supreme Court, or are successful in their lobbying efforts, there may be a rapid proliferation of grocers, gas stations and convenience store operators adding wine and distilled spirits to their product offerings, substantially increasing competition for retail liquor store operators.

All of Liquor Stores' Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Similar to the process in Alberta, all B.C. stores are operated pursuant to licenses issued by the BCLCLB, which must be re-applied for annually.

All of Liquor Stores' Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually, and its Kentucky stores are operated pursuant to licenses issued by the KYABC, which are due for renewal on an annual basis.

Since its inception in 2004, Liquor Stores has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked. The AGLC, the BCLCLB, ABCB and KYABC have certain discretion in the granting or revocation of a license to operate a liquor store. See "Description of our Business".

Competition

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky is both competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location, convenience, price and service. Changes in the regulatory regime in a particular jurisdiction may increase competition which in turn could materially adversely affect Liquor Stores' business and results of its operations.

In Alberta, Liquor Stores competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge.

In British Columbia, Liquor Stores competes with government owned and operated liquor stores, local independent stores, and wine stores. In February 2010, the British Columbia government amended certain liquor control and licensing regulations, including an amendment that increased the relocation distance such that a retail liquor store is not permitted to be relocated anywhere within 1.0 kilometre of an existing retail liquor store, or the site of an application to license a new retail liquor store (subject to certain “grandfathering” exceptions). This arrangement limits the number of entrants who are able to enter into the market.

In each of Alaska and Kentucky, Liquor Stores competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains (and in some instances in Kentucky, with U.S. national drug store chains who also offer alcoholic products for sale). Under the Alaska and Kentucky regulatory environments, stores purchase product directly from distributors and are able to negotiate large volume discounts with suppliers; as such, competitors with greater financial resources are able to maintain a competitive advantage over smaller operators. Please see “Government Regulation” on page 20 herein for additional information on a recent court challenge in Kentucky which has the potential to materially affect the competitive environment in Kentucky.

State of Economy

Liquor Stores’ success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and other operating results, which in turn could adversely affect the availability of cash for the payment of dividends.

Unpredictability and Volatility of Share Price

A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Share will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of Common Shares in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Common Shares.

In addition, the securities markets have experienced significant market wide and sector price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

Restrictions on Potential Growth

The payout by Liquor Stores of a substantial amount of its operating cash flow makes additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Liquor Stores and its cash flow.

Cash Dividends

The actual cash flow available for the payment of cash dividends to Shareholders can vary significantly from period to period for a number of reasons, including among other things: (i) our operational and financial performance; (ii) the amount of cash required or retained for debt service or repayment; (iii) amounts required to fund capital expenditures and working capital requirements. Certain of these amounts are, in part, subject to the discretion of the Board of Directors, which regularly evaluates Liquor Stores' dividend payout with respect to anticipated cash flows, debt levels, capital expenditures plans and amounts to be retained to fund acquisitions and expenditures. In addition, our level of dividend per Common Share will be affected by the number of outstanding Common Shares. Cash dividends may be increased, reduced or suspended entirely depending on our operations and financial performance. The market value of the Common Shares may deteriorate if we are unable to meet dividend expectations in the future, and that deterioration may be material

Commodity Taxes & Government Mark-Ups

Changes in tax rates or government mark-ups, and their corresponding effect on product pricing could affect sales and or earnings. If taxes or government mark-ups increase and Liquor Stores increases prices by the full amount of the tax or the mark-up, as the case may be, sales volumes could be adversely impacted. If Liquor Stores is not able to pass the full amount of the tax or mark-up increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax or mark-up rates in the future.

Acquisition and Development Risks

Acquisitions have been a significant part of Liquor Stores' growth strategy. Liquor Stores expects to continue to selectively seek strategic acquisitions in both Canada and the U.S. Liquor Stores' ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on Liquor Stores' resources and, to the extent necessary, Liquor Stores' ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose Liquor Stores to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms, difficulties in maintaining uniform standards, controls, procedures and policies through all of Liquor Stores' stores; entry into markets or development of new store formats in which Liquor Stores has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Liquor Stores' ongoing business; and diversion of management time and resources.

Liquor Stores expects that new store development will also continue to be a significant part of Liquor Stores' growth strategy. The development of new stores is subject to many of the same risks as acquisitions including but not limited to limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on Liquor Stores' resources. The rate of new store developments may be impacted by factors outside of Liquor Stores' control such as the availability of suitable site locations if real estate development declines or the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital based on management's projections of future store performance (which may prove to be incorrect).

Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of Liquor Stores' retail stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where Liquor Stores' retail stores are located could decline in the future including as a result of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that Liquor Stores enters into long-term leases for its store locations, Liquor Stores' ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Weather

Weather conditions in Canada and the United States play an important role in Liquor Stores' success. Prolonged poor weather conditions in both the summer and winter months reduce overall customer counts and consequently may have a material effect on Liquor Stores' operating results.

Key Personnel

Liquor Stores' success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of Liquor Stores' key employees could significantly weaken Liquor Stores' management expertise and its ability to deliver its services efficiently and profitably.

Labour Costs and Shortages and Labour Relations

The success of Liquor Stores' business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Liquor Stores to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Liquor Stores' results of operations.

Liquor Stores does not currently have any unionized staff; however there is no assurance that some or all of the employees of Liquor Stores will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on Liquor Stores' results of operations.

Supply Interruption or Delay

Liquor Stores is dependent upon a limited number of distributors for a substantial majority of its products. Specifically, liquor store operators in Alberta are dependent on the Connect Logistics Service warehouse and Brewers Distributor Ltd. for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. With respect to Liquor Stores' U.S. operations, a limited number of private distributors serve the jurisdictions in which Liquor Stores operates. Any significant disruptions in the operations of these companies (for example, an organized work stoppage) and a resulting interruption in supply may have a material adverse effect on liquor stores operations, including the operations of Liquor Stores and its subsidiaries.

Importance of Information and Control Systems

Information and control systems play an important role in the support of Liquor Stores' core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. Liquor Stores' ability to maintain and regularly upgrade its information systems capabilities is important to its future performance. Please see page 19 "Management Information Systems" for further information regarding Liquor Stores' upcoming information technology initiatives.

Changes in Income Tax Legislation And Other Laws

Income tax laws, such as the treatment of dividends, may in the future be changed or interpreted in a manner that adversely affects Liquor Stores and our Shareholders (both Canadian and U.S. Shareholders). Furthermore, tax authorities having appropriate jurisdiction over Liquor Stores or our Shareholders may disagree with how we calculate our income for tax purposes or could change administrative practises to our detriment or the detriment of our Shareholders (including, without limitation, the interpretation of certain cross-border tax rules).

Leverage and Restrictive Covenants

The Company has a credit facility with a syndicate of Canadian banks, which is effective until February 10, 2015 and consists of a $150 million extendible revolving operating loan. The Company also has a US$5.0 million facility with a U.S. bank. The Company is currently in negotiations with the Canadian syndicate to amend the current Canadian credit facility to, amongst other matters, extend the term out past February 10, 2015; we anticipate completing these negotiations prior to March 31, 2014. At March 5, 2014 there was approximately $89 million drawn on the Canadian credit facility and US$4 million drawn on the U.S. credit facility. The Company has a US$5.0 million letter of credit that has been issued pursuant to the Canadian credit facility to secure the U.S. credit facility. Pursuant to the terms of the Canadian 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, which commenced 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 Canadian credit facility is subject to a number of financial covenants. Under the terms of the Company's Canadian credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. There are no financial covenants attributable to the Company's convertible unsecured subordinated debentures due April 30, 2018 or the U.S. credit facility.

In the event that our Canadian credit facility is not extended past its current maturity date (or in the event the credit is renewed on different terms) it could adversely affect the Company's ability to fund our ongoing operations and, as repayment of such indebtedness has priority over the payment of dividends to Shareholders, to pay cash dividends to Shareholders.

The degree to which Liquor Stores is leveraged could have important consequences to the holders of the Common Shares, including: (i) a portion of Liquor Stores' cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for the payment of dividends; (ii) certain of Liquor Stores' borrowings are at variable rates of interest, which exposes Liquor Stores to the risk of increased interest rates. Liquor Stores' ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

Our Canadian credit facility contains certain customary operating covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Liquor Stores to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness. If the indebtedness under this credit facility were to be accelerated, there can be no assurance that Liquor Stores' assets would be sufficient to repay in full that indebtedness.

Credit Risk

Liquor Stores' financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Corporation maintains its cash and cash equivalents with a major Canadian chartered bank. Liquor Stores, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose 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. Liquor Stores is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

Dilution and Future Sales of Common Shares

Liquor Stores is authorized to issue an unlimited number of Common Shares for the consideration and on terms and conditions as are established by the Board of Directors without the approval of any Shareholders. In the normal course of making capital investments to maintain and expand our business operations, additional Common Shares may be issued. Additionally, from time to time, we may issue Common Shares from treasury in order to reduce debt and maintain a more optimal capital structure. As well, additional new common shares are issued on a monthly basis pursuant to the Company's dividend reinvestment plan. Conversely, to the extent that external sources of capital, including the issuance of additional Common Shares, becomes limited or unavailable, our ability to make the necessary capital investments to maintain or expand our business operations will be impaired. To the extent that we are required to use additional cash flow to finance capital expenditures or acquisitions, or to pay debt service charges or reduce debt, the amount of cash dividends paid to Shareholders could be reduced. Any further issuances of Common Shares will also dilute the interests of existing Shareholders. Shareholders have no pre-emptive rights in connection with such future issuances.

Active Trading Market for the Common Shares and/or the Convertible Debentures

While there is currently an active trading market for the Common Shares, we cannot guarantee that an active trading market will be sustained. If an active trading market in the Common Shares is not sustained, the trading liquidity of the Common Shares will be limited and the market value of the Common Shares may be reduced.

Although the Convertible Debentures trade on the Toronto Stock Exchange, there is not currently an active trading market for the Convertible Debentures, and we cannot guarantee that an active trading market will develop. If an active trading market in the Convertible Debentures does not develop, the trading liquidity of the Convertible Debentures will remain limited and the market value of the Convertible Debentures may be adversely affected.

Conflicts of Interest

Certain directors of Liquor Stores are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Liquor Stores are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Liquor Stores. See "Conflicts of Interest".

DIVIDENDS AND DIVIDEND POLICY

Dividend Policy

The Board of Directors has adopted a monthly dividend policy with a present dividend rate of $0.09 per Common Share, which is paid on or about the 15th day of each month to Shareholders of record at the end of the previous month.

Notwithstanding the foregoing, the amount of future cash dividends, if any, will be subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including the prevailing economic and competitive environment, Liquor Stores' results of operations and earnings, financial requirements for Liquor Stores' operations and the execution of its growth strategy, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration and payment of dividends, and other factors and conditions existing from time to time. Depending on these and various other factors, many of which are beyond the control of the Board and Liquor Stores' management team, the Board may change our dividend policy from time to time, and as a result, future cash dividends could be reduced or suspended entirely. The market value of the Common Shares may deteriorate if the Board reduces or suspends the amount of cash dividends that Liquor Stores pays in the future and such deterioration may be material. See "*Risk Factors*".

Although it is expected that dividends declared and paid by us will qualify as "eligible dividends" for the purposes of the Tax Act, and thus qualify for the enhanced gross-up and tax credit regime available to certain holders of Common Shares, no assurances can be given that all dividends will be designated as "eligible dividends" or qualify as "eligible dividends".

The agreement governing Liquor Stores' Canada credit facility contains provisions which restrict its ability to pay dividends to Shareholders in the event of the occurrence of certain events of default. The full text of the agreement governing Liquor Stores' Canadian credit facility is available on SEDAR at www.sedar.com. For additional information regarding the credit facility, see Note 9 (the "Notes") to Liquor Stores' audited consolidated financial statements for the year ended December 31, 2013, and the “Liquidity and Capital Resources” notes in the related management's discussion and analysis (collectively, the "MD&A Disclosure"), both of which are available on SEDAR at www.sedar.com. The Notes and the MD&A Disclosure are both incorporated by reference into this Annual Information Form.

Dividends Paid to Shareholders of the Company

Since its initial inception as an income trust in 2004 through to its current corporate form, Liquor Stores has paid a monthly distribution or dividend, as the case may be, each and every month. The table below describes the dividends paid to shareholders of Liquor Stores for the past three (3) years. Liquor Stores practice is to pay the cash dividend during the month following the declaration of the dividend.

Month	**2013 ($)**	**2012 ($)**	**2011 ($)**
January	0.09	0.09	0.09
February	0.09	0.09	0.09
March	0.09	0.09	0.09
April	0.09	0.09	0.09
May	0.09	0.09	0.09
June	0.09	0.09	0.09
July	0.09	0.09	0.09
August	0.09	0.09	0.09
September	0.09	0.09	0.09
October	0.09	0.09	0.09
November	0.09	0.09	0.09
December	0.09	0.09	0.09
Total	1.08	1.08	1.08

DESCRIPTION OF CAPITAL STRUCTURE

Description of Capital Structure

The authorized capital of Liquor Stores consists of an unlimited number of Common Shares and 4,500,000 preferred shares, issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the share capital of Liquor Stores.

Common Shares

Each Common Share entitles the holder to receive notice of, to attend, and to one vote at, all meetings of the Shareholders of Liquor Stores, except meetings of holders of another class of shares. The holders of Common Shares will be, at the discretion of the Board and subject to the preferences accorded to any shares of Liquor Stores ranking senior to the Common Shares from time to time with respect to the payment of dividends, entitled to receive any dividends declared by the Board on the Common Shares. The holders of Common Shares will also be entitled, subject to the preferences accorded to holders of any shares of Liquor Stores ranking senior to the Common Shares from time to time, to share equally, share for share, in any distribution of the assets of Liquor Stores upon the liquidation, dissolution, bankruptcy or winding-up of Liquor Stores or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

Preferred Shares of Liquor Stores

Each series of preferred shares of Liquor Stores shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of holders of Common Shares. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Liquor Stores, whether voluntary or involuntary, each series of preferred shares are entitled to preference over the Common Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over Common Shares and any other shares ranking junior to the preferred shares as may be determined by the Board at the time of creation of such series.

The preferred shares of Liquor Stores are intended to provide future financing flexibility. There are currently no preferred shares issued and outstanding.

Other Provisions Affecting the Rights of Shareholders

Pursuant to the articles of incorporation of Liquor Stores but subject to applicable laws, Liquor Stores may take such actions as it, in its sole discretion, determines necessary or advisable if, in the opinion of the Board, a person (including a Shareholder), or group of persons acting in concert, fails to comply with any requirement of any regulatory authority having jurisdiction over the liquor store licenses of Liquor Stores and its Subsidiaries, including failing to provide the information required in connection with the conduct of background checks, or if the holding of Common Shares by a person, or group of persons acting in concert could result in the revocation or non-renewal of any of the aforementioned liquor store licenses. In such circumstances, and without limitation of any other power or authority of Liquor Stores, it shall be entitled to take any of the following actions (i) place a stop transfer on all or any of the Common Shares of the person, or group of persons, (ii) suspend or terminate all voting and dividend rights on all or any of the Common Shares of the person, or group of persons, (iii) apply to a court of competent jurisdiction seeking an injunction to prevent a breach or continuing breach, or (iv) make application to the relevant securities commission, its successors, assigns or such other governmental regulatory agency having jurisdiction over the affairs of Liquor Stores, to effect a cease trading order or such similar restriction against such person, or group of persons, until such time as such person or group of persons complies with such constraints.

Debt Capital

Liquor Stores has issued the Convertible Debentures. In addition, Liquor Stores has a $150 million credit facility in Canada (and a USD$5 million operating facility in the U.S.). A description of the debt capital of Liquor Stores is set forth below. This description is a summary only. Shareholders are encouraged to read the full text of the agreements governing Liquor Stores' Convertible Debentures and Canadian credit facility, which are available on SEDAR at www.sedar.com

Convertible Debentures

Liquor Stores completed the Convertible Debenture offering in April 2012. There is $67.5 million aggregate principal amount of Convertible Debentures outstanding. The Convertible Debentures bear interest at a rate of 5.85% per annum payable semi-annually in arrears on April 30 and October 31 in each year. The Convertible Debentures mature on April 30, 2018 and are convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on April 30, 2017 and the business day immediately prior to a date specified by Liquor Stores for redemption of the Convertible Debentures at a conversion price of $24.90.

The Convertible Debentures are not redeemable prior to April 30, 2015, except upon the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On or after April 30, 2015 and prior to April 30, 2017, the Convertible Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the Debenture Indenture, of the Common Shares on the date of the notice of redemption is not less than 125% of the conversion price. On or after April, 30, 2017 and prior to maturity, the Convertible Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days notice at the principal amount thereof and plus accrued and unpaid interest.

Liquor Stores has the option, subject to regulatory approval, to satisfy all or part of its obligation to repay the principal amount of the Convertible Debentures which are to be redeemed or have matured by issuing and delivering that number of Common Shares obtained by dividing the aggregate principal amount to be redeemed or which have matured by 95% of the current market price of the Convertible Debentures on the date fixed for redemption or maturity, as the case may be.

Liquor Stores may elect, subject to regulatory approval, from time to time to satisfy its obligation to pay interest on the Convertible Debentures by delivering Common Shares to the Debenture Trustee for sale with the proceeds of such sales being delivered to holders of Convertible Debentures.

The payment of the principal of, and interest on, the Convertible Debentures is subordinated and postponed in right of payment, as set forth in the Debenture Indenture, to the prior payment in full of all Senior Indebtedness of Liquor Stores including indebtedness to trade and other creditors of Liquor Stores. "Senior Indebtedness" of Liquor Stores is defined in the Debenture Indenture to mean, in effect, the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of Liquor Stores (whether outstanding as at the date of the Debenture Indenture or thereafter created, incurred, assumed or guaranteed), other than indebtedness evidenced by the Convertible Debentures and all other existing and future debentures or other instruments of Liquor Stores which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the Convertible Debentures.

The Debenture Indenture provides that an event of default ("**Event of Default**") in respect of the Convertible Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to such Convertible Debentures: (i) failure for 30 days to pay interest on such Debentures when due; (ii) failure to pay principal or premium, if any, on such Debentures, whether at maturity, upon redemption, by declaration or otherwise, (iii) default in the observance or performance of any material covenant or condition of the Debenture Indenture by Liquor Stores which remains unremedied for a period of 30 days after notice in writing has been given by the Debenture Trustee to Liquor Stores specifying such default and requiring Liquor Stores to remedy such default; or (iv) certain events of bankruptcy, insolvency or reorganization of Liquor Stores under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of the Convertible Debentures then outstanding, declare the principal of and interest on all outstanding Convertible Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of such Convertible Debentures then outstanding may, on behalf of the holders of all such Convertible Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Within 30 days following the occurrence of a change of control of Liquor Stores involving the acquisition of voting control or direction over 66 ⅔% or more of the outstanding voting shares by any person or group of persons acting jointly or in concert, other than pursuant to any transaction undertaken to effect a conversion of Liquor Stores to a corporation in which a new parent entity is established, created, or adopted for, or in replacement of, Liquor Stores (a "**Change of Control**"), Liquor Stores will be required to make an offer in writing to purchase, in whole or in part, the Convertible Debentures then outstanding (the **"Debenture Offer"**), at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest (the "**Debenture Offer Price**").

If 90% or more of the aggregate principal amount of the Convertible Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to Liquor Stores pursuant to the Debenture Offer, Liquor Stores will have the right to redeem all the remaining Convertible Debentures at the Debenture Offer Price. Notice of such redemption must be given by Liquor Stores to the Debenture Trustee within 10 days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Convertible Debentures not tendered pursuant to the Debenture Offer.

Credit Facility

In Canada, Liquor Stores has a secured revolving credit facility with a three (3) year term ending on February 10, 2015. Liquor Stores is currently in negotiations with the syndicate to amend the current credit facility to, amongst other matters, extend the term out past February 10, 2015; we anticipate completing these negotiations prior to the release of our Q1 2014 financial results. The credit facility has a committed aggregate borrowing limit of $150 million with the potential for an additional $50 million (the latter provided on request and on a “best efforts” basis by the lenders). As at March 5, 2014, approximately $89 million is outstanding under this credit facility (including a USD$5 million line of credit issued pursuant to the credit facility). The Corporation also has a USD$5 million operating facility with a U.S. bank with approximately US$4 million outstanding as at Mach 5, 2014.

For additional information regarding the credit facilities, see Note 9 (the "**Notes**") to Liquor Stores' audited consolidated financial statements for the year ended December 31, 2013, and Liquidity and Capital Resources notes in the related management's discussion and analysis (collectively, the "**MD&A Disclosure**"), both of which are available on SEDAR at www.sedar.com. The Notes and the MD&A Disclosure are both incorporated by reference into this Annual Information Form.

Ratings

Liquor Stores has neither asked for nor received a stability rating, and it is not aware that it has received any other kind of rating, including a provisional rating, from one or more approved rating organizations for outstanding securities of Liquor Stores, which rating or ratings continue in effect.

Securities Held in Escrow

To Liquor Stores' knowledge, no securities of Liquor Stores are held in escrow or are subject to a contractual restriction on transfer (except in respect of pledges made to lenders and except in respect of incentive securities issued pursuant to Liquor Stores' equity compensation plans).

MARKET FOR SECURITIES

Common Shares

Following the completion of the Corporate Conversion, the Common Shares were listed on the TSX under the symbol LIQ on January 7, 2011. The following tables set forth certain trading information for the Common Shares in 2013 as reported by the TSX.

Period	High ($)	Low ($)	Volume
2013			
January	19.39	18.38	619,799
February	19.39	18.65	507,313
March	19.19	17.91	934,450
April	18.25	17.31	656,021
May	18.46	17.56	733,912
June	18.33	17.30	837,761
July	17.99	17.31	739,432
August	17.57	15.26	1,156,487
September	16.40	15.30	802,057
October	16.00	14.61	1,366,792
November	15.50	13.93	1,756,334
December	14.75	13.76	1,822,682

5.85% Convertible Debentures

The Convertible Debentures are listed and posted for trading on the TSX under the trading symbol "LIQ.DB.A". They commenced trading on April 23, 2012. The following table sets forth certain trading information for the Convertible Debentures in 2013 as reported by the TSX.

Month	High ($)	Low ($)	Volume
2013			
January	110.00	106.00	4,700
February	108.00	107.25	6,730
March	108.00	107.00	5,090
April	107.50	104.28	2,100
May	105.81	105.00	4,580

June………………………………………………………………………………	105.75	102.75	7,920
July………………………………………………………………………………	105.00	103.50	3,460
August……………………………………………………………………………	105.00	102.50	5,480
September………………………………………………………………………	104.94	102.25	5,600
October……………………………………………………………………………	104.00	102.00	4,020
November…………………………………………………………………………	104.74	102.50	3,020
December..	103.53	102.50	2,670

Other than incentive securities issued pursuant to Liquor Stores' equity compensation plans, Liquor Stores does not have any classes of securities that are outstanding but that are not listed or quoted on a market place.

DIRECTORS AND EXECUTIVE OFFICERS OF LIQUOR STORES

The following table sets forth the name, province/state and country of residence and positions and offices held for each of the directors and executive officers of Liquor Stores, together with their principal occupations during the last five years. The directors of Liquor Stores will hold office until the next annual meeting of Shareholders or until their respective successors have been duly elected or appointed.

Name and Jurisdiction of Residence	Position with Liquor Stores	Date Appointed as a Director[(1)]	Principal Occupation
Irving Kipnes Alberta, Canada	Director	August 10, 2004	Managing Director of the Delcon Development Group of Companies (real estate development)
Henry Bereznicki Alberta, Canada	Director	August 10, 2004	President, Western Region, Centrecorp (real estate investment and services company)
R. John Butler, Q.C.[(2)(3)(4)] Alberta, Canada	Director	August 10, 2004	Counsel, Bryan & Company LLP (law firm)
Gary Collins [(2)(4)] British Columbia, Canada	Director	September 5, 2006	President, Coastal Contacts Inc. (on-line optical retailer)
Jim Dinning[(5)] Alberta, Canada	Chairman & Director	August 10, 2004	Chairman, Western Financial Group (financial services company)
Robert S. Green[(2)(3)] Ontario, Canada	Director	August 10, 2004	President of North American Development Group (a private real estate developer)
David B. Margolus, Q.C.[(3)(4)] Alberta, Canada	Director	August 10, 2004	Counsel and Partner, Witten LLP (law firm)

Name and Jurisdiction of Residence	Position with Liquor Stores	Date Appointed as a Director(1)	Principal Occupation
Stephen Bebis Weston, Mass., USA	President and Chief Executive Officer & Director	May 8, 2013	President and Chief Executive Officer of Liquor Stores
Patrick J. de Grace, C.A. Alberta, Canada	Senior Vice President and Chief Financial Officer	N/A	Senior Vice President and Chief Financial Officer of Liquor Stores
Craig D. Corbett Alberta, Canada	Senior Vice President, Business Development and General Counsel	N/A	Senior Vice President, Business Development and General Counsel for Liquor Stores

Notes:

(1) With the exception of Mr. Bebis, date provided represents the date the respective directors were appointed as directors of Liquor Stores GP Inc., administrator of Liquor Stores Income Fund (predecessor of Liquor Stores N. A. Ltd.). All directors, except for Mr. Bebis, were appointed as directors of Liquor Stores N.A. Ltd. on December 14, 2010 in connection with the Corporate Conversion. Mr. Bebis was appointed on the date noted above.
(2) Audit Committee member (Robert Green, Chair)
(3) Governance Committee member (R. John Butler, Chair)
(4) Compensation Committee member (Gary Collins, Chair)
(5) Mr. Dinning, is his capacity as Chairman, serves as an ex officio member of all Committees of the Board of Directors.

The following are brief profiles of the directors and executive officers of Liquor Stores.

Irving Kipnes, Director. Mr. Kipnes founded the Liquor Depot Corporation (one of the original companies involved in the formation of Liquor Stores Fund) in 1993, and served as its Managing Director and Chief Executive Officer throughout its eleven year history. Mr. Kipnes is also the President and Managing Director of Delcon Development Group, a group of private companies actively involved in the development of shopping centres and real estate subdivisions, which he founded in 1962. From 1982 to 1987, Mr. Kipnes was the largest shareholder, Co-Chairman, President and Chief Executive Officer of North West Trust Company. Mr. Kipnes has also served on the board of directors of Alberta Liquor Store Association, and was its first elected President. Mr. Kipnes is active in many charitable endeavours and has served on the boards of directors of several charitable and community organizations including the Edmonton Opera, the University Hospital Foundation, co-Chair of the University Hospital Foundation Campaign for Prostate Health, the Campaign Cabinet of the Alberta Heart Institute, the Campaign Cabinet of the Capital Care Foundation (for relocation of the Mewburn Veteran's Centre which established the Dianne and Irving Kipnes Centre for Veterans) and Development Chair to develop a Jewish seniors residence in Edmonton. Mr. Kipnes is CEO of the proposed Edmonton Downtown Academic and Cultural Centre (EDACC) – a proposed major Downtown Edmonton Redevelopment. Mr. Kipnes graduated with a Bachelor of Science in Chemical Engineering (honours) in 1959 and he worked as an Engineer for Imperial Oil until May 1963. In 2009, Mr. Kipnes was the recipient of an Honorary LLD from the University of Alberta. In addition to serving as a director of the Company, Mr. Kipnes has also served as Executive Chairman of Liquor Stores, and is also the former Chief Executive Officer of Liquor Stores Fund.

Henry Bereznicki, Director. Mr. Bereznicki co-founded the predecessor to Liquor Stores by engineering the merger between Liquor World and Liquor Depot, and subsequently taking the company public on September 28th, 2004. Mr. Bereznicki founded Liquor World (one of the original companies involved in the formation of Liquor Stores Fund) in 1993, and served as its President and Chief Executive Officer throughout its eleven year history. Mr. Bereznicki has been a partner in North American Development Group (a private real estate developer) and its predecessors since 1987 and has held the position of President, Western Region of Centrecorp and predecessors for the past thirteen years. Centrecorp is a Canadian and U.S. based real estate investment and services company active in the development, acquisition, management and leasing of shopping centres and commercial/residential land development across Canada and, through wholly owned United States subsidiaries, in the United States. Mr. Bereznicki is responsible for Centrecorp's activities across the four western Canadian provinces as well as Arizona and Colorado. Mr. Bereznicki was a co-founder of the Alberta Liquor Stores Association (ALSA), served as First Vice President of ALSA, and was a member of the board of directors of ALSA for a period of five years from inception. Mr. Bereznicki was also involved as a member and former executive of the Alberta Chapter of the Young Presidents' Organization, and is currently a member of WPO (World President's Organization). Mr. Bereznicki holds a Bachelor of Science Degree in Civil Engineering, with distinction, from the University of Alberta as well as a Master's Degree in Business Administration (MBA) from Harvard University. In addition to his current role as a director, Mr. Bereznicki has also served as Board Chairman of Liquor Stores for the 8 years following the company's initial public offering in 2004.

R. John Butler, Q.C., Director. Mr. Butler is counsel to Bryan & Company, a law firm. Mr. Butler is a member of the board of directors of TELUS Corporation and is also a former Chair of the Canadian Football League Board of Governors. Mr. Butler holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta.

***Gary Collins, Director*.** Mr. Collins is the President of Coastal Contacts Inc. and serves as a member of the Board of Chorus Aviation Inc. (formerly Jazz Air Income Corporation). Mr. Collins was President and CEO of Harmony Airways from December 2004 to December 2006, and from April 2007 until May 2012 he was the Senior Vice President of Belkorp Industries Inc. (a private investment management company). Previously Mr. Collins spent 13 years as a Member of the British Columbia Legislative Assembly, including serving as British Columbia's Minister of Finance from 2001 to 2005.

Jim Dinning, Chairman, Director. Mr. Dinning is also Chair of Western Financial Group, a leading western Canadian financial services company. He was Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) from 1997 to 2004. Mr. Dinning served as Member of the Alberta Legislative Assembly from 1986 to 1997 and held several key positions including Provincial Treasurer. He is a director of Russel Metals Inc. and Oncolytics Biotech Inc. He is a director of Parkland Fuel Corporation until May's AGM when he will not seek re-election. He is a past director of Finning International Inc. and Shaw Communications Inc. In 2007, Mr. Dinning completed the Directors Education Program of the Institute of Corporate Directors. He is the recipient of the Distinguished Service Award from the Institute of Chartered Accountants of Alberta (1997) and was awarded an Honorary LLD from the University of Calgary in 2002. Mr. Dinning will complete his four year term as Chancellor of the University of Calgary in June of this year.

Robert S. Green, Director. Mr. Green is the President of North American Development Group, a company which he joined in 1985, after specializing in the practice of commercial real estate law with a major Canadian law firm. Mr. Green has over 28 years of experience in managing, leasing, developing and acquiring retail properties throughout North America. Mr. Green was formerly a member of the board of directors and investment committee of Centrefund Realty Corporation and Sterling Centrecorp Inc., both public real estate companies listed on the Toronto Stock Exchange. Mr. Green is also a founding partner and President of Centrecorp Management Services Limited, a retail/commercial real estate service provider with operations in both Canada and the United States. Mr. Green is a graduate of, and obtained an LLB from, the University of Toronto Law School.

David B. Margolus, Q.C., Director. Mr. Margolus was one of the founding shareholders of The Liquor Depot Corporation (a predecessor to the Company). He is Counsel to, a partner of, and former Managing Partner (for 13 years) of Witten LLP, with a legal practice focused primarily in the areas of corporate, commercial and real estate. In addition to serving on the boards of various public and private companies, Mr. Margolus acted as legal counsel to Alberta Liquor Store Association from its inception and for many years thereafter. In 2009, he completed the Directors Education Program of the Institute of Corporate Directors.

Stephen Bebis, President and Chief Executive Officer & Director. Mr. Bebis has numerous years of experience in the retail sector, and most recently was the President and Chief Executive Officer of U.S.-based Brookstone Inc., a specialty lifestyle retail company. From 1998 to 2011, Mr. Bebis served as the founder, President and CEO of Golf Town, the largest specialty golf retailer in Canada and one of the largest in the world. From 1996 to 1998, Mr. Bebis was Chairman, President, and CEO of Sports and Recreation Stores, Tampa, Florida. Prior thereto, Mr. Bebis held various executive-level positions, including (among others) President of Home Depot Canada, and founder and CEO of Aikenhead's Home Improvement Warehouse.

Patrick J. de Grace, C.A., Senior Vice President and Chief Financial Officer. Mr. de Grace joined Liquor Stores on January 1, 2006. Prior to that, Mr. de Grace was an independent consultant. From 1991 to August 2001, Mr. de Grace held finance roles of increasing responsibility in the national retail grocery industry. Mr. de Grace received his Bachelor of Arts from the University of Alberta in 1973 and his Chartered Accountant designation in 1980.

Craig D. Corbett, Senior Vice President, Business Development and General Counsel, General. Mr. Corbett joined Liquor Stores in May 2008. Prior to that, Mr. Corbett was a corporate lawyer in private practice. From 2003 until 2006 Mr. Corbett practiced law with the national firm of Stikeman Elliott LLP (Calgary and United Kingdom offices), specializing in securities and mergers & acquisitions, and from 2006 until May 2008 he was a member of the business law group of Reynolds Mirth Richards & Farmer LLP (Edmonton). Mr. Corbett holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta. Mr. Corbett is active with various non-profit organizations, and currently serves as a member of the Board of Directors and the Executive Committee of the Edmonton Opera.

Common Share Ownership As at the date hereof, the directors and executive officers of Liquor Stores, as a group, own beneficially, or control or direct, directly or indirectly, an aggregate of 1,092,310 Common Shares, representing approximately 4.7% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Liquor Stores, except as otherwise disclosed herein, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, Chief Executive Officer or Chief Financial Officer of any company (including Liquor Stores), that:

(a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of Liquor Stores, except as otherwise disclosed herein, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons), or a shareholder holding a sufficient number of securities of Liquor Stores to affect materially the control of Liquor Stores:

(a) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including Liquor Stores) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of Liquor Stores, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons), or a shareholder holding a sufficient number of securities of Liquor Stores to affect materially the control of Liquor Stores, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Certain directors of Liquor Stores are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Liquor Stores are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Liquor Stores. Other than as described above and elsewhere in this Annual Information Form, there are no existing material conflicts of interest between Liquor Stores or its Subsidiaries and any director or officer of Liquor Stores or its Subsidiaries.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of any director or executive officer of Liquor Stores, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of the foregoing persons, in any transaction during Liquor Stores' three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Liquor Stores, other than as disclosed elsewhere in this Annual Information Form.

PROMOTERS

No person or company has been, within the two most recently completed financial years or during the current financial year, a "promoter" (as defined in the *Securities Act* (Ontario)) of Liquor Stores or of a Subsidiary of Liquor Stores.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings that Liquor Stores is or was a party to, or that any of Liquor Stores' property is or was the subject of, during the most recently completed financial year, that were or are material to Liquor Stores, and there are no such material legal proceedings that Liquor Stores knows to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be "material" if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10 percent of Liquor Stores' current assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, Liquor Stores' has included the amount involved in the other proceedings in computing the percentage.

There were no: (i) penalties or sanctions imposed against Liquor Stores by a court relating to securities legislation or by a security regulatory authority during our most recently completed financial year; (ii) other penalties or sanctions imposed by a court or regulatory body against Liquor Stores that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements Liquor Stores entered into before a court relating to securities legislation or with a securities regulatory authority during Liquor Stores' most recently completed financial year.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares and the Convertible Debentures is Valiant Trust Company at its principal offices in Calgary, Alberta.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts that are material to Liquor Stores and that were entered into by Liquor Stores or one of its Subsidiaries within the most recently completed financial year or before the most recently completed financial year but which are still material and are still in effect, are the following:

1. the Canadian credit facility described under "Description of Capital Structure"; and

2. the Debenture Indenture described under "Description of Capital Structure".

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a report, valuation, statement or opinion made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Liquor Stores during, or related to, its most recently completed financial year.

PricewaterhouseCoopers LLP is the auditor of Liquor Stores and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants, Alberta.

AUDIT COMMITTEE

Audit Committee Charter

The Charter of Liquor Stores' Audit Committee is attached as **Schedule B**.

Composition of the Audit Committee

Members of the Audit Committee are Rob Green (Chair), R. John Butler, and Gary Collins, and Jim Dinning (ex-officio). As Chairman of Liquor Stores, Mr. Dinning is an ex-officio voting member of each Committee of the Board of Directors of Liquor Stores. Each current member of the Audit Committee is independent and financially literate.

Relevant Education and Experience

Robert S. Green – Director since August 10, 2004

President, North American Development Group & President, Centrecorp Management Services Limited.

Mr. Green obtained an LLB from the University of Toronto Law School, and his current position as President of a large-scale private retail real estate development company combined with his past experience on the boards of both public and private companies have provided him with a strong background in business, finance and mergers & acquisition matters, as well as expertise relative to reviewing, analyzing and interpreting financial statements and business records.

R. John Butler, QC –Director since August 10, 2004

Counsel, Bryan & Company (law firm)

Other Public Company Directorships TELUS Corporation

Mr. Butler is a member of the Audit Committee of Telus Corporation. Mr. Butler is also the past Chair of the Canadian Football League Board of Governors (and a former Chairman of the Audit and Finance Committee), and a past Trustee, Vice-Chair, and

Chairman of the Audit Committee of the Kisonyaminaw Heritage Trust Fund. Mr. Butler holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta.

Gary Collins –Director since September 5, 2006

President, Coastal Contacts Inc.	(online optical retailer)
Other Public Company Directorships	Chorus Aviation Inc.
Previous Employment	
From 2006 - 2012	Senior Vice President, Belkorp Industries
From 2004 to 2006	President & Chief Executive Officer, Harmony Airways
From 1991 to 2004	Member of the Legislative Assembly of the Province of British Columbia
2001 to 2004	Minister of Finance British Columbia

Jim Dinning –Director since August 10, 2004

Chair, Western Financial Group Inc.

Other Public Company Directorships	Russel Metals Inc. Oncolytics Biotech Inc. Parkland Fuel Corporation
From 1999 to 2001	Chair, Calgary Health Region
From 1992 to 1997	Provincial Treasurer (Alberta)

Mr. Dinning has a B.Comm. and a Masters in Public Administration from Queen's University. Presently Mr. Dinning is a member of the Audit Committees of Parkland Fuel Corporation, Western Financial Group, and Oncolytics Biotech Inc. In the past Mr. Dinning chaired the Audit Committee of Finning International Inc. and has been a member of the Audit Committee of Shaw Communications Inc.

Pre-approval Policies and Procedures

The Audit Committee Charter provides that the Audit Committee approves in advance all permitted non-audit services to be provided to Liquor Stores or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law. The Audit Committee is permitted to but has not delegated any of its authority to grant pre-approvals.

External Auditor Service Fees

The following table summarizes the fees paid by Liquor Stores to PricewaterhouseCoopers LLP for external audit and other services during the periods indicated.

Fee Description	2013	2012
	$	$
Audit services	350,000	369,000
Audit related services (1)	-	10,500
Tax (2)	237,845	155,879
Other (3)	-	90,136
Total	587,845	625,515

(1) Audit related services in 2012 include services related to the Company's adoption of International Financial Reporting Standards on January 1, 2011.
(2) Tax services comprising tax compliance, tax advice and tax planning, including the preparation of corporate tax returns for Canadian and US reporting entities.
(3) Other includes services provided in 2012 in connection with the Convertible Debenture offering.

Reliance on Exemptions

At no time since the commencement of Liquor Stores' most recently completed financial year has Liquor Stores relied on any of the exemptions contained in Sections 2.4, 3.2, 3.4 or 3.5 of National Instrument 52-110 ("**NI 52-110**"), or an exemption from NI 52-110, in whole or in part, granted under Part 8 thereof. In addition, at no time since the commencement of Liquor Stores' most recently completed financial year has Liquor Stores relied upon the exemptions in Subsection 3.3(2) or Section 3.6 of NI 52-110. Furthermore, at no time since the commencement of Liquor Stores' most recently completed financial year has Liquor Stores relied upon Section 3.8 of NI 52-110**.**

Audit Committee Oversight

At no time since the commencement of Liquor Stores' most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Board of Directors of Liquor Stores.

ADDITIONAL INFORMATION

Additional information relating to Liquor Stores may be found on SEDAR at www.sedar.com and on Liquor Stores' website at www.liquorstoresna.ca

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Liquor Stores' securities and securities authorized for issuance under equity compensation plans, is contained in Liquor Stores' Information Circular for its most recent annual meeting which may be found on SEDAR at www.sedar.com.

Additional financial information is provided in Liquor Stores' financial statements and management's discussion and analysis for the year ended December 31, 2013, which documents may be found on SEDAR at www.sedar.com.

SCHEDULE "A"

GLOSSARY OF TERMS

In this Annual Information Form, the following terms have the meanings set forth below, unless otherwise indicated:

“**ABCB**” means the Alcoholic Beverage Control Board (Alaska);

"**Affiliate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

"**AGLC**" means the Alberta Gaming and Liquor Commission (formerly the Alberta Liquor Control Board), established pursuant to the GLA, which, among other things, administers the GLA and controls, in accordance with the GLA, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor in Alberta, and which, through the board of the AGLC, establishes policies, conducts hearings and makes decisions respecting licenses and registrations under the GLA;

"**Associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

"**BCLCLB**" means the Liquor Control and Licensing Branch of the Province of British Columbia;

"**BCLDA**" means the *Liquor Distribution Act* (British Columbia);

"**Board**" or "**Board of Directors**" means the board of directors of Liquor Stores;

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, including the regulations promulgated thereunder;

"CLS" means Connect Logistics Services, Inc.;

"**Common Share**" means a common share in the capital of Liquor Stores;

"**Convertible Debentures**" means the 5.85% convertible unsecured subordinated debentures of Liquor Stores issued pursuant to the Debenture Indenture, issued on April 23, 2012;

"**Corporate Conversion**" means the reorganization of Liquor Stores Fund from an income trust structure to a publicly traded corporation, being Liquor Stores, pursuant to a plan of arrangement completed under the CBCA effective December 31, 2010;

"**Debenture Indenture**" means the trust indenture dated as of December 21, 2007 between Liquor Stores Fund (the predecessor to Liquor Stores) and CIBC Mellon Trust Company (the predecessor to Valiant Trust Company), as supplemented by a first supplemental trust indenture dated as of December 31, 2010 among Liquor Stores, Valiant Trust Company and BNY Trust Company of Canada (successor to CIBC Mellon Trust Company), and as further supplemented by a second supplemental indenture dated April 23, 2012, creating and setting forth the terms of the Convertible Debentures to be entered into between Liquor Stores and the Debenture Trustee;

"**Debenture Trustee**" means Valiant Trust Company;

"**GLA**" means the *Gaming and Liquor Act* (Alberta), as amended, including the regulations promulgated thereunder;

“**KYABC**” means the Department of Alcoholic Beverage Control (Kentucky);

"**Liquor Stores**", "**we**", "**us**" or "**our**" means: (i) subsequent to the completion of the Corporate Conversion, Liquor Stores N.A. Ltd., a corporation incorporated under the CBCA and the successor to Liquor Stores Fund; and (ii) prior to the completion of the Corporate Conversion, Liquor Stores Fund. Where the context requires, these terms also include all of Liquor Stores' Subsidiaries on a consolidated basis;

"**Liquor Stores Fund**" means Liquor Stores Income Fund, which income trust was reorganized into Liquor Stores pursuant to the Corporate Conversion;

"**Liquor Stores Partnership**" means Liquor Stores Limited Partnership, a limited partnership formed under the laws of Alberta;

"**Shareholders**" mean the holders of Common Shares from time to time;

"**Subsidiaries**" has the meaning ascribed thereto in the *Securities Act* (Alberta) and, for greater certainty, includes all corporations and partnerships owned, controlled or directed, directly or indirectly, by Liquor Stores;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, C. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;

"**TSX**" means the Toronto Stock Exchange;

"**Trust Unit**" means a trust unit of Liquor Stores Fund, all of which were exchanged for Common Shares on a one-for-one basis pursuant to the Corporate Conversion; and

"**United States**" or "**U.S.**" means the United States of America.

SCHEDULE "B"

LIQUOR STORES N.A. LTD.

AUDIT COMMITTEE CHARTER

The term "**Corporation**" refers to Liquor Stores N.A. Ltd., the term "**Board**" refers to the board of directors of the Corporation, the term “**GP**” refers to Liquor Stores GP Inc., and the term “**LP**” refers to Liquor Stores Limited Partnership.

PURPOSE

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Corporation’s financial reporting, including responsibility to:

- oversee the integrity of the Corporation’s consolidated financial statements and financial reporting process, including the audit process and the Corporation’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Corporation’s external auditors;
- oversee the work of the Corporation’s financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board and the officers (collectively, "**Management**") of the Corporation.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

COMPOSITION AND PROCEDURES

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

1. Composition

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Corporation, the LP or the GP or any of their respective subsidiaries and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Corporation’s shares are listed for trading).

2. Appointment and Replacement of Committee Members

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected and qualified.

3. Financial literacy

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

4. Separate Executive Meetings

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of the Corporation and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

5. Professional Assistance

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Corporation's expense.

6. Reliance

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation, the GP, and the LP from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Corporation and its subsidiaries.

7. Review of Charter

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Corporation.

8. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

9. Reporting to the Board

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

SPECIFIC MANDATES OF THE COMMITTEE

The Committee will:

In Respect of the Corporation's External Auditors

(a) review the performance of the external auditors of the Corporation who are accountable to the Committee and the Board as the representatives of the shareholders of the Corporation, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors;

(b) review the reasons for any proposed change in the external auditors of the Corporation which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;

(c) approve the terms of engagement and the compensation to be paid by the Corporation to the Corporation's external auditors;

(d) review the independence of the Corporation's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;

(e) approve in advance all permitted non-audit services to be provided to the Corporation or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;

(f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Corporation's external auditors;

(g) approve any hiring by the Corporation or its subsidiaries of employees or former employees of the Corporation's external auditors;

(h) review a written or oral report describing:

    (i) critical accounting policies and practices to be used in the Corporation's annual audit,

    (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management and that are significant to the Corporation's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and

    (iii) other material written communication between the Corporation's external auditors and Management, such as any management letter or schedule of unadjusted differences;

(i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Corporation, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;

(j) if a review engagement report is requested of the external auditors, review such report before the release of the Corporation's interim consolidated financial statements; and

(k) discuss with the external auditors any difficulties or disputes that arose with Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies.

In Respect of the Corporation's Financial Disclosure

(a) review with the external auditors and Management:

(i) the Corporation's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Corporation contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Corporation, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

(ii) the Corporation's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

(iii) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

(iv) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;

(v) the effect of regulatory and accounting initiatives on the Corporation's consolidated financial statements and other financial disclosures;

(vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Corporation;

(vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation;

(viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's consolidated financial statements;

(ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Corporation’s operations; and

(x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.

(b) review and resolve disagreements between Management and the Corporation's external auditors regarding financial reporting or the application of any accounting principles or practices;

(c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e. by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Corporation gives earning guidance;

(d) establish and monitor procedures for the receipt and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;

(e) receive from the Chief Executive Officer and the Chief Financial Officer of the Corporation a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and

(f) review and discuss the Corporation's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

In Respect of Insurance

(a) review periodically insurance programs relating to the Corporation and its investments.

In Respect of Internal Controls

(a) review the adequacy and effectiveness of the Corporation’s internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls; and

(b) oversee compliance with internal controls and the Joint Code of Business Conduct.

In Respect of Other Items

(a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;

(c) on a quarterly basis review the prior quarter dividends;

(d) on an annual basis review the dividend reinvestment plan;

(e) on an annual basis review the performance of the Board under the Board's mandate; and

(f) on a quarterly basis review compliance with the Joint Disclosure Policy of the Corporation.

OVERSIGHT FUNCTION

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's consolidated financial statements are complete and are in accordance with General Accepted Accounting Principles (GAAP) and all applicable rules and regulations. These are the responsibilities of Management and the Corporation's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Corporation, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Corporation's financial information or public disclosure.