LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2013

As at March 6, 2014

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1. Basis of Presentation

Management's Discussion and Analysis ("MD&A") provides a comparison of Liquor Stores N.A. Ltd.'s (the "Company" or "Liquor Stores") performance for the three months and year ended December 31, 2013 with the three months and year ended December 31, 2012. This discussion should be read in conjunction with the Company's annual audited consolidated financial statements and the notes thereto (the "financial statements") for the years ended December 31, 2013 and 2012. The information in this MD&A is current to March 6, 2014, unless otherwise noted.

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

Unless otherwise stated, financial information is expressed in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"), for financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

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

Additional information relating to Liquor Stores can be found at www.liquorstoresna.ca. The Company's continuous disclosure materials, including its annual and quarterly MD&A, audited annual and unaudited interim financial statements, its 2013 Annual Information Form, Information Circulars, and various news releases issued by the Company are also available on its website or directly through the SEDAR system at www.sedar.com.

2. Forward Looking Statements

In the interest of providing current shareholders and potential investors with information regarding current results and future prospects, this MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to the Company's future plans are included in the *'Company Strategy', "Outlook" and "Liquidity and Capital Resources"* sections of this MD&A. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and performance of the Company, business strategies, costs, as well as plans and objectives of or involving the Company. Forward-looking statements are typically identified by words such as "believe", "expect", "will", "intend", "project", "anticipate", "estimate", "continue", "forecast", "could", "goal", "foresee", "seek", "strive", "may", "should" and similar expressions or the negatives thereof, as they relate to the Company and its Management. These forward-looking statements include, but are not limited to, statements with respect to the future payment and timing of the payment of the Company's dividends, the anticipated opening dates of new stores, and Management's general expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

Forward-looking statements reflect the Company's current plans, intentions, and expectations, which are based on Management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's plans, intentions, and expectations are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. There is no assurance that the plans, intentions, or expectations upon which these forward-looking statements are based will occur and such forward-looking statements included in this MD&A should not be unduly relied upon.

Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed under "Risk Factors" in this MD&A and in the Company's Annual Information Form. Other risks and uncertainties not presently known to the Company or that Management presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

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

3. Summary of the Quarter and Year Ended December 31, 2013

Three months ended December 31, 2013

- Opened one large-format store in Alaska (2012 – one large-format store in Kentucky)
- Consolidated sales increased 2.6% to $184.1 million (2012 - $179.4 million);
- Same-store sales increased by 0.2% in Canada ($0.3 million) and decreased by 1.7% in the U.S. ($0.7 million);
- Adjusted gross margin[1] was 25.3% (2012 - 25.4%); and
- Adjusted operating margin[1] decreased by 1.7% ($0.2 million) to $14.1 million (2012 - $14.4 million).

Year ended December 31, 2013

- Consolidated sales increased 4.9% to $661.0 million (2012 - $630.1 million);
- Same-store sales increased by 0.4% ($1.9 million) in Canada and decreased by 2.0% ($2.9 million) in the U.S.;
- Adjusted gross margin was 25.2% (2012 – 25.3%);
- Adjusted operating margin decreased by 6.4% ($3.2 million) to $46.1 million (2012 - $49.2 million).

See the *'Analysis of Financial Results'* sections of this MD&A for further discussion and analysis of the Company's financial results for the three months and year ended December 31, 2013.

Consistent with our *'Company Strategy'* section later in this MD&A, the Company continues to focus on enhancing its current operations, and on growth in new and existing markets.

The Company is building on the strong fundamentals of its business by advancing initiatives designed to enhance relationships with customers, vendors and employees. These initiatives include enhancing our employee training programs to strengthen our selling culture, implementing new sales, marketing and advertising approaches; working with vendors on a more collaborative approach towards product promotions and opportunities for event-driven marketing, and strengthening our Merchandising, Information Technology ("IT") and Human Resources functions to further support our growth plans. These

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

investments in our business are necessary to support and enhance our long-term profitability and to build on our competitive position, but they have had a negative impact on our adjusted operating margin in the period. While we already see a positive impact from these investments, we anticipate their full benefits will be realized by 2016.

4. Corporate Profile

Liquor Stores N.A. Ltd. is a corporation incorporated under the Canada Business Corporations Act ("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.

5. Business Overview

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

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

As of March 6, 2014, the Company had 245 stores in Alberta, British Columbia, Alaska and Kentucky, comprised of 11 destination/large-format stores, 231 full liquor stores, and three wine only stores. Product selection is tailored to each location. Stores in Canada generally range in size from 2,000 to 5,000 square feet. Our U.S. stores are larger in size. The Company's stores in Alaska range in size from 1,400 to 14,000 square feet and we have one combined store and warehouse in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 30,000 square feet along with a flagship store of 44,000 square feet. Our two Wine & Beyond stores, with areas approximately 17,000 and 20,000 square feet, are our destination/large-format stores in Alberta; they are the largest liquor retail stores in western Canada.

The following chart shows a break-down of Liquor Store locations as at March 6, 2014:

Alberta			**British Columbia**			**Alaska**		**Kentucky**			**Total**
Edmonton(1)	**Calgary(1)**	**Other(2)**	**Lower Mainland**	**Vancouver Island**	**Interior**	**Anchorage**	**Other(3)**	**Lexington**	**Louisville**	**Other(4)**	
81	44	50	13	11	12	19	3	6	4	2	245
175			36			22		12			

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres. Note that a total of 4 stores have been closed in 2013 (Q1 2013: 1 store; Q2 2013: 2 stores; Q4 2013: 1 store) and 1 store to date in 2014, due to underperformance (Edmonton: 1 store; Calgary: 2 stores; Other Alberta: 1 store). In addition, one store in

Edmonton is temporarily closed as the property where it is located is being redeveloped and the store is expected to be reopened in mid to late 2014.

(2) *Other stores in Alberta by region: Northern (25), Southern (9), Central (14) and resort communities (2).*

(3) *Other communities served in Alaska include Wasilla (2 stores) and Fairbanks (1 store).*

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

Competitive Differentiation

Management focuses on differentiating the Company's stores from the competition by promoting its broad selection of products, by emphasizing the in-store customer experience, and through continued marketing and development of its well-known industry-leading brands. Management believes that its emphasis on offering a range of stores from large-format/destination-type stores (with a strong focus on product selection and customer experience) to convenience-focused stores (convenient and high-traffic locations) assists the Company in differentiating it from its competitors. The successful introduction of Wine and Beyond to the Alberta marketplace was primarily for competitive differentiation. Management plans to continue to concentrate marketing efforts on the Company's current brand structure.

Seasonality

The retail liquor industry is subject to seasonal variations. The Company's sales are typically lowest early in the year and increase in the latter half. In 2013, 21% (2012 - 20%) of annual same store sales occurred in the first quarter, 25% (2012 - 26%) in the second quarter, 26% (2012 - 27%) in the third quarter, and 28% (2012 - 27%) in the fourth quarter. Our working capital requirements are greatest in the second and third quarters as we ramp up for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

Comparable same-store sales, a measure that is generally used by retailers, includes sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers, (ii) stores where same-store sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores opened by the Company in the last 12 full months, and (iii) stores where same-store sales have been positively impacted due to closely-located stores being closed by the Company in the last 12 full months.

6. The Alcoholic Beverage Market

In Canada, beer and liquor stores and agencies sold $20.9 billion worth of alcoholic beverages during the year ending March 31, 2012, an increase of 3.0% from the previous year (Statistics Canada). Over the 10-year period from 2002 to 2012, retail sales in Canada grew at a compound annual growth rate of 3.8% (Statistics Canada) with wine and spirits accounting for an increasing share of the market, reflecting changing consumer preferences. In 2002, beer had a 50% share of the Canadian market, wine accounted for 24% of sales and spirits accounted for 26%. According to Statistics Canada's most recent figures, beer is still the most popular category, but has fallen to 44% of sales, while wine's market share has grown to 31% and spirits to 25%. In 2002 according to Statistics Canada, Alberta's share of the Canadian alcoholic beverage market was 9.9% and British Columbia's share was 13.6% (combined share of 23.5%). By 2012, Alberta's share of the Canadian alcoholic beverage market had grown to 10.8% and British Columbia's share had grown to 14.5% (combined share of 25.3%). Alcoholic beverage sales in British Columbia totalled $3.0 billion for the fiscal year ending

March 31, 2012, growing 2.4% from the previous year. In British Columbia, sales of wine showed the strongest growth at 3.6%. In Alberta, alcoholic beverage sales totalled $2.3 billion for the fiscal year ending March 31, 2012, a 5.7% increase over the previous year. In Alberta, beer sales increased 7.1% and wine sales increased 6.8% (Statistics Canada)

In the United States, retail sales of alcoholic beverages for the year ended December 31, 2012 totalled US$197.8 billion according to the Beverage Information Group. Beer sales accounted for 49% of total sales, and spirits and wine accounted for 36% and 15% of sales, respectively. The industry is benefiting from demographic trends and shifts in consumer preferences to higher margin products such as wines and coolers. Over the last five years (2007 to 2012), consumption of spirits and wine in the US has grown 13.3% and 9.0%, respectively, while beer consumption declined 4.3%. Overall, it is estimated that the consumption of distilled spirits grew 6.7% in Kentucky in 2012, while consumption of distilled spirits fell 4.3% in Alaska.

7. Business Strengths

We attribute our success to the following competitive strengths:

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

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

Location - Liquor Stores' business model is based on highly visible and accessible store locations. 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 with major grocery stores or other anchor tenants. 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.

Product Selection - Our liquor stores offer an impressive selection of wine, spirits, coolers, liqueurs, beer, and specialty products. Product selection is individually tailored to each location and in our convenience-focused stores varies between 1,000 and 4,000 wine, spirit, cooler and beer items – a larger product selection and inventory than the industry average. Our Wine and Beyond large-format "destination" stores offer over 10,000 items. New and exclusive varieties and products arrive in our stores throughout the year. Similar to our Wine and Beyond stores, Liquor Stores' U.S. stores offer a significantly larger product selection than our convenience-focused stores, and although selection is again location-specific, alcoholic product selection in certain U.S. stores generally exceeds 7,000 items. In addition, we sell non-alcoholic beverages including pop, juice, bottled water and mixes. Liquor Stores also offers our customers accessories for gift giving and everyday use such as gift bags, wine charms, bottle stoppers, aerators, bar supplies and unique items.

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. We strive to have dedicated staff with knowledge that they are enthusiastic to share. Liquor Stores endeavours to maintain product knowledgeable managers, assistant managers and line staff through frequent seminars and training. In 2013, Liquor Stores implemented a new company-wide training program with a goal of further fostering a customer-focused sales-driven culture in its stores. All new staff members receive training in Company policies and basic product knowledge, selling skills, operations overview, loss prevention and robbery prevention. In the destination/large-format stores, store staff includes well-trained wine, beer, and spirits specialists.

Strategic Markets - Management's primary strategy in Canada and the United States is to focus on urban centres such as the Calgary, Edmonton, Vancouver, and the Anchorage, Louisville and Lexington metropolitan areas. Here we find the best opportunities for larger per store revenues the prospect of substantial population increases. The Company is also exploring possible growth opportunities in other U.S. cities. While our focus is primarily on urban centres, the Company also has stores in other communities including rural or smaller urban centers where demographic and economic conditions warrant. Such communities include Ft. McMurray, Alberta (6 stores) and the recently opened destination/large-format store in Fairbanks, Alaska.

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

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

Stable and Growing Industry - 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[2], and by 3.72% from 2003 to 2013[3] in British Columbia. Comparable annual sales information is not available for either of Alaska or Kentucky.

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[2] Source: Alberta Gaming and Liquor Commission.

8. Company Strategy

We are focused on the following seven point plan (the "Plan") in order to build on our competitive position, invest in opportunities to support long-term profitability and drive growth across our business:

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

Business Strategy	2013 Progress	Goals for 2014
1. Enhance the Senior Leadership Team We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives with deep retail experience in both Canada and the United States.	Stephen Bebis was hired as President and Chief Executive Officer on May 7, 2013 and was appointed to the Company's Board of Directors on May 8. Mr. Bebis has an extensive resume of experience in the retail sector, and most recently was the President and CEO 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. Earlier, Mr. Bebis held various executive-level positions, including President of Home Depot Canada, and founder and CEO of Aikenhead's Home Improvement Warehouse. Three interim members of senior management have been engaged to assist on a short-term basis in the areas of Information Technology, Marketing and Human Resources.	We are targeting five new members of senior management to be hired in the next six to twelve months who come from leading Canadian or U.S. companies to complement our Merchandising, Human Resources, Information Technology, Store Operations, and Marketing teams.
2. Invest in Our People We have an opportunity to attract more customers to existing locations and increase sales per customer by improving our customer service. Our investments will include enhancing our hiring and retention strategies, the introduction of industry leading training programs, implementing competitive store level compensation and benefit programs, and a focus on providing our employees with career and performance management.	In the latter half of 2013, we piloted an externally provided sales training program for certain of our store associates and district managers. The program was specifically selected as it is designed to transform teams that are operationally focused, like ours, to being more substantively customer focused. Very early indications are that stores that participated in the pilot training program have demonstrated improved key financial measures (including items per basket, basket size, and same-store sales) as compared to stores that have not yet participated in the program. Implemented a new store level incentive program for 2014 that aligns store associate objectives with the Company's objectives to enhance the profitability of our existing stores. Piloting centralized recruiting in certain regions with the objective to enhance our hiring processes.	Implement a formal training program called 'Liquor Stores University' for our store associates and use this as the mechanism to deliver training programs for sales, product knowledge and operations. Enhance the sales training program that was piloted in 2013 and deliver the program to 25% of our store managers in 2014.

[3] Source: British Columbia Liquor Distribution Branch.

Business Strategy	2013 Progress	Goals for 2014
3. Implement an Industry Leading Information Technology Platform We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business.	Completed a comprehensive review of our current Information Technology ("IT") environment to identify gaps and opportunities. Initiated several IT projects to enhance our current IT environment so that we are prepared for a new ERP system. Initiated a request for proposal for a new ERP system.	Achieve significant milestones in the implementation of the Company's new ERP system with little or no impact on customers. Milestones include selecting a new ERP system through a competitive proposal process by early Q2 2014 and completing the planning phase of the implementation process by the end of 2014. We are targeting early to mid-2016 for the selected ERP system to be fully implemented.
4. Invest in Our Store Network We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers.	Completed 12 store renovation projects or approximately 5% of our existing stores in 2013 (2012 – two stores). To date, the return on investment from these projects has met Management's expectations for increased sales. Completed a new store layout and design package that improves the customers' in-store experience. The new layout will make our stores easier to shop, showcase more of our assortment and enhance our brand with our customers. The new design has been piloted in the destination/large-format store that opened in Fairbanks, Alaska in late 2013 and in an existing convenience-focused store in the Edmonton region that was renovated and re-launched in early 2014.	Targeting to renovate/refresh an additional 5% of our existing stores in 2014.
5. Increase Brand Awareness and Loyalty We will continue to increase our brand awareness and customer loyalty through investment in our store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts.	During the year, we engaged a marketing consulting firm to assist in the development of a new brand and promotion strategy for the Company, and to enhance our circulation strategy and digital initiatives. Historically, the Company has relied almost exclusively on price promotion through a flyer circulation program to drive customers and remain competitive. In late 2013, we began to take the initial steps to de-emphasize price promotion and to increase brand promotion. We anticipate that this new strategy will take 18 to 24 months to be implemented and to start to become effective. In 2013, we completed a pricing strategy review with the objective to ensure that every customer leaving our stores feels that they received fair value on their purchase. We also implemented a price match guarantee in certain regions, where the competitive landscape necessitated it, to build customer trust and loyalty.	Implement a customer relationship management strategy and start directly communicating through social media, direct email, etc. with our customers by mid-2014. Evaluate new marketing channels in addition to the current flyer circulation program. Increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.

Business Strategy	2013 Progress	Goals for 2014
6. Increase Operating Margins We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.	During the year we set objectives to improve inventory turns through improved buying and rationalization of product assortment. For 2013 we exceeded our internal first year objective, with same-store inventory levels reduced in excess of $13 million.	Complete the development and implementation of a comprehensive category review to improve the competitiveness, profitability and relevance of individual categories (i.e. beer, wine, spirits, specialty). Initiate a formalized program to evaluate product assortment by store and improve adherence to product assortment plans, with the objective of ensuring we have sufficient inventory quantities of products in high demand and to continue to improve our inventory turns. Continue to grow our control/exclusive brands across all regions as a percentage of their respective categories.
7. Pursue Expansion We plan to strategically expand our business in existing markets in Canada and the United States, and into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal.	Opened two new stores in Alaska, one in a new market (Fairbanks); our first new stores in Alaska since 2009. Executed new lease agreements that will result in the opening of three new stores in the U.S. (including two new destination/large-format stores in Louisville, Kentucky) and 10 new stores in Canada (including one new destination/large-format Wine and Beyond store in Calgary, Alberta). We anticipate that all of these stores will open in the next twenty-four months.	Targeting a 2% to 3% organic store growth rate per year for the next two to three years. Strategically invest in new square footage in our existing regions as a result of population growth and, in the case of Kentucky, capitalize on opportunities resulting from certain counties going from 'dry' to 'wet'. The Company continually explores opportunities to develop and/or acquire stores in Alberta, British Columbia and the United States where regulatory regimes permit private liquor stores. Management will continue to evaluate and assess potential store development and store acquisition opportunities for their ability to add accretive cash flow and shareholder value. Developing new destination-focused/large-format stores in our current regions to complement our existing convenience-focused store network and expand market share. Sourcing opportunities to expand geographically through new store development and/or acquisitions to capitalize on opportunities in new regions and to reduce the concentration risk of any particular region. Based on a proven track record of success, the Company anticipates it will invest significantly in large-format expansion in both Canada and the United States.

9. Industry Regulation and Competitive Environment

Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Company currently operates 175 liquor stores in Alberta where there are 1,333 liquor stores and 90 agency stores [Source: Alberta Gaming and Liquor Commission, as at February 2014]. The Company's "Liquor Depot" and "Liquor Barn" trade names are well recognized throughout the province as leading alcoholic beverage retailers.

The Company operates 36 stores in British Columbia. British Columbia's model for liquor distribution is a blend of 696 private stores and 195 government operated stores. There are also 224 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch, as at February 2014].

The Company operates 22 stores in Alaska, with 19 stores in the greater Anchorage area, two stores in Wasilla, and one in Fairbanks. Save for limited community liquor stores operated by certain municipal governments, there are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas [Source: Alaska's Alcoholic Beverage Control Board, as at February 2014]. In Alaska, there are 367 retail liquor stores with 114 stores in the greater Anchorage, Wasilla and Fairbanks areas. The Company's "Brown Jug" trade name is well recognized throughout the state as a leading alcoholic beverage retailer.

The Company operates 12 stores in Kentucky of which seven are large format stores with six stores in Lexington (Fayette County), four stores in Louisville (Jefferson County), one store in Danville (Boyle County), and one store in Bowling Green (Warren County). In Kentucky, there are no government owned or operated liquor stores. Liquor licenses are permitted based on whether the sale of alcoholic beverages is allowed in each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell beer, wine and spirits. There are 863 package retail license stores in Kentucky with 257 in Jefferson County, 79 in Fayette County, eight in Boyle County, and 27 in Warren County [Source: Kentucky's Alcoholic Beverage Control Board, as at February 2014].

See the 'Risk Factors' section of this MD&A for further discussion on the risks related to changes in Government Regulations and for a status update on potential changes in the competitive environment in British Columbia and Kentucky.

10. Significant Events

Liquor Stores has been a leader in the retail liquor industry since the province of Alberta privatized liquor sales in 1993. Since 1993, Liquor Stores has grown its business through a combination of organic store growth and acquisitions.

Some corporate milestones include the following:

- In 1993, Liquor Depot obtained the first approval in principle for a private liquor store in Alberta
- Members of Management were instrumental in the creation of the Alberta Liquor Store Association and the Alberta Liquor Industry Round Table (Industry Associations)
- On September 28, 2004, we became the first publicly traded liquor store operator in North America

- Between 2004 – 2010, we grew from 50 stores to approximately 240 stores through organic store growth and acquisitions such as Liquor Barn Canada, and became Canada's largest private operator of liquor stores (based on number of stores)
- In 2008 we completed the acquisition of the Brown Jug chain of stores located in the State of Alaska
- In 2009 we completed the acquisition of the Liquor Barn chain of stores located in the State of Kentucky.
- In 2011 Liquor Stores opened three new stores in Alberta and added one new store in Kentucky.
- In 2012 our destination/large-format Wine and Beyond stores were introduced with locations opened in Edmonton and Sherwood Park, Alberta.
- 2012 was a year of increased growth as Liquor Stores opened seven stores in Alberta, one store in British Columbia, and one store in Kentucky. We also acquired two stores in Alberta and one store in Kentucky.
- In 2013 we opened a new state-of-the-art, 14,000 square-foot destination/large-format store in Fairbanks, Alaska, under the brand name "Brown Jug Friendly Spirits" as part of the Company's existing chain of Brown Jug stores in Alaska.

11. Dividends

Dividend Policy

The payment of dividends by the Company is subject to the discretion of the Board of Directors and may vary depending upon a variety of factors, including (but not limited to) the prevailing economic and competitive environment, the Company's results of operations and earnings, and fluctuations in working capital and ongoing capital requirements. Presently, the Board of Directors has approved a monthly dividend of $0.09 per share ($1.08 per share on an annualized basis).

Dividends are declared payable each month to the Company's shareholders on the last business day of each month and are paid by the 15th of the following month. For Canadian residents, the Company's dividends are considered to be "eligible dividends" for income tax purposes (subject to gross up and the enhanced dividend tax credit).

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Presently, shares issued pursuant to the DRIP are issued at a discount of 3% from the market price (as such term is defined in the Plan) and no brokerage or administration fees are charged by the Company for participating in the Plan.

As at February 28, 2014, shareholders enrolled in the DRIP held approximately 2.1 million shares.

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

12. Analysis of Financial Results - Quarter Ended December 31, 2013

The following table summarizes the operating results for the three months ended December 31, 2013 and 2012.

	Three months ended December 31,			
	2013		2012	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	127,155	69.1%	126,889	70.8%
Other Canadian stores (2)	4,173	2.2%	3,818	2.1%
Canadian wholesale (1)	5,802	3.2%	6,056	3.4%
Total Canadian store sales	137,130	74.5%	136,762	76.3%
U.S. same-stores (US$) (3)	40,704	22.1%	41,422	23.1%
Other U.S. stores (US$) (4)	4,043	2.2%	1,544	0.8%
Foreign exchange on U.S. store sales	2,229	1.2%	(370)	(0.2)%
Total U.S. store sales	46,976	25.5%	42,596	23.7%
Total sales	184,106	100.0%	179,358	100.0%
Gross margin	45,605	24.8%	45,504	25.4%
Operating and administrative expense	33,498	18.2%	31,489	17.6%
Operating margin	12,107	6.6%	14,015	7.8%
Adjusting items (5)	2,040	1.1%	372	0.2%
Adjusted operating margin (5)	14,147	7.7%	14,387	8.0%

Notes:

(1) *To better represent the performance of same-stores, the concept of same-store sales was revised during the first quarter of 2013 so that same-store sales would only include retail sales and exclude all sales to wholesale customers. Previously, only stores that had significant wholesale business were excluded from same-stores. Canadian same-store sales and sales from Canadian wholesale operations have been restated in the MD&A for the comparative period.*

Two existing stores in the Canadian region have been excluded from the same-stores sales comparison due to their close proximity to a store that was closed during Q3 2013. These stores will return to the same-store sales comparison in the period in which the corresponding closed store has been closed 12 full months at the beginning of that reporting period.

(2) *Sales for Other Canadian stores for the three months ended December 31, 2013 and 2012 include those of five stores opened and five stores closed subsequent to September 30, 2012, and two same-stores in Canada that are in close proximity to one of the stores closed.*

(3) *One existing store in the U.S. region has been excluded from the same-store sales comparison due to its close proximity to a new store that was opened by the Company during Q3 2013. As it is the Company's intention to continue to operate both the existing and new locations, these stores will return to the same-store sales comparison in the same period in which the corresponding new store is open 12 full months at the beginning of that reporting period.*

(4) *Sales for Other U.S. stores for the three months ended December 31, 2013 and 2012 include those of one store opened in Kentucky and two stores opened in Alaska subsequent to September 30, 2012, and one same-store in Alaska that is in close proximity to the store that was opened in Alaska.*

(5) *Adjusting items for the three months ended December 31, 2013 include $1.1 million for inventory write-downs, a $0.7 million provision recorded for the early termination of a lease in conjunction with a store closure planned for 2014, and $0.2 million for payments made to former members of senior management upon their departure from the Company. Adjusting items for the three months ended December 31, 2012 primarily relate to fees paid to an executive recruiting firm that assisted in the search for a new President and Chief Executiv*e Officer. *Adjusting items and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

Fourth Quarter 2013 Operating Results Compared to Fourth Quarter 2012 Operating Results

Sales

Total sales increased by $4.7 million or 2.6% to $184.1 million in the fourth quarter of 2013 (2012 - $179.4 million). The increase is primarily the result of the sales contribution from the new store expansion in Canada and the United States offsetting store closures (eight new stores opened and five stores closed since September 30, 2012) and a $2.6 million positive change in foreign exchange on translation of U.S. dollar denominated sales to Canadian dollars.

<u>Same-Store Sales</u>

- Canadian same-store sales increased by $0.3 million, or 0.2%, despite unfavourable weather in Alberta, particularly weather conditions leading up to the holiday season. However, when adjusted for the following items, Canadian same-store sales increased by 0.8%.
  - Same-store sales have been negatively impacted by sales tax changes and increased competition in British Columbia. When the province made the switch from the Harmonized Sales Tax (HST) of 12% to the combined Provincial Sales Tax (PST)/Goods and Services Tax (GST) of 15% on April 1, 2013, we were determined to remain competitive in the market and decided to leave prices, which have tax included, unchanged. All else being equal, this has had a negative impact of approximately 2.6% on same-store sales in the province. The estimated impact of this matter on Canadian same-store sales in the quarter was approximately 0.6%. Competition in British Columbia, especially for beer and spirits consumers, has increased with certain competitors increasing their cold beer availability (a previous competitive advantage for our stores), improving their in-store marketing and becoming more price competitive. This increased competition has led to downward pressure on pricing and margin.
- U.S. same store sales decreased by $0.7 million or 1.7%.
  - Same-store sales in the United States have been negatively impacted by unfavourable weather in Kentucky, increased competition in Alaska and continued pressure from certain counties in Kentucky going from 'dry' to 'wet' in recent periods (i.e. certain counties in close proximity to the Company's stores that did not previously permit retail package liquor sales are now permitting these sales).
  - Despite the unfavourable weather in Kentucky, we achieved a modest same-stores sales increase in that state in the fourth quarter. While we continue to be impacted by certain counties that have gone from 'dry' to 'wet' in recent periods, we believe that changes to our marketing strategies and the introduction of store level training programs during the latter half of 2013 have assisted in counteracting this challenge to our business and allowed us to compete more effectively.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $5.8 million for the three months ended December 31, 2013, representing a decrease of $0.3 million or 4.2% from the prior year (2012 - $6.1 million), primarily due to unfavourable weather in Canada leading up to the holiday season.
- Sales for the Other Canadian and U.S. stores have increased by $0.4 million and $2.5 million, respectively, compared to 2012, primarily as a result of the eight new stores opened since September 30, 2012, offset by five store closures in Canada (Q1 2013: one store; Q2 2013: three stores; Q4 2013: one store).

Gross Margin

For the three months ended December 31, 2013, gross margin before adjusting items was $46.7 million, up 2.6% from $45.5 million for the same period last year. Adjusted gross margin as a percentage of sales of 25.3% was maintained at a rate consistent with that achieved in the comparative period (2012 – 25.4%). Pressures on gross margin percentages in British Columbia, Alaska and certain regions in Alberta were offset by the initial changes made to our marketing strategies that have resulted in overall increases in gross margin percentages and dollars. The 2013 fourth quarter adjusting item primarily relates to $1.1 million in costs associated with an inventory write-down for expired and unsellable product. In early 2014, Management implemented improved processes and policies to better ensure that product expiries are minimized.

Operating and Administrative Expenses

Operating and administrative expenses for the three months ended December 31, 2013 were $33.5 million, up 6.4% from $31.5 million a year earlier. Included in this increase is a $0.7 million provision recorded for the early termination of a lease in conjunction with a store closure planned for 2014. The comparative period included adjusting items primarily related to the costs associated with the Company's search for a new Chief Executive Officer. Normalizing for these adjusting items, the operating and administrative expenses in Q4 2013 increased by 4.0% attributable, in part, to higher overall costs associated with the additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), rent escalations and increased costs associated with store level training programs, customer relationship management strategies and tools, branding strategies, efforts to remodel certain stores, information technology infrastructure, and additional head office staff to support the Company's business strategies. These increases were offset by a $0.2 million decrease in pre-opening costs associated with the opening of new or remodeled stores in Q4 2013 compared to Q4 2012, primarily due to fewer new store openings.

Adjusted Operating Margin

Adjusted operating margin for the three months ended December 31, 2013 decreased by $0.2 million to $14.1 million, primarily due to a decline in U.S. same-store sales, increases in operating expenses, and ongoing investments in the Company's store level training programs, customer relationship management strategies and tools, branding strategies, information technology infrastructure, and additional head office staff to support the Company's business strategies. Adjusted operating margin as a percentage of sales was 7.7%, down from 8.0%.

Since September 30, 2012, the Company has added eight new stores in Canada and the United States. New stores generally take up to three years to mature and fully contribute to operating margin, and as such, these new stores have contributed to the decline in the adjusted operating margin as a percentage of sales. Management believes that this impact is temporary and that these new stores will positively contribute to adjusted operating margin as a percentage of sales as they mature. Operating margin was $12.1 million for the three months ended December 31, 2013, a decrease of 13.6% from $14.0 million in 2012.

Amortization

Amortization expense of $2.3 million for the fourth quarter of 2013 was consistent with the prior year (2012 - $2.3 million). Additional amortization in the current year related to the new stores opened subsequent to September 30, 2012 and accelerated amortization for store closures was offset by declines in amortization expense related to mature stores where assets have been fully amortized prior to the start of the quarter.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long-term debt and convertible debentures of $2.0 million (2012 - $1.7 million); non-cash interest of $0.3 million (2012 - $0.3 million), and an unrealized loss of $0.2 million on the mark-to-market adjustments related to an interest rate swap (2012 - $0.1 million gain). Cash interest expense has increased as a result of the higher costs associated with the overall higher long-term debt balances during the period, which were partially offset by lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012.

Impairment

During the three months ended December 31, 2013, the Company recorded a $9.8 million impairment provision (2012 - $2.5 million) on retail liquor licenses, which are classified as indefinite life intangible assets, related to 17 stores in British Columbia (Canadian operating segment) (2012 - five stores). The impairment primarily related to a change in Management's forecasted sales and profitability as a result of increased competition in the areas that these stores operate. In addition, approximately one-third of the impairment provision was the result of an increase in the discount rate applied to future cash flows to reflect recent announcements that the British Columbia government is making changes to its current policies that could result in increased competition for liquor retail sales in that province. See the *'Risk Factors'* section later in this MD&A for further discussion of potential changes in government regulations in all regions that we operate in, with particular reference to those in B.C. and Kentucky.

Income Taxes

In the fourth quarter of 2013 we recorded an income tax recovery of $1.1 million (2012 - $1.9 million income tax expense). The income tax recovery primarily relates to the impairment loss recorded in the period on the indefinite life intangible assets.

Net Earnings

For the three months ended December 31, 2013 a net loss of $1.1 million was recorded (2012 – net earnings of $5.4 million). The decrease in net earnings in 2013 is primarily the result of the $9.8 million non-cash impairment loss related to indefinite life intangible assets (2012: $2.5 million). The decrease was also due to a decline in U.S. same-store sales, the $1.7 million net change in adjusting items discussed earlier in this MD&A, increased operating expenses, and ongoing investments to support the Company's business strategies.

13. Analysis of Financial Results - Year Ended December 31, 2013

The following table summarizes the operating results for the years ended December 31, 2013 and 2012.

	Year ended December 31,			
	2013		2012	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	441,145	66.8%	439,212	69.7%
Other Canadian stores (2)	38,403	5.8%	19,459	3.1%
Canadian wholesale (1)	23,980	3.6%	22,410	3.5%
Total Canadian store sales	503,528	76.2%	481,081	76.3%
U.S. same-stores (US$) (3)	142,791	21.6%	145,683	23.1%
Other U.S. stores (US$) (4)	9,813	1.5%	3,481	0.6%
Foreign exchange on U.S. store sales	4,847	0.7%	(139)	(0.0)%
Total U.S. store sales	157,452	23.8%	149,025	23.7%
Total sales	660,979	100.0%	630,106	100.0%
Gross margin	165,824	25.2%	159,511	25.3%
Operating and administrative expense	122,583	18.6%	113,840	18.1%
Operating margin	43,241	6.6%	45,671	7.2%
Adjusting items (5)	2,836	0.4%	3,568	0.6%
Adjusted operating margin (5)	46,077	7.0%	49,239	7.8%

Notes:

(1) *To better represent the performance of same-stores, the concept of same-store sales was revised during the first quarter of 2013 so that same-store sales would only include retail sales and exclude all sales to wholesale customers. Previously, only stores that had significant wholesale business were excluded from same-stores. Canadian same-store sales and sales from Canadian wholesale operations have been restated in the MD&A for the comparative period.*

Two existing stores in the Canadian region have been excluded from the same-stores sales comparison due to their close proximity to a store that was closed during Q3 2013. These stores will return to the same-store sales comparison in the period in which the corresponding closed store has been closed 12 full months at the beginning of that reporting period.

(2) *Sales for Other Canadian Stores for the year ended December 31, 2013 and 2012 include those of eight stores opened and five stores closed subsequent to December 31, 2011, and two same-stores in Canada that are in close proximity to one of the stores closed.*

(3) *One existing store in the U.S. region has been excluded from the same-store sales comparison due to its close proximity to a new store that was opened by the Company during Q3 2013. As it is the Company's intention to continue to operate both the existing and new locations, these stores will return to the same-store sales comparison in the same period in which the corresponding new store is open 12 full months at the beginning of that reporting period.*

(4) *Sales for Other U.S. Stores for the year ended December 31, 2013 and 2012 include those of two stores opened in Kentucky and two stores opened in Alaska subsequent to December 31, 2011, and one same-store in Alaska that is in close proximity to the store that was opened in Alaska.*

(5) *Adjusting items for the year ended December 31, 2013 include $1.1 million for inventory write-downs, a $0.7 million provision recorded for the early termination of a lease in conjunction with a store closure planned for 2014, and $1.1 million for payments made to former members of senior management upon their departure from the Company. Adjusting items for the year ended December 31, 2012 primarily relate to fees paid to an executive recruiting firm that assisted in the search for a new President and Chief Executive Officer ($0.3 million), a payment made to the Company's former President and CEO upon his departure ($2.0 million), and $1.3 million expensed for costs associated with a store investment (with a prospective partner) that was not completed. Adjusting items and adjusted operating margin are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

Year ended December 31, 2013 Operating Results Compared to Year Ended December 31, 2012 Operating Results

Sales

Total sales increased by $30.9 million or 4.9% to $661.0 million for the year ended December 31, 2013 (2012 - $630.1 million). The increase is primarily the result of the sales contribution from the new store expansion in Canada and the United States, offsetting store closures (12 new stores opened and five stores closed since December 31, 2011) and a $5.0 million positive change in foreign exchange on translation of U.S. dollar denominated sales to Canadian dollars. Same-store sales for 2013 vs. 2012 in both Canada and the U.S. were also negatively impacted as a result of 2012 having benefited from an additional day in the year as a result of the leap year.

Same-Store Sales

- Adjusted Canadian same-store sales increased by 1.8% to 2.1%. After the following adjustments, Canadian same-store sales increased by $1.9 million, or 0.4%, to $441.1 million in 2013.
    - Same-store sales for the year ended December 31, 2013 compared to 2012 were impacted by the success of the two Wine and Beyond stores opened in Edmonton during the last week of September 2012. In addition to drawing customers away from our competitors, these destination-type stores also drew customers away from our convenience-focused stores due to their uniqueness in the marketplace and larger selection of product. We estimate that the impact of Wine and Beyond on the Company's Canadian same-store sales was approximately 0.7% to 1.0%.
    - Same-store sales have been negatively impacted by sales tax changes in British Columbia and increased competition in the province (see further discussion of these matters on page 15 of this MD&A). Commencing with the beginning of the second quarter of 2013 and all else being equal, this has had a negative impact of approximately 2.6% on same-store sales in the province. The aggregate impact of this matter on Canadian same-store sales in for the year ended December 31, 2013 was approximately 0.5%. Increased competition in British Columbia, especially for beer and spirits consumers, such as certain competitors increasing their cold beer availability (a previous advantage for our stores), improving their in-store marketing and becoming more price competitive, has also led to downward pressure on pricing and margin.
    - Same-store sales for the year ended December 31, 2013 compared to 2012 were impacted negatively as a result of 2012 having benefited from an additional day in the year. Management estimates that net impact of the additional day in 2012 on Canadian same store sales was

approximately 0.2%. Weather conditions during the first half of 2013 and in December 2013 were also generally unfavourable in Canada as compared to the comparative period which resulted in a negative impact on Canadian same-store sales.

- U.S. same store sales decreased by $2.9 million or 2.0%.
  - Same-store sales in the United States have continued to be negatively impacted by certain counties in Kentucky going from 'dry' to 'wet' throughout 2012 (i.e. certain counties in close proximity to the Company's stores that did not previously permit retail package liquor sales are now permitting these sales).
  - The decline in the year was also due to unfavourable weather experienced in Kentucky throughout the first, second and fourth quarters as compared to the prior year.
  - Competition in Alaska has also negatively impacted same-store sales in the United States as a result of a new entrant to the market in Anchorage.
  - Management estimates that the leap year contributed approximately 0.2% to US same store sales deceases for the period.

<u>Other Sales</u>

- Canadian wholesale sales, which include sales to licensee customers, were $24.0 million for the year ended December 31, 2013, which is an increase of $1.6 million or 7.0% from the prior year (2012 - $22.4 million) primarily due to adding a select number of wholesale customer accounts during the period.
- Sales for the Other Canadian and U.S. stores have increased by $18.9 million and $6.3 million, respectively, compared to 2012 primarily as a result of the 12 new stores opened since December 31, 2011, including the two Wine and Beyond stores opened in Canada during the last week of September 2012, offset by five store closures in Canada (Q1 2013: one store; Q2 2013: three stores, Q4 2013: one store).

Gross Margin

For the year ended December 31, 2013, gross margin before adjusting items was $166.9 million, up 4.6% from $159.5 million for the same period last year. Adjusted gross margin as a percentage of sales of 25.2% was maintained at a rate consistent with that achieved in the comparative period (2012 – 25.3%). Pressures on gross margin percentages in some regions were offset by the initial changes made to our marketing strategies, which have resulted in overall increases in gross margin percentages and dollars. The $1.1 million 2013 adjusting item primarily relates to costs associated with an inventory write-down for expired/unsellable product. In early 2014, Management implemented improved processes and policies to better ensure that product expiries are minimized.

Operating and Administrative Expenses

Operating and administrative expenses for the year ended December 31, 2013 were $122.6 million, up 7.7% from $113.8 million a year ago. Included in this increase are payments of $1.1 million made to former members of the senior management team upon their departures from the Company and a $0.7 million provision recorded for the early termination of a lease in conjunction with a store closure planned for 2014. The comparative period expense included a payment of $2.3 million made to the Company's former President and Chief Executive Officer (of which $2.0 million has been classified as an adjusting item) and a $1.3 million adjusting item for costs associated with a store investment (with a prospective partner) that was not completed, and which costs were determined by the Company not to be recoverable, and $0.3 million in fees paid to an executive search firm to assist the Company in finding a new President and Chief Executive Officer.

Normalizing for these adjusting items, these expenses increased 9.6% in 2013. The increase was attributable, in part, to higher overall costs associated with additional store locations that have been opened in the past 12 months (e.g. rent, payroll, utilities, etc.), rent escalations and increased marketing costs for existing stores, and costs associated with the closure of five stores year-to-date in 2013. Additional costs have also been incurred for the ongoing investments in the store level training programs, customer relationship management strategies and tools, branding strategies, efforts to remodel certain stores, information technology infrastructure, and additional head office staff to support the Company's business strategies. These increases were offset by a $0.3 million decrease in pre-opening costs associated with the opening of new or remodeled stores in 2013 compared to 2012 primarily due to fewer new store openings.

Adjusted Operating Margin

Adjusted operating margin decreased $3.2 million from 2012 primarily due to a decline in U.S. same-store sales, the loss of operating margin from stores closed subsequent to December 31, 2012 (five stores closed in 2013), increases in operating expenses, and ongoing investments that the Company is making to support the Company's business strategies. Adjusted operating margin as a percentage of sales was 7.0%, down from 7.8%.

In addition to the above noted factors, this decline was also due to the 12 additional stores added since December 31, 2011, which are still in their ramp up phase (i.e. these stores have been open for less than one year) and may take up to three years to mature and fully contribute to operating margin. Management believes that this impact is temporary and that these new stores will positively contribute to adjusted operating margin as a percentage of sales as they mature. Operating margin was $43.2 million for the year ended December 31, 2013, a decrease of 5.3% from $45.7 million in 2012.

Amortization

Amortization expense was up 26.0% to $9.8 million for the year ended December 31, 2013 (2012 - $7.7 million), primarily as a result of the additional stores opened in the last 12 months and due to the acceleration of amortization related to store closures and on certain stores that were remodeled in 2013 or will be remodeled in 2014.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $7.9 million (2012 - $7.5 million); non-cash interest of $1.1 million (2012 - $2.5 million), and a notional loss of $0.1 million on the mark-to-market adjustments related to an interest rate swap (2012 - $0.4 million gain). Cash interest expense has increased as a result of higher overall debt levels throughout the year, offset by lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012. Non-cash interest has declined from 2012 primarily due to a charge taken in Q2 2012 related to accelerating the accretion of the Company's 6.75% convertible unsecured subordinated debenture to their principal amount of $57.5 million as they were redeemed on May 28, 2012, which was in advance of their original maturity date.

Impairment

During the year ended December 31, 2013, the Company recorded a $9.8 million impairment provision (2012 - $2.5 million) on retail liquor licenses, which are classified as indefinite life intangible assets, related to 17 stores in British Columbia (Canadian operating segment) (2012 - five stores). See further discussion in the *'Analysis of Financial Results – Three Months Ended December 31, 2013'* earlier in this MD&A. Also see the 'Risk Factors' section later in this MD&A for further discussion of potential changes in government regulations in all regions that we operate in, with particular reference to those in B.C. and Kentucky

Income Taxes

Income taxes for the year ended December 31, 2013 were $3.3 million (2012 - $6.7 million), which equates to an effective income tax rate of approximately 23% (the effective rate for the year ended December 31, 2012 was approximately 26%). The difference in the effective income tax rates between the current and previous years was impacted by changes in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year and adjustments upon filing the Company's corporate tax returns for the December 31, 2012 year-end.

Net Earnings

Net earnings for the year ended December 31, 2013 were $11.5 million compared to $19.1 million in 2012. The decrease in net earnings in 2013 is primarily the result of the $9.8 million non-cash impairment loss related to indefinite life intangible assets (2012: $2.5 million). The decrease was also due to a decline in U.S. same-store sales, the $0.7 million net change in adjusting items discussed earlier in this MD&A, increased operating expenses, and ongoing investments to support the Company's business strategies.

14. Condensed Annual Information

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

	As at year ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Statement of Financial Position					
Cash and cash equivalents	$ 4,529	$ 5,724	$ 1,707	$ 2,815	$ 5,288
Total current assets (excluding cash)	140,583	157,047	134,608	124,220	126,448
Total assets	512,676	533,681	503,147	495,393	509,809
Bank indebtedness	-	3,891	40,424	41,468	41,094
Total current liabilities	46,498	47,227	123,013	71,839	68,688
Long-term debt	133,819	146,566	46,469	100,417	100,126
Total liabilities	200,754	215,931	185,947	181,206	178,068
Shareholders' equity	311,922	317,750	317,200	314,187	286,165
Non-controlling interest	94	92	85	285	45,576
Statement of Earnings					
# stores, end of year	246	249	239	237	236
Sales	660,979	630,106	591,502	579,700	541,049
Net earnings	11,483	19,056	24,802	20,337	29,048
Basic earnings per share*	$ 0.49*	$ 0.82*	$ 1.08*	$ 1.08	$ 1.29
Diluted earnings per share*	$ 0.49*	$ 0.82*	$ 1.08*	$ 1.08	$ 1.27
Dividends declared per share	$ 1.08	$ 1.08	$ 1.08	$ 1.62	$ 1.62

***Note:** *Adjusted basic and diluted earnings per share were $0.90 for the year ended December 31, 2013 (2012 - $1.02; 2011 - $0.96). Adjusted basic and diluted earnings per share are non-IFRS measures; refer to the Non-IFRS Measures section of the MD&A for further discussion. Adjust*ed basic and diluted earnings per share *are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

The primary driver of the year-over-year changes in sales is the growth in the number of stores operated by the Company. The following table summarizes the Company's store acquisitions, developments and closures for the past five years.

	Acquired	Built	Closed	Net Increase
2009	9	5	(1)	13
2010	1	4	(4)	1
2011	-	5	(3)	2
2012	3	7	-	10
2013	-	2	(5)	(3)
5 Year Total	*13*	*23*	*(13)*	*23*

Analysis of Consolidated Financial Position

At December 31, 2013, net working capital (current assets less current liabilities) was $94.1 million, a $15.7 million decrease from the prior year (2012 - $109.8 million). The decline is primarily attributable to Management's focus in 2013 on increasing inventory turns through a reduction in inventory on a same-stores basis. Working capital for the Company is impacted in Alberta and British Columbia where the Company, consistent with other liquor retailers, is required to pay for inventory prior to receiving it. As we do not have traditional payment terms on our inventory, working capital is higher in these regions than compared to that in Kentucky and Alaska where we generally have 30 day trade payment terms.

Property and equipment was $46.8 million at December 31, 2013, a $3.3 million increase from $43.5 million at December 31, 2012. Additions during the year related to new stores, store renovations, and capitalized improvements were $11.9 million (2012 - $11.8 million). Additions were comparable to the prior year even with the decrease in new stores developed or acquired (2013 – two; 2012 – 10) primarily as a result of increased capital spent on store renovations and the costs associated with building the new large-format store in Fairbanks, Alaska. These additions were offset by amortization of $9.4 million (2012 - $7.3 million), of which approximately $1.2 million (2012 - $0.4 million) related to accelerated amortization on store assets where there was a change in estimated useful life resulting from store renovations or closures. Foreign exchange differences on property and equipment assets held in the U.S. resulted in an increase in the carrying value of $0.8 million (2012 - $0.1 million).

Long-term debt was $133.8 million at December 31, 2013, a $12.8 million decrease from $146.6 million at December 31, 2012. During the year, repayments of long-term debt were $14.2 million (2012 - $1.2 million), offset by $1.4 million in accretion of the subordinated convertible debentures and amortization of deferred financing charges. The decrease in long-term debt was primarily the result of Management's focus on improving inventory turns through a reduction of inventory on a same-store basis in 2013. The working capital freed up from the inventory reduction was used to repay long-term debt.

15. Condensed Quarterly Information

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

	2013				2012			
	Dec 31	**Sept 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
Statement of Financial Position								
Cash	4,529	5,550	4,223	3,159	5,724	1,825	765	1,725
Total assets	512,676	532,510	529,382	530,340	533,681	516,929	502,315	500,674
Current bank indebtedness	-	2,518	1,657	-	3,891	-	96	2,178
Total current liabilities	46,498	40,145	40,529	35,086	47,227	28,121	29,483	79,687
Long-term debt	133,819	154,965	152,253	164,160	146,566	150,702	135,673	92,196
Total liabilities	200,754	215,930	211,482	215,417	215,931	199,603	183,608	187,291
Shareholders' equity	311,922	316,580	317,900	314,923	317,750	317,300	318,707	313,383
Non-controlling interest	94	30	63	34	92	26	83	38
Statement of Earnings								
# stores, end of period	246	246	245	248	249	243	241	240
Sales	184,106	172,903	167,669	136,302	179,359	164,490	159,621	126,636
Adjusted operating margin (1)	14,147	13,725	11,712	6,492	14,387	14,588	13,330	6,934
Net earnings/(loss)	(1,108)	5,811	5,321	1,457	5,403	6,481	4,766	2,406
Basic and diluted earnings/(loss) per share	($0.05)	$0.25	$0.23	$ 0.06	$ 0.23	$ 0.28	$ 0.21	$ 0.10
Dividends declared per share	$0.27	$0.27	$0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27

Note:

(1) *Adjusted operating margin is a non-IFRS measure that does not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

16. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

(expressed in thousands)	Three months ended December 31, 2013	2012	Year ended December 31, 2013	2012
Changes in non-cash working capital	$ 20,620	$ 6,400	$ 20,713	$ (5,545)
Cash provided by operating activities	31,076	18,389	50,802	30,819
Cash used in investing activities	(3,072)	(8,275)	(12,241)	(15,513)
Cash used in financing activities	(29,725)	(6,135)	(40,076)	(11,385)
Effect of exchange rate on changes in cash	106	(80)	320	96
Net increase (decrease) in cash and cash equivalents	(1,615)	3,899	(1,195)	4,017

Operating activities

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

Cash provided by operating activities before changes in non-cash working capital is an additional IFRS measure which the Company believes provides useful information to investors and Management by providing an indication of cash flow available for sustaining its current annual dividend of $1.08 per share, investment in working capital, the replacement of existing fixed assets or the purchase of new fixed assets, acquisitions and debt repayment. Investors often compare basic and diluted earnings per share amounts to the Company's annual dividend. Basic and diluted earnings per share for the three months and year ended December 31, 2013 were $0.49 and $0.49, respectively (2012 - $0.23 and $0.82, respectively). The Company believes that cash provided by operating activities before changes in non-cash working capital provides a better indicator of the Company's ability to sustain its current annual dividend than basic and diluted earnings per share.

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

The following table provides a reconciliation of cash provided by operating activities before changes in non-cash working capital and adjusting items to its nearest IFRS alternative, cash provided by operating activities before changes in non-cash working capital:

	Three months ended December 31,		Year ended December 31,	
(expressed in thousands, except per share amounts)	**2013**	**2012**	**2013**	**2012**
Cash provided by (used in) operating activities	$ 31,076	$ 18,389	$ 50,802	$ 30,819
Changes in non-cash working capital (1)	(20,620)	(6,400)	(20,713)	5,545
Cash provided by operating activities before changes in non-cash working capital	10,456	11,989	30,089	36,364
Adjusting items (2)	2,040	372	2,836	3,568
Cash provided by operating activities before changes in non-cash working capital and adjusting items	$ 12,496	$ 12,361	$ 32,925	$ 39,932
Weighted average number of common shares outstanding – basic	23,093,868	22,911,068	23,024,905	22,815,607
Per share amount	$ 0.45	$ 0.52	$ 1.31	$ 1.59
Adjusted per share amount	$ 0.54	$ 0.54	$ 1.43	$ 1.75
Cash dividends per share	$ 0.27	$ 0.27	$ 1.08	$ 1.08

Notes:

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

(3) *See the 'Gross Margin' and 'Operating and Administrative Expense' sections in the 'Analysis of Financial Results' sections for a description of the adjusting items for the three months and year ended December 31, 2013 and 2012, respectively.*

Cash provided by operating activities before changes in non-cash working capital and adjusting items for the three months ended December 31, 2013 of $12.5 million was consistent with that in the comparative period (2012 - $12.4 million).

The $7.0 million decrease in cash provided by operating activities before changes in non-cash working capital and adjusting items for the year ended December 31, 2013 as compared to the same period in 2012 is primarily due to an increase in current income tax expense, and increases in operating expenses, and ongoing investments in the Company's store level training programs, customer relationship management strategies and tools, branding strategies, information technology infrastructure, and additional head office staff to support the Company's growth strategies. Q1 2013 represented the first quarter since the Company's December 2010 adoption of a corporate structure that Canadian income tax had to be remitted to the government (as previous periods had the benefit from a deferral of partnership income).

Investing activities

For the three months ended December 31, 2013, cash used in investing activities was $3.1 million, down from $8.3 million used for the same period a year ago, as a result of fewer new stores being opened in Q4 2013 as compared to Q4 2012. During the quarter, the Company opened one large-format store in Alaska (2012 –

opened three convenience-focused stores in Alberta and one large-format store in Kentucky). For the year ended December 31, 2013, cash used in investing activities was $12.2 million, down from $15.5 million used for the same period a year ago, primarily as a result of fewer new stores being opened or acquired in 2013 as compared to 2012. During the year, the Company opened one large-format and one convenience-focused store in Alaska (2012 – opened three large-format stores and opened or acquired seven convenience-focused stores).

Historically, capital expansion has been financed by cash provided from operating activities, proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Company believes cash provided from operating activities and amounts available under existing credit facilities are adequate to finance new store developments and acquisitions expected to occur in the next 12 months. The Company would need to raise additional capital or financing for a larger acquisition.

The Company will continue to pursue acquisition opportunities and to open and develop new stores in 2014 and in future years. The Company currently has commitments to open three new stores in the U.S. and 12 new stores in Canada in the next 24 months with an estimated aggregate cost of $9.0 million. The timing of the store openings is subject to, among other things, delays in the completion of store construction and/or fixturing.

As discussed in the *'Company Strategy'* section of this MD&A, the Company will be investing in our existing stores through a store refreshment program and in our information systems. Management estimates that capital expenditures related to the store refurbishment program and information systems upgrade for the next 12 months will be approximately $7.0 million.

Financing activities

For the three months ended December 31, 2013, cash used in financing activities was $29.7 million, a $23.4 million increase from the same period a year ago, primarily as a result of increased repayments of long-term debt and bank indebtedness. During the quarter, the Company was able to increase its repayment of debt as compared to the prior year as a result of Management's focus on improving inventory turns through a reduction of inventory levels on a same-store basis and as a result of a decline in capital expenditures. For the year ended December 31, 2013, cash used in financing activities was $40.1 million, up from $11.4 million used for the same period a year ago, primarily as a result of the inventory reductions in the current year, no business acquisitions in 2013 that would require a use of debt, and the $6.8 million increase in borrowings in 2012 from the issuance of the convertible unsecured subordinated debentures.

Foreign currency translation gain on cash

The accounts of the Company's U.S. subsidiaries are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items (including amortization) are translated at the average rate of exchange for the period. The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in unrealized foreign currency translation gain/loss. The effect of exchange rate changes on cash balances held in foreign currencies is separately reported as part of the reconciliation of the change in cash balances for the period. As the U.S. dollar has strengthened against the Canadian dollar in both the three months and year ended December 31, 2013, the Company has recorded a gain on cash held in foreign currency.

Credit Facilities and Subordinated Debentures

The Company has a credit facility with a syndicate of Canadian banks, which is effective until February 10, 2015 and consists of a $150 million extendible revolving operating loan, and a US$5.0 million facility with a U.S. bank. The Company is currently in negotiations with the syndicate to amend the current credit facility to, amongst other matters, extend the term beyond February 10, 2015. Management anticipates completing these negotiations prior to the release of the Company's Q1 2014 financial results. 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, the first interest payment being paid on October 31, 2012. The Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $24.90 per share.

The Company's 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.

Funded debt to EBITDA ratio

Funded debt is all the Company's obligations, liabilities and indebtedness which would, in accordance with IFRS, be classified on a consolidated balance sheet of the Company as indebtedness for borrowed money of the Company, but excludes subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Company's business.

EBITDA is defined under the amended and restated credit facility as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $3.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at December 31, 2013, the Company was in compliance with all financial covenants.

Ratio	Covenant	As at December 31, 2013
Funded debt to EBITDA	< 3.00:1.00	1.56:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.40:1.00
Fixed charge coverage	> or = 1.00:1.00	1.12:1.00

The funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed, including acquired stores.

Liquidity Risk

Liquidity ensures the Company has sufficient financial resources available at all times to meet its obligations. The Company manages liquidity risk by ensuring it has a variety of alternatives available to fund acquisitions, new store development and ongoing operations, which include cash provided by operations, bank indebtedness, issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependent upon capital market conditions and interest rate levels. The degree to which the Company is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at March 5, 2014, the Company has undrawn credit of approximately $57 million under its credit facility available to finance operating requirements and growth opportunities.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company is party to an interest rate swap with a Canadian Schedule I bank that matures December 14, 2015 whereby the interest rate paid by the Company on $60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At March 6, 2014, the fixed rate paid by the Company under the interest rate swap is 3.238% per annum. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming an outstanding bank indebtedness of $93 million, of which $60.0 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at December 31, 2013.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 330	$ (330)
Increase (decrease) in net earnings	(248)	248

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

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with a major Canadian chartered bank. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta; however, wholesale customer purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; primarily all receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results. The Company's foreign exchange cash flow exposure is limited to U.S. intercompany management fees and interest payments which totalled US$7.9 million for the year ended December 31, 2013.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. Other than as noted above, foreign currency transactions are generally not material.

Contractual Obligations

The table below sets forth, as of December 31, 2013, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands of Canadian dollars)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 and thereafter**
Operating leases	$ 24,501	$ 21,555	$ 18,632	$ 14,987	$ 11,516	$ 34,342
5.85% Debentures	-	-	-	-	67,500	-
Long-term bank indebtedness	-	72,170	-	-	-	-
Total	$ 24,501	$ 93,725	$ 18,632	$ 14,987	$ 79,016	$ 34,342

17. Shareholders' Equity

At December 31, 2013, the Company had 23,113,172 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the year ended December 31, 2013 were 23,024,905 and 23,036,517, respectively (compared to 22,815,607 and 25,866,589, respectively, for the comparative 2012 period). As at March 6, 2014, 23,142,748 common shares of the Company were issued and outstanding.

18. Off-Balance Sheet Arrangements

As at December 31, 2013 and March 6, 2014, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

19. Related Party Transactions

The Company has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the year ended December 31, 2013, the Company incurred expenses in the normal course of business for (i) professional fees of $142 thousand (2012 - $105 thousand) paid to a law firm of which a director of the Company is a partner, and (ii) rent paid to companies controlled by a director (and former Executive Chairman) of the Company which amounted to $475 thousand (2012 - $581 thousand). There was $12 thousand included in accounts payable and accrued liabilities as at December 31, 2013 relating to these transactions (December 31, 2012 - $nil). The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

20. Financial Instruments

The Company, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, foreign exchange currency contracts, an interest rate swap, bank indebtedness, accounts payable and accrued liabilities, dividends payable and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as loans and receivables. Financial liabilities are classified as other financial liabilities, other than derivatives which are held for trading. Refer to “Liquidity and Capital Resources” for discussion of risks associated with financial instruments.

21. Critical Accounting Estimates and Accounting Policies

The Company’s summary of significant accounting policies are contained in Note 3 to the audited consolidated financial statements.

The Company’s financial statements include estimates and assumptions made by Management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of Management, the Company’s most critical accounting estimates, being those that involve the most difficult, subjective and complex judgements, requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

The Company has:

- Continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

- Hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

- A mandate that includes ongoing development of procedures, standards and systems to allow staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's policies.

Preparation of the Company's financial statements requires Management to make estimates and assumptions that affect (i) goodwill and intangible assets at and subsequent to acquisition, and (ii) deferred income taxes. Below is a summary of how we apply these critical accounting estimates in our significant accounting policies:

Business Combinations and Valuation of Goodwill and Intangible Assets

The Company accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, the Company may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. If the Company's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

At the date of the acquisition, the Company must estimate the value of acquired intangible assets that do not have a well-defined market value, such as the value of liquor licenses, leases, customer relationships, and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to the Company and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Subsequent to acquisition, goodwill and intangible assets with indefinite lives are not amortized, however they are periodically assessed for impairment. The Company reviews goodwill and intangible assets with indefinite lives at least annually, and other non-financial assets when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units have been determined using discounted cash flow models that require assumptions about future cash flows, margins and discount rates.

Although intangible assets with definite lives are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance.

At this time, the Company does not believe any goodwill or intangible assets have a book value in excess of their fair market value. See the *'Financial Analysis'* sections earlier in this MD&A for further discussion of impairments recorded on indefinite life intangible assets.

Deferred income taxes

Determining deferred income taxes involves a number of assumptions and variables that could reasonably change, including: the useful lives of recorded property and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Company will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Company is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Company's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of deferred income taxes, and these changes could be material.

22. Recent Accounting Pronouncements

There were new IFRS pronouncements that have been issued and are effective for the Company on January 1, 2013. These pronouncements did not have a significant impact on the Company's financial statements. See Note 3 to the audited financial statements as at and for the year ended December 31, 2013 for further discussion.

23. Non-IFRS Financial Measures

Operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items on a per share basis, and same-store sales are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items on a per share basis, and same-store sales should not replace net earnings or loss (as determined in accordance with IFRS) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's method of calculating operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items on a per share basis, and same-store sales may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusted net earnings, adjusted basic and diluted earnings per share, adjusting items, cash provided by operating activities before changes in non-cash working capital and adjusting items, cash provided by operating activities before changes in working capital and adjusting items on a per share basis, and same-store sales may not be comparable to similar measures presented by other issuers.

Operating margin for purposes of disclosure under "Operating Results" has been derived by subtracting Operating and Administrative expenses from Gross Margin. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.

Adjusted gross margin represents gross margin adjusted for unusual, non-recurring or non-operating factors on a consolidated basis. Adjusted operating margin represents operating margin adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the *'Summary of the Quarter and Year Ended December 31, 2013'* and *'Analysis of Financial Results'* sections. Adjusted net earnings is calculated as net earnings less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Adjusted basic and diluted earnings per share is calculated as adjusted net earnings divided by basic or diluted weighted average number of common shares outstanding. Management believes the presentation of adjusted operating margin, adjusted net earnings, and adjusted basic and diluted earnings per share provides for useful information to investors and shareholders as it provides increased transparency and predictive value. Management uses adjusted operating margin to set targets and assess performance of the Company.

Cash provided by operating activities before changes in non-cash working capital and adjusting items is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Investors are cautioned that this should not be construed as an alternative measure of profitability.

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

24. Outlook

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

In 2013, the Company initiated a number of strategic initiatives under our seven-point plan as identified in the *'Company Strategy'* section of this MD&A. These initiatives are necessary to enable the Company to effectively compete in an increasingly competitive environment.

We anticipate that our growth in 2014 will come from same-stores sales increases and the opening of new store locations. The Company has commitments to open three new stores in the U.S. and 10 new stores in Canada in the next 24 months with an estimated aggregate cost of approximately $9.0 million. The execution of the Company's business strategy, including new large-format stores and growth in new regions, requires upfront investment and new stores generally take up to three years to reach maturity and fully contribute to operating margin.

As a result of these initiatives and planned new store growth, operating and administrative costs are expected to trend higher and operating margin as a percentage of sales may decline over the next 12 to 24 months,.

25. Risk Factors

As at December 31, 2013, there are no material changes in the Company's risks or risk management activities since December 31, 2012. The Company's results of operations, business prospects, financial condition, cash dividends to shareholders and the trading price of the Company's shares are subject to a number of risks.

The following is a summary of certain risk factors relating to the affairs and business of the Company. 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 MD&A, the Company's financial statements, and the Company's Annual Information Form for December 31, 2012 which is available at www.sedar.com or on the Company's website at www.liquorstoresna.ca. Shareholders and potential shareholders (and other securityholders) should consider carefully the information contained herein and, in particular, the following risk factors.

These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the operations of the Company. If any of these risks actually occur, the business, sales, financial condition, liquidity or results of operations of the Company could be materially adversely affected, with a resulting decrease in dividends paid on, and the market price of, the Company's 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, 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" in the Company's Annual Information Form, which can be found at www.SEDAR.com or www.liquorstoresna.ca.

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.

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 shares 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 its 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 on 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 its 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 the Company's liquor 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' liquor 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 can have a significant impact on Liquor Stores' sales. 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.

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

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 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 its 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; and (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 Company 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, addition 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 currently is not 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".

26. Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to Management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in National Instrument 52-109. A material weakness in internal controls over financial reporting exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The Chief Executive and Chief Financial Officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the year ended December 31, 2013. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months or year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.