Liquor Stores N.A. Ltd.

[FOR IMMEDIATE RELEASE]

LIQUOR STORES N.A. LTD. REPORTS FIRST QUARTER FINANCIAL RESULTS

EDMONTON, ALBERTA, May 13, 2014 – Liquor Stores N.A. Ltd. (the "Company" or "Liquor Stores") (TSX: LIQ), North America's largest publicly traded liquor retailer, today reported its results for the three months ended March 31, 2014.

SUMMARY OPERATIONAL RESULTS

Three months ended March 31, 2014

- Consolidated sales increased 0.8% to $137.4 million (Q1 2013 - $136.3 million);
- Same-store sales decreased by 2.5% in Canada ($2.4 million) and decreased by 1.6% in the U.S. ($0.5 million). Adjusting for the calendar shift in Easter and the impact of sales tax changes in British Columbia, same-store sales in Canada increased by 0.4% and decreased by 0.4% in the U.S.
- Gross margin was 24.7% (Q1 2013 – 25.6%); and
- Operating margin decreased by $5.5 million to $1.0 million (Q1 2013 - $6.5 million), as a result of the calendar shift in Easter, reductions in gross margin as a percentage of sales that are not anticipated to be permanent including sales of clearance inventory and the launch of our new customer loyalty program (the *Celebration Club*), competitive pressures in certain regions where we have implemented more competitive pricing to gain back market share, and ongoing investments to support the Company's business strategies.

"As previously announced, we have commenced our seven-point plan to strengthen our operating platform and drive long-term growth in profitability," said Stephen Bebis, President and CEO of the Company. "We continue to implement our initiatives, including the first point of the plan, the enhancement of our senior leadership team. We have also made significant progress with our other initiatives, including: the development of a new staff training program in advance of our expected launch of Liquor Stores University in mid-2014, the launch of our customer loyalty program, the Celebration Club, an opt-in customer database to support future product and store marketing activities via email and social media, the selection of a new Enterprise Resource Planning system, selling down our clearance inventory in anticipation of implementing product assortment plans later in the year, and changing our pricing and marketing strategies to build market share."

Commenting on the Q1 2014 financial results, Mr. Bebis said: "As we disclosed in announcing our seven-point plan, the ongoing implementation of the plan will temporarily reduce our operating margins. While our first quarter operating margin and net earnings are disappointing, we anticipated that the greatest impact to our operating margin would occur in the first half of 2014 as we commenced these initiatives. We expect a steady reduction in the impact to our operating margin going forward, as we increasingly realize benefits from the plan and the initial ramp-up costs are fully absorbed. Now that we have initiated implementation, we will have greater control over future spend and can adjust accordingly based on business conditions. We anticipate that the full positive earnings impact from the plan will be achieved starting in 2016."

SUMMARY FINANCIAL RESULTS AND ANALYSIS

	Three months ended	
(expressed in thousands of Canadian dollars except per share amounts except per share amounts)	**March 31, 2014**	**March 31, 2013**
Sales	$ 137,375	$ 136,302
Operating margin	$ 996	$ 6,492
Net earnings/(loss)	$ (2,498)	$ 1,457
Diluted earnings/(loss) per share	$ (0.11)	$ 0.06
Cash dividends per share	$ 0.27	$ 0.27
Weighted average number of shares outstanding – Basic (000's)	23,136	22,939
Stores in operation as at March 31	243	248

The MD&A as well as the audited consolidated financial statements for the three months ended March 31, 2014 are available on the Company's website (www.liquorstoresna.ca) and on the SEDAR website (www.sedar.com).

SALES

Total sales increased by $1.1 million or 0.8% to $137.4 million in the first quarter of 2014 (Q1 2013 - $136.3 million). The increase is primarily the result of the sales contribution from the new store expansion in the United States offsetting store closures in Canada (two new stores opened and eight stores closed since December 31, 2012) and a $3.2 million positive change in foreign exchange on translation of U.S. dollar denominated sales to Canadian dollars. These increases were offset by the negative impact of the calendar shift for the Easter holiday over the comparative period (Easter occurred in Q2 in 2014 compared to Q1 in 2013).

<u>Same-Store Sales</u>

- Canadian same-store sales decreased by $2.4 million, or 2.5%. When adjusted for the calendar shift in Easter and the sales tax changes in British Columbia (see further discussion below), Canadian same-store sales were slightly higher than Q1 2013 (increase of 0.4%).
  - Same-store sales were impacted negatively by the calendar shift in Easter (late March 2013 to mid-April 2014). Management estimates that the impact of this calendar related event was approximately 2.4%.
  - 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, the Company decided to leave prices, which have tax included, unchanged, in order to protect its competitive position in the B.C. market. This has had a negative impact of approximately 2.6% on same-store sales in the province. The estimated impact of this strategy on Canadian same-store sales in the quarter was approximately 0.5%. 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 the Company's stores

in B.C.), improving their in-store marketing and becoming more price competitive. This increased competition has led to downward pressure on pricing and margin.

  - Canadian same-store sales in Q1 2014 were impacted by unfavourable weather compared to Q1 2013 and changes to our marketing strategies. Historically, the Company has relied almost exclusively on price promotion through a flyer circulation program to drive customers to its stores and remain competitive. Consistent with Liquor Stores' Seven-Point Plan, initial steps have been taken to de-emphasize price promotion and to increase brand promotion. In Q1 2014, as part of this change in strategy, Liquor Stores placed more emphasis on the use of various forms of media that have not been fully utilized previously by the Company (radio, social media, customer loyalty memberships, and advertising in local newspapers) and decreased the number of weeks that the Company distributed a flyer. Management believes that the use of multiple forms of media will enhance customer targeting initiatives and will support future brand promotion activities. The Company expects it will take time to realize the full benefits from these changes and anticipates that near-term same-store sales growth may be negatively impacted during the transition from flyers to these other forms of media.

- U.S. same store sales decreased by $0.5 million or 1.6%.
  - Management estimates that the calendar shift in Easter contributed approximately 1.2% to the U.S. same-store sales decrease in the first quarter.
  - Same-store sales in the United States have been negatively impacted by increased competition in Alaska, unfavourable weather in Kentucky 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, the Company achieved a modest same-stores sales increase in that state in the first quarter. While Liquor Stores continues to be impacted by certain counties that have gone from 'dry' to 'wet' in recent periods, Management believes that changes to marketing strategies and the introduction of store level training programs during the latter half of 2013 have assisted in counteracting this challenge and will lead to a strengthened competitive position.

MARGINS

For the three months ended March 31, 2014, gross margin was $33.9 million, down 2.9% from $34.9 million for the same period last year. The decrease in gross margin was primarily attributable to the calendar shift in Easter ($0.7 million) and a decline in gross margin as a percentage of sales to 24.7% (Q1 2013 – 25.6%). These decreases were offset by a $0.7 million positive change in foreign exchange on translation of U.S. dollar denominated gross margin to Canadian dollars.

The decline in gross margin percentage was primarily the result of the following factors:

- In response to competitive pressures in British Columbia, Alaska and certain regions in Alberta, Liquor Stores implemented more competitive pricing to gain back market share. Customer counts have been trending positively since this change and Management is focused on capitalizing on opportunities to grow margins as market share recovers.

- In early 2014, Management implemented improved processes and policies to better ensure that product expiries are minimized. As part of these changes, the Company implemented a price markdown strategy for inventory identified for clearance. Clearance sales related to this inventory have had a negative impact on gross margin percentages in the quarter as customers 'traded-down' to discounted product. The Company anticipates that its gross margin percentages will be impacted for the remainder of the year as its sells through clearance inventory.
- As part of the execution of the Company's initiative to increase brand awareness and customer loyalty, Liquor Stores introduced a customer loyalty program called the *Celebration Club*, during the first quarter. Gross margin percentages in the quarter were impacted by the launch of this new program as the Company temporarily used price promotion in all regions, in addition to other methods, to successfully drive opt-in membership sign ups. Management now anticipates being able to rely on promotional efforts other than price promotion to drive membership growth for the *Celebration Club*.

Operating margin for the three months ended March 31, 2014 decreased by $5.5 million to $1.0 million. This decrease is primarily due to the decline in gross margin as a percentage of sales and increased operating and administrative expenses.

Operating and administrative expenses for the three months ended March 31, 2014 were $32.9 million, up 15.8% from $28.4 million in Q1 2013.

- The increases related to the operation of our stores include: higher overall costs associated with the additional store locations ($0.5 million) that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.4 million), increases in operating costs associated with running same-stores ($0.4 million), and an increase in operating expenses as a result of the foreign exchange on translation of U.S. dollar denominated expenses to Canadian dollars ($0.6 million).
- The increase in administrative expenses is primarily related to pursuing growth and acquisition opportunities ($0.3 million), an increase in administrative expenses as a result of the foreign exchange on translation of U.S. dollar denominated expenses to Canadian dollars ($0.1 million), and increased costs associated with the execution of the Company's Seven-Point Plan ($2.0 million), including investments in 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 growth and other business strategies.

EARNINGS/(LOSS) AND EARNINGS/(LOSS) PER SHARE

For the three months ended March 31, 2014, a net loss of $2.5 million was recorded (Q1 2013 – net earnings of $1.5 million). The decrease in net earnings in Q1 2014 is primarily the result of the decrease in sales and gross margins (calendar shift for Easter and decline in gross margin percentages), and the increase in operating and administrative expenses (inflationary increases and ongoing investments to support the Company's business strategies) as noted above.

Basic and diluted earnings/(loss) per share for the three months ended March 31, 2014 were $(0.11) per share (Q1 2013: $0.06). Basic and diluted earnings per share decreased as a result of the same factors that impacted net earnings/(loss), as noted above.

CASH FLOW AND DIVIDENDS

For the three months ended March 31, 2014, cash used in operating activities before changes in non-cash working capital was $7.0 million ($0.30 per share), an increase of $5.7 million compared to $1.3 million ($0.06 per share) for Q1 2013.

During the three months ended March 31, 2014, the Company declared dividends of $0.27 per share, representing an annualized dividend of $1.08 per share. The Company has declared a monthly dividend consecutively since going public in 2004.

The Company has a dividend reinvestment plan (the "DRIP") to provide eligible shareholders with a convenient means of reinvesting monthly dividends into additional common shares. For further information about the DRIP and DRIP enrolment please visit the Company's website located at www.liquorstoresna.com.

CONFERENCE CALL

Liquor Stores N.A Ltd. will host an analyst and investor conference call on Tuesday, May 13, 2014 to discuss results for the three months ended March 31, 2014. The conference call will take place at 11:00 a.m. (MT). Participants on the call will include Stephen Bebis, President and Chief Executive Officer, Craig Corbett, Executive Vice President, Business Development, General Counsel and Corporate Secretary, and David Gordey, Senior Vice President and Chief Financial Officer.

To participate in the call, please dial toll-free 1-800-769-8320. An archived recording of the conference call will be available approximately one hour after the completion of the call until May 20, 2014, by dialling 1-905-694-9451 or toll-free 1-800-408-3053 (pass code is 1294228).

ABOUT LIQUOR STORES N.A. LTD.

The Company operates 242 retail liquor stores in Alberta, British Columbia, Alaska and Kentucky. Liquor Stores' retail brands include: Liquor Depot, Liquor Barn, and Wine and Beyond in Alberta (173 stores); Liquor Depot and Liquor Barn in British Columbia (35 stores); Brown Jug in Alaska (22 stores); and Liquor Barn "The Ultimate Party Source" and Liquor Barn Express in Kentucky (12 stores). The Company's common shares and convertible subordinated debentures trade on the Toronto Stock Exchange under the symbols "LIQ" and "LIQ.DB.A", respectively.

Additional information about Liquor Stores N.A. Ltd. is available at www.sedar.com and the Company's website at www.liquorstoresna.com.

NON-IFRS FINANCIAL MEASURES

Operating margin, operating margin as a percentage of sales, cash provided by operating activities before changes in working capital, cash provided by operating activities before changes in non-cash working capital 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, cash provided by operating activities before changes in non-cash working capital, cash provided by operating activities before changes in non-cash working capital 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, cash provided by operating activities before changes in non-cash working capital, cash provided by operating activities before changes in non-cash working capital 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, cash provided by operating activities before changes in non-cash working capital, cash provided by operating activities before changes in working capital 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 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.

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

FORWARD LOOKING STATEMENTS

In the interest of providing current shareholders and potential investors with information regarding current results and future prospects, this MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, and results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to the Company's future plans, strategies and initiatives and the anticipated results thereof, including the anticipated timing of such results are included in, among others, the *'Company Strategy', "Outlook", "Liquidity and Capital Resources", "Business Strengths" and "Summary of the Quarter Ended March 31, 2014"* sections of this MD&A. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and performance of the Company, business strategies, costs, as well as plans and objectives of or involving the Company. Forward-looking statements are typically identified by words such as "believe", "expect", "will", "intend", "project", "anticipate", "estimate", "continue", "forecast", "could", "goal", "foresee", "seek", "strive", "may", "should" and similar expressions or the negatives thereof, as they relate to the Company and its Management. These forward-looking statements include, but are not limited to, statements with respect to the future payment and timing of the payment of the Company's dividends, the anticipated opening dates of new stores, Management's general expectations that the Company will have sufficient funds to complete store acquisitions, develop new stores and finance inventory, the Company's business strategies and goals (including its seven point plan) and the impact thereof and of other events on the Company's financial performance and results of operations, and Management's belief that reductions in gross margin as a percentage of sales will not be permanent.

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

Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those related to government regulation, competition, the state of the economies in which the Company operates, acquisition and development risks, weather, availability of credit and other alternative means of financing and the other risks and uncertainties discussed under "Risk Factors" in this MD&A and in the Company's Annual Information Form. In addition, other risks and uncertainties not presently known to the Company or that Management presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

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

For further information, please contact:

David Gordey, CA
Senior Vice President and Chief Financial Officer
Liquor Stores N.A. Ltd.
(780) 497-3262