LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2013

As at May 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim Consolidated Financial Statements and Notes thereto (the "interim financial statements") of Liquor Stores N.A. Ltd. (the "Company" or "Liquor Stores") for the three months ended March 31, 2013, the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012, and the Annual Information Form ("AIF) dated March 5, 2013. 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 interim financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the interim financial statements unless otherwise stated.

Throughout this MD&A references are made to non-IFRS financial measures, including "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 on page 19 under "Non-IFRS Financial Measures".

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors on a quarterly basis. The Board of Directors has approved this MD&A as of May 6, 2013.

Additional information relating to the Company, including our Annual Information Form ("AIF") dated March 5, 2013, and other public filings, is available on SEDAR (www.sedar.com) and on the Company's website at www.liquorstoresna.ca.

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 or information. 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 strategy, projected store openings, costs, as well as plans and objectives of or involving the Company. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "forecasts" or similar words or the negatives thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the dividends of the Company. 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 elsewhere in this MD&A. There is no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors". Specific forward-looking statements contained in this MD&A include, among others, the future payment and timing of 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.

The information contained in this MD&A, including the information set forth under "Risk Factors" identifies additional factors that could affect the operating results and performance of the Company.

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.

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HIGHLIGHTS

Three months ended March 31, 2013

- Consolidated sales increased 7.6% to $136.3 million (2012 - $126.6 million);
- Same-store sales increased by 3.0% ($2.7 million) in Canada and decreased by 2.2% ($0.7 million) in the U.S.;
- Gross margin has been maintained at 25.6%; and
- Operating margin decreased by 6.6% ($0.4 million) to $6.5 million (2012 - $6.9 million).

Our financial performance in the first quarter was highlighted by strong increases in sales, continued same-store sales growth in Canada and consistent strong gross margin percentages.

The 7.6% sales increase in Q1 2013 compared to Q1 2012 was attributable to the growth in the Company's store count (10 new stores opened subsequent to Q1 2012), same-store sales increases in Canada, and the net beneficial impact of the calendar shift over the comparative period (Easter moved into Q1 in 2013 from Q2 in 2012, offset by the impact of having an additional day in Q1 2012 as a result of the leap year). The Company has recorded ten consecutive quarters of 'quarter-over-quarter' same-store sales increases in Canada as at Q1 2013.

Management believes that the 3.0% increase in first quarter Canadian same-store sales compared to 2012 included a net approximate 1.6% increase as a result of the calendar shifts for Easter in 2013, offset by the leap year in 2012. Canadian same-store sales were also impacted by the success of Wine and Beyond (2 large format stores opened in the greater Edmonton area in late September 2012), which, in addition to drawing customers away from our competitors, drew customers away from our convenience-focused Liquor Depot/Liquor Barn stores in the greater Edmonton region. Sales at Wine and Beyond more than offset the decrease in the greater Edmonton region's same-store sales.

Same-store sales in the United States in 2012 were primarily impacted (a decrease of 2.2% or $0.7 million) 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) and unfavourable weather in Kentucky throughout Q1 2013 vs. Q1 2012. To counteract the impact of 'dry' to 'wet', the Company has been actively sourcing potential acquisitions or opportunities to develop new stores in counties that have gone 'wet' or in counties where we do not yet have a presence. Late in the fourth quarter of 2012 the Company opened one large-format store in Bowling Green, Kentucky.

Operating margin for the three months ended March 31, 2013 decreased by $0.4 million to $6.5 million, primarily due to a decline in U.S. same-store sales, increases in operating expenses, and investments being made in the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy.

New Chief Executive Officer

On April 4, 2013, the Company announced that Stephen Bebis will become President and Chief Executive Officer effective May 7. Mr. Bebis has a deep resume of experience in the retail sector, and most recently was the President and Chief Executive Officer of U.S.-based Brookstone Inc., a specialty lifestyle retail company. From 1998 to 2011, Mr. Bebis served as the founder, President and CEO of Golf Town, the largest specialty golf retailer in Canada and one of the largest in the world. From 1996 to 1998, he was Chairman, President, and CEO of Sports and Recreation Stores, Tampa, Florida. Prior thereto, Mr. Bebis held various executive-level positions, including (among others) President of Home Depot Canada, and founder and CEO of Aikenhead's Home Improvement Warehouse.

It is anticipated that Mr. Bebis will be appointed to the Board of Directors following his commencement of employment.

OUTLOOK

Management expects sales in the remainder of 2013 to increase compared with 2012 as a result of an increase in the number of stores in 2012 and new stores that will be added in 2013. Our financial results in 2013 may face pressure from certain uncontrollable factors including: (i) the slower economic growth forecasted in 2013, with particular emphasis on Alberta as a result of the uncertainty in the energy sector, (ii) the continued impact of Alberta's impaired driving legislation which went into effect in Q3 2012, especially on the second and third quarters of 2013, and (iii) increased competition from retail liquor stores that opened in counties in Kentucky that went from 'dry' to 'wet' throughout 2012. In addition to these factors, there is the potential for changes to the licensing regime in Kentucky during 2013, as further discussed in the '*Competitive Environment*' section on this MD&A, which could have a negative impact on the Company's operations and financial results in Kentucky (U.S. operating segment) if these changes are implemented.

In 2013, the Company will continue to execute its growth strategy, which is discussed further in the '*Business Strategy*' section on this MD&A, and will pay particular attention to purchasing trends at the store level so that inventory selection and pricing can be adjusted accordingly to maintain sales growth and gross margins.

We continue to source new store growth opportunities for 2013 and beyond. New store openings are contingent upon a number of factors, primarily the availability of existing space suitable for our stores, prime commercial development opportunities and construction timing. We anticipate that the rate of store growth in 2013 will slow compared to 2012, and then accelerate in 2014. Neither the timing nor the degree of likelihood of success of developing new stores can be stated with any degree of accuracy.

The execution of the Company's growth strategy, including the development of new large-format stores and sourcing expansion opportunities in new regions, requires upfront investment and new stores require time to achieve sales maturity.

Management believes that cash flow from existing operations and its available credit are sufficient to finance the Company's growth plans and sustain its dividends at the current level.

OVERVIEW OF THE COMPANY

The Company's principal activity is the retailing of wine, beer and spirits in Canada (Alberta and British Columbia) and the United States (Alaska and Kentucky). The Company was incorporated on November 8, 2010 under the Canada Business Corporations Act ("CBCA") and is the successor entity to Liquor Stores Income Fund, which became a publicly traded entity in September 2004. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols LIQ and LIQ.DB.A, respectively.

As at March 31, 2013, the Company operated 248 retail liquor stores. 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 store and revenue).

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.

Stores and Operations

As of May 6, 2013, the Company had 246 stores in the following regions:

Alberta			British Columbia			Alaska	Kentucky			Total
Edmonton[1]	Calgary[1]	Other[2]	Lower Mainland	Vancouver Island	Interior	Anchorage	Lexington	Louisville	Other[3]	
82	46	50	13	11	12	20	6	4	2	246
178			36			20	12			

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres. Note that two underperforming stores in the Edmonton region and one in the Other region of Alberta were closed in early 2013.

(2) Other communities served in Alberta include, by region, Northern (25), Southern (9), Central (14) and resort communities (2).

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

Competitive Environment

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Company currently operates 178 liquor stores in Alberta where there are 1,313 liquor stores and 93 agency stores [Source: Alberta Gaming and Liquor Commission, as at December 2012].

The Company operates 36 stores in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of 694 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 2013].

The Company currently operates 20 stores in the greater Anchorage, Alaska area, including 2 stores in Wasilla, Alaska. In the state of Alaska there are 398 retail liquor stores with 92 stores in the greater Anchorage and Wasilla areas. Save for limited community liquor stores that are 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 2013]. The Company's "Brown Jug" trade name is well recognized throughout the state as the leading alcoholic beverage retailer.

The Company operates 12 stores in Kentucky of which seven are large format stores. In the State of 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, 8 in Boyle County, and 27 in Warren County [Source: Kentucky's Alcoholic Beverage Control Board, as at February 2013]. The Company currently operates 6 stores in Lexington (Fayette County), 4 stores in Louisville (Jefferson County), 1 store in Danville (Boyle County), and 1 store in Bowling Green (Warren County).

A coalition of grocers in Kentucky was recently successful at the trial court level in a court challenge to 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). In August 2012 the United States District Court, Western District of Kentucky ruled that the state statute violates the equal protection clause of the United States Constitution and the Commonwealth of Kentucky Constitution. The decision is currently under appeal in the U.S. Court of Appeals and it is anticipated a decision in the matter will be released in the third or fourth quarter of 2013. In the event the appeal is unsuccessful, the Company anticipates there will 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. An unsuccessful appeal may have a material negative impact on the Company's operations and financial results in Kentucky.

BUSINESS STRATEGY

Growth

During 2012, the Company implemented a five-year growth strategy designed to drive sales, further improve profitability and deliver shareholder value by focusing on:

- Expanding 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.

- Developing new destination-focused/large-format stores in our current regions to complement our existing convenience-focused store network and expand market share.

- Strategically investing in new square footage in our existing regions (Alberta, British Columbia, Alaska, and Kentucky) as a result of population growth and, in the case of Kentucky, capitalizing on opportunities as a result of certain counties going from 'dry' to 'wet'.

- Strengthening our retail proposition to attract more customers to existing locations and increase sales per customer through an improved in-store experience, having the right product assortment, and competitive pricing. This will include investments in employee training, including both at the manager and staff level, enhancing our marketing strategies, investing in our existing store portfolio to refresh our stores, and an investment to enhance our information systems to support the Company's growth plan.

The Company explores opportunities to acquire and/or develop stores in Alberta, British Columbia and the United States where regulatory regimes permit private liquor stores. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and shareholder value. Neither the timing nor the degree of likelihood of success of developing new stores can be stated with any degree of accuracy.

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 is also confident that its emphasis on establishing and maintaining a range of stores from large-format/destination-type stores (with a strengthened focus on product selection, customer experience, etc.) to convenience-focused stores (convenient and high-traffic locations) assists the Company in differentiating it from industry competitors. The introduction of Wine and Beyond to the Alberta marketplace was primarily for competitive differentiation.

Management will continue to concentrate marketing efforts on the Company's current brand structure: "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.

DIVIDENDS

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 annually).

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).

Cash Provided by Operating Activities before Changes in Non-cash Working Capital

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 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, replacement or 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 ended March 31, 2013 was $0.06 (2012 - $0.10). 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 the additional IFRS measure 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 March 31,	
(expressed in thousands, except per share amounts)	**2013**	**2012**
Cash provided by operating activities	$ (8,304)	$ (1,105)
Changes in non-cash working capital (1)	(6,966)	(4,077)
Cash provided by operating activities before changes in non-cash working capital	(1,338)	2,972
Weighted average number of common shares outstanding - basic	22,939	22,682
Per share amount	($ 0.05)	$ 0.13
Cash dividends per share	$ 0.27	$ 0.27

(1) *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.*

The $4.3 million decrease in cash provided by operating activities before changes in non-cash working capital for the three months ended March 31, 2013 as compared to the same period in 2012 is primarily due to a $3.8 million increase in current income tax expense. To a lesser extent, the decrease was due to a decline in U.S. same-store sales, inflation of operating expenses, and investments being made in the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, which were offset by an increase in operating margin from Canadian same-stores and new stores added in 2012, and a decrease in cash interest expense.

Seasonality

The retail liquor industry is subject to seasonal variations with respect to sales and consequently operating results and the Company's results regularly exhibit this seasonality. The Company's sales are typically lowest early in the year and increase in the latter half. In 2012, 20% (2011 - 19%) of annual same store sales occurred in the first quarter, 26% (2011 - 26%) in the second quarter, 27% (2011 - 27%) in the third quarter, and 27% (2011 - 28%) in the fourth quarter. Over the course of a year, the Company expects that cash provided by operating activities before changes in non-cash working capital will exceed dividends.

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 April 30, 2013, shareholders enrolled in the DRIP held approximately 2.0 million shares.

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

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 all sales to wholesale customers.

ANALYSIS OF FINANCIAL RESULTS - THREE MONTHS ENDED MARCH 31, 2013

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

	Three months ended March 31,			
	2013		2012	
(Cdn $000's, unless otherwise stated)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores (1)	92,319	67.8%	89,619	70.9%
Other Canadian stores (2)	6,311	4.6%	447	0.4%
Canadian wholesale (1)	5,395	3.9%	5,074	3.9%
Total Canadian store sales	104,025	76.3%	95,140	75.2%
U.S. same-stores (US$)	30,458	22.4%	31,128	24.6%
Other U.S. stores (US$) (3)	1,544	1.1%	332	0.2%
Foreign exchange on U.S. store sales	275	0.2%	36	0.0%
Total U.S. store sales	32,277	23.7%	31,496	24.8%
Total sales	136,302	100.0%	126,636	100.0%
Gross margin	34,918	25.6%	32,435	25.6%
Operating and administrative expense	28,426	20.9%	25,486	20.1%
Operating margin	6,492	4.7%	6,949	5.5%

Notes:

(1) *To better represent the performance of same-stores, the concept of same-store sales was revised during the quarter 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.*

(2) *Sales for the three months ended March 31, 2013 and 2012 include those of 8 stores opened and 3 stores closed subsequent to December 31, 2011 (includes 2 stores closed in early April 2013).*

(3) *Sales for the three months ended March 31, 2013 and 2012 include those of 2 stores opened in Kentucky subsequent to December 31, 2011.*

First Quarter 2013 Operating Results Compared to First Quarter 2012 Operating Results

Sales

Total sales increased by $9.7 million or 7.6% to $136.3 million in the first quarter of 2013 (2012 - $126.6 million). The increase is primarily the result of new store expansion in Canada and the United States (10 new stores opened in 2012), the net beneficial impact of the calendar shift over the comparative period (Easter moved into Q1 in 2013 from Q2 in 2012, offset by the impact of having an additional day in Q1 2012 as a result of the leap year), and same-store sales increases in Canada.

Same-Store Sales

- Canadian same-store sales increased by $2.7 million or 3.0%.
  - Same-store sales for the three months ended March 31, 2013 compared to 2012 were impacted positively by the calendar shift in Easter (early April 2012 to late March 2013) and negatively impacted as a result of 2012 having benefited from an additional day in the quarter as a result of the leap year. Management estimates that net impact of these two calendar related events was approximately 1.6% of the 3.0% increase in Canadian same-store sales.
  - Same-store sales for the three months ended March 31, 2013 compared to 2012 were impacted by the success of the two Wine and Beyond stores opened in the greater Edmonton region 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 during the first quarter due to their uniqueness in the marketplace as a result of their larger selection of product.
- U.S. same store sales decreased by $0.7 million or 2.2%.
  - 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 quarter was also due to unfavourable weather experienced in Kentucky throughout the quarter as compared to the prior period.
  - Management estimates that the net impact of the calendar shift in Easter and the leap year in 2012 added approximately 0.5% to sales in Q1 2013 vs. Q1 2012.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $5.4 million for the three months ended March 31, 2013, which is an increase of $0.3 million or 6.3% from the prior year (2012 - $5.1 million) primarily due to the calendar shift for Easter.
- Sales for the Other Canadian and U.S. stores have increased compared to 2012 as a result of the ten (10) new stores opened in 2012, including the two Wine and Beyond stores opened in Canada during the last week of September 2012, and the one store that was closed Q1 2013 and two stores closed in early April 2013.

Gross Margin

For the three months ended March 31, 2013, gross margin was $34.9 million, up 7.7% from $32.4 million for the same period last year. Gross margin as a percentage of sales has held consistent with the comparative period at 25.6%. This was a result of increases from our continued focus on merchandising techniques, category management and purchasing strategies, including expanding our selection and marketing of control brands/private label and exclusive products. This was offset by decreases in gross margin percentages as a result of additional sales flyers in the quarter due to the calendar shift in Easter.

Operating and Administrative Expense

Operating and administrative expenses for the three months ended March 31, 2013 were $28.4 million, up 11.5% from $25.5 million a year earlier. This increase was attributable, in part, to higher overall costs associated with additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), costs associated with the closure of one store during the quarter and two stores closed in early April 2013, rent escalations and increased marketing costs for existing stores, and as a result of investments being made in the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy.

Operating Margin

Operating margin was $6.5 million for the three months ended March 31, 2013, a decrease of 6.6% from $6.9 million in 2012. As a percentage of total sales, operating margin was 4.7%, down from 5.5%.

Canadian operating margin was $5.3 million or 5.1% as a percentage of Canadian sales (2012 - $5.6 million or 5.8% as a percentage of sales). The U.S. operating margin for the first quarter of 2013 was $1.2 million or 3.6% as a percentage of U.S. sales compared with $1.4 million and 4.4% as a percentage of U.S. sales for the comparable period in 2012.

The decrease in Canada was primarily due to an increase in operating expenses and investments being made in the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, offset by increases in operating margin from same-stores and new stores opened in 2012. The decrease in the United States was primarily due to the decline in U.S. same-store sales and an increase in operating expenses.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long term debt and convertible debentures of $2.0 million (2012 - $2.0 million); non-cash interest of $0.3 million (2012 - $0.4 million), and a $0.7 million increase in costs as a result of an unrealized loss of $0.1 million on the mark-to-market adjustments related to an interest rate swap (2012 - $0.6 million gain). Cash interest expense is consistent with the comparative quarter as a result of lower borrowing costs on the new unsecured convertible debentures issued in Q2 2012 and on the new credit facility that was entered into in February 2012, offset by increased amounts borrowed from the comparative period.

Income Taxes

Income taxes for the first quarter of 2013 were $0.5 million (2012 - $0.8 million), which equates to an effective income tax rate of approximately 26% (the effective rate for the year ended December 31, 2012 was approximately 26%). There has been no change in the rate as there are no expected changes in the tax rates or in the relative proportions of income earned in the various tax jurisdictions that the Company operates in compared to the prior year.

Net Earnings

Net earnings for the three months ended March 31, 2013 were $1.5 million compared to $2.4 million for the same period in 2012. The decrease in net earnings is primarily the result of the decline in U.S. same-store sales, increase in operating expenses, the $0.7 million change in the mark-to-market adjustments on the interest rate swap, and investments being made in the Company's information technology infrastructure and head office staffing complement to support the Company's growth strategy, offset by increases in operating margin from Canadian same-store sales and new stores added in 2012.

CONDENSED QUARTERLY INFORMATION

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

	2013	2012				2011		
	Mar 31	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**
Statement of Financial Position								
Cash and cash equivalents	3,159	5,130	1,825	765	1,725	1,707	895	1,558
Total assets	530,340	533,087	516,929	502,315	500,674	503,147	494,444	488,748
Current Bank indebtedness	-	3,891	-	96	2,178	40,424	39,605	47,706
Total current liabilities	35,086	46,633	28,121	29,483	79,687	123,013	62,150	70,327
Long-term debt	164,160	146,566	150,702	135,673	92,196	46,469	101,699	101,248
Total liabilities	215,417	215,337	199,603	183,608	187,291	185,947	177,641	182,408
Shareholders' equity	314,923	317,750	317,300	318,707	313,383	317,200	316,799	306,340
Non-controlling interest	34	92	26	83	38	85	(15)	258
Statement of Earnings								
# stores, end of period	248	249	243	241	240	239	236	236
Sales	136,302	179,359	164,490	159,621	126,636	168,244	157,080	150,210
Adjusted operating margin (1)	6,492	14,387	14,588	13,330	6,934	15,662	13,648	12,390
Net earnings	1,457	5,403	6,481	4,766	2,406	7,904	10,970	5,783
Basic and diluted earnings per share (2)	$ 0.06	$ 0.23	$ 0.28	$ 0.21	$ 0.10	$ 0.35	$ 0.48	$ 0.25
Dividends declared per share	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27

Notes:

(1) There were no adjusting items for the three months ended March 31, 2013 and therefore adjusted operating margin for the three months ended March 31, 2013 is equal to operating margin.

(2) Adjusted basic and diluted earnings per share were $0.33 for the three months ended December 31, 2012. 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.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

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 2013. The Company would require additional capital or financing for a larger acquisition.

The Company did not open any new stores in Q1 2013. One store was closed in Alberta during the three months ended March 31, 2013 and two stores were closed in Alberta subsequent to the quarter in early April 2013.

The Company will continue to pursue acquisition opportunities and to open and develop new stores in 2013. The Company currently has commitments to open a new store in the U.S., which is expected to open for business in Q2 2013, with an estimated aggregate cost of $1.0 million. The timing of the store opening is subject to, among other things, delays in the completion of store construction and/or fixturing.

As discussed in the 'Business Strategy' section of this MD&A, the Company will be investing in our current store portfolio 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 Q2 to Q4 2013 will be approximately $7.5 million.

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. At May 3, 2013 there was approximately $110 million drawn on the Canadian credit facility and $nil drawn on the U.S. credit facility. The Company has a US$5.0 million letter of credit that has been issued pursuant to the Canadian credit facility to secure the U.S. credit facility. Pursuant to the terms of the Canadian credit facility, the Company has the ability to request an additional $50 million (to be provided by the lenders on a best-effort basis).

The Company has $67.5 million in aggregate principal amount of convertible unsecured subordinated debentures due April 30, 2018 (the "Debentures"). The Debentures bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, which commenced on October 31, 2012. The Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $24.90 per share.

The Company's Canadian credit facility is subject to a number of financial covenants. Under the terms of the Company's Canadian credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. There are no financial covenants attributable to the Company's convertible unsecured subordinated debentures due April 30, 2018 or the U.S. credit facility.

<u>Funded debt to EBITDA ratio</u>

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

EBITDA is defined under the amended and restated credit facility as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $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 March 31, 2013, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**As at March 31, 2013**
Funded debt to EBITDA	< 3.00:1.00	2.10 :1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.62 :1.00
Fixed charge coverage	> or = 1.00:1.00	1.19 :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 May 3, 2013, the Company has available credit of approximately $40 million 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 Cdn$60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At May 6, 2013, 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 $110 million, of which $60 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 March 31, 2013.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 500	$ (500)
Increase (decrease) in net earnings	(375)	375

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

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$7.3 million for the twelve months ended March 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 March 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)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**
Operating leases	$ 17,691	$ 20,182	$ 16,715	$ 13,588	$ 9,648	$ 24,356
5.85% Debentures	-	-	-	-	-	67,500
Long-term bank indebtedness	-	-	103,583	-	-	-
Total	$ 17,691	$ 20,182	$ 120,298	$ 13,588	$ 9,648	$ 91,856

SHAREHOLDERS' EQUITY

At March 31, 2013, the Company had 22,958,892 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for Q1 2013 were 22,938,643 and 22,982,547 respectively (compared to 22,682,213 and 22,699,906 for the comparative 2012 period). As at May 6, 2013, 23,000,222 common shares of the Company were issued and outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

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

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.

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 three months ended March 31, 2013, the Company incurred expenses in the normal course of business for (i) professional fees of $38 thousand (2012 - $51 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 $117 thousand (2012 - $146 thousand). There was $2 thousand included in accounts payable and accrued liabilities as at March 31, 2013 relating to these transactions (December 31, 2012 - $nil thousand). The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

CRITICAL ACCOUNTING ESTIMATES

There are no updates to the Company's critical accounting estimates. For further discussion, refer to the Company's annual MD&A for the year ended December 31, 2012.

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 2 to the condensed interim financial statements as at and for the three months ended March 31, 2013 for further discussion.

INTERNAL CONTROLS AND PROCESSES

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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, 2012. 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 ended March 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.

RISK FACTORS

There are no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 5, 2013 and the Company's annual MD&A for the year ended December 31, 2012.

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 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 *Highlights* 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.