LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2014

As at August 14, 2014

Table of Contents

1. Basis of Presentation 3
2. Forward Looking Statements 3
3. Summary of the Three and Six Months Ended June 30, 2014 4
4. Corporate Profile 5
5. Business Overview 5
6. Business Strengths 7
7. Company Strategy 8
8. Industry Regulation and Competitive Environment 12
9. Dividends 12
10. Analysis of Financial Results – Three Months June 30, 2014 13
11. Analysis of Financial Results - Six Months Ended June 30, 2014 17
12. Condensed Quarterly Information 22
13. Liquidity and Capital Resources 23
14. Shareholders' Equity 28
15. Off-Balance Sheet Arrangements 29
16. Related Party Transactions 29
17. Financial Instruments 29
18. Critical Accounting Estimates and Accounting Policies 29
19. Recent Accounting Pronouncements 29
20. Non-IFRS Financial Measures 29
21. Outlook 30
22. Risk Factors 31
23. Disclosure Controls and Procedures 31

1. Basis of Presentation

Management's Discussion and Analysis ("MD&A") provides a comparison of Liquor Stores N.A. Ltd.'s (the "Company" or "Liquor Stores") performance for the three and six months ended June 30, 2014 with the three and six months ended June 30, 2013. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto (the "interim financial statements") for the three and six months ended June 30, 2014, the audited consolidated financial statements for the years ended December 31, 2013 and 2012, the annual MD&A for the year ended December 31, 2013, and the Annual Information Form dated March 6, 2014. The information in this MD&A is current to August 14, 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 interim financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

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

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

2. Forward Looking Statements

In the interest of providing current shareholders and potential investors with information regarding current results and future prospects, this MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, and results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to the Company's future plans, strategies and initiatives and the anticipated results thereof, including the anticipated timing of such results are included in, among others, the *'Company Strategy', "Outlook", "Liquidity and Capital Resources", "Business Strengths", "Summary of the Three Months June 30 2014", and "Summary of the Six Months Ended June 30 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.

3. Summary of the Three and Six Months Ended June 30, 2014

Three months ended June 30, 2014

- Consolidated sales increased 6.3% to $178.2 million (Q2 2013 - $167.7 million);
- Same-store sales increased by 4.4% in Canada ($5.3 million) and increased by 1.3% in the U.S. ($0.5 million). Adjusting for the calendar shift in Easter, same-store sales in Canada increased by 2.5% and increased by 0.3% in the U.S.;
- Gross margin increased 30bps to 25.1% (2013 – 24.8%); and
- Adjusted operating margin[1] decreased by $1.1 million to $10.6 million (Q2 2013 - $11.7 million), as a result of the ongoing investments to support the Company's business strategies, offset by the increased margin from the higher same-store sales and the calendar shift in Easter.

Six Months Ended June 30, 2014

- Consolidated sales increased 3.8% to $315.5 million (2013 - $304.0 million);
- Same-store sales increased by 1.3% in Canada ($2.9 million) and U.S. same-store sales were consistent with the prior year;
- Gross margin decreased 30bps to 24.9% (2013 – 25.2%); and
- Adjusted operating margin decreased by $6.6 million to $11.6 million (2013 - $18.2 million), primarily as a result of:

[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.*

- Temporary reductions in gross margin as a percentage of sales in the first four months of 2014, including sales of clearance inventory and the upfront investment to launch our new digital marketing 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.

See the *'Analysis of Financial Results'* sections of this MD&A for further discussion and analysis of the Company's financial results for the three and six months ended June 30, 2014.

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 focused on improving our relationships with customers, vendors and employees. Initiatives include better employee training programs to strengthen our selling culture; new sales, marketing and advertising approaches; collaborating with vendors on product promotions and event-driven marketing; and strengthening our Merchandising, Information Technology ("IT") and Human Resources functions. These investments are designed to improve long-term profitability and our competitive position. As expected, these initiatives have reduced our operating margins in the period. While we have seen positive, we anticipate their full benefits will be realized by 2016.

4. Corporate Profile

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

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

As of August 14, 2014, the Company had 244 stores in Alberta, British Columbia, Alaska and Kentucky, comprised of 11 destination/large-format stores, 230 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, our destination/large-format stores in Alberta, with areas of approximately 17,000 and 20,000 square feet, respectively, are the largest liquor retail stores in western Canada.

The following chart shows a break-down of Liquor Store locations as at August 14, 2014:

Alberta			British Columbia			Alaska		Kentucky			Total [1]
Edmonton[2]	Calgary[2]	Other[3]	Lower Mainland	Vancouver Island	Interior	Anchorage	Other[4]	Lexington	Louisville	Other[5]	
80	44	51	13	11	11	19	3	6	4	2	244
175			35			22		12			

Notes:

(1) *The Company has opened four new stores in Q2 2014 (Edmonton: 2 stores; 'Other Alberta': 2 stores) and a total of four stores have been closed to date in 2014 due to underperformance (Q1 2014: 3 stores; Q2 2014: 1 store; Edmonton: 1 store; Calgary: 1 store; Other Alberta: 1 store; Interior British Columbia: 1 store). In addition, one store in Edmonton has been closed in Q2 2014 in conjunction with the redevelopment of a retail centre where we are consolidating 3 stores into 1, with the new store opening in Q3 2014, and one store has closed in Q3 2014 in conjunction with the redevelopment of retail centre where we plan to relocate to another location within the same trade area.*

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

(3) *Other stores in Alberta by region: Northern (26), Southern (9), Central (14) and resort communities (2).*

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

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

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 inventory for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

Comparable same-store sales, a measure that is generally used by retailers, includes sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i)

all sales to wholesale customers, (ii) stores where same-store sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores we've opened in the last 12 full months, and (iii) stores where same-store sales have increased due to our closely-located stores being closed in the last 12 full months.

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

Product Selection - Our stores offer an impressive selection of wine, spirits, coolers, liqueurs, beer, and specialty products. Product selection is individually tailored to our store brands and formats. In our convenience-focused stores, product selection varies between 1,000 and 4,000 wine, spirit, cooler and beer items – 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 product knowledge that they are enthusiastic to share. Liquor Stores endeavours to maintain product knowledgeable managers, assistant managers and line staff through frequent seminars and training. In 2013, we implemented a new company-wide training program with a goal of further fostering a customer-focused sales-driven culture in our stores. All new staff members receive training in Company policies and basic product knowledge, selling skills, operations overview, loss prevention and robbery prevention. In the destination/large-format stores, store staff includes well-trained wine, beer, and spirits specialists.

Strategic Markets - Management's primary strategy in Canada and the United States is to focus on urban centres such as the Calgary, Edmonton, Vancouver, and the Anchorage, Louisville and Lexington metropolitan areas. Here we find the best opportunities for larger per store revenues and likelihood of population increases. The Company is also exploring potential growth opportunities in other U.S. cities. While our focus is primarily on urban centres, we also have stores in other communities including rural or smaller urban centres where demographic and economic conditions warrant, such as those with strong resource based economies. Such communities include Ft. McMurray, Alberta (seven stores), Grande Prairie (nine stores) and the destination/large-format store in Fairbanks, Alaska that was opened in Q4 2013.

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, we expect our competitive purchasing advantage to increase.

Stable and Growing Industry - The retail liquor business in our current geographic markets is characterized by relatively stable demand. Total wholesale liquor sales in Alberta have grown at a compound annual rate of 4.97% during the ten years ended June 30, 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.

7. Company Strategy

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

- Enhance the Senior Leadership Team
- Invest in our People

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

- Implement an Industry Leading Information Technology Platform
- Invest in our Store Network
- Increase Brand Awareness and Loyalty
- Increase Operating Margins
- Pursue Expansion

Refer to the Company's annual MD&A for the year ended December 31, 2013 for progress made against the Seven Point plan during the year ended December 31, 2013.

The following is a summary of the 2014 goals and progress made to date.

Business Strategy	Goals for 2014	2014 Progress
1. Enhance the Senior Leadership Team We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives with deep retail experience in both Canada and the United States.	We are targeting 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.	**Status:** Completed We have successfully recruited five individuals, each of whom brings highly specialized retail expertise to our business, to provide senior leadership for our Human Resources, Information Technology, Marketing, Merchandising, and Operations teams. Working out of our corporate headquarters in Edmonton, and from our new U.S. offices in Louisville, Kentucky, these individuals will lead the implementation of refined business processes, systems and strategies to optimize and scale Liquor Stores' existing platform and support the future growth of our enterprise in our existing markets and new markets, primarily in the United States.
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.	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.	**Status:** On Track During the first six months of 2014 we developed training materials and hired the appropriate complement of training staff in preparation of formally launching **Liquor Stores University** in the fall of 2014. **The first phase of the sales training program pilot**, launched in the latter half of 2013 and **completed in 2014**, was primarily focused on training associates in our large-format/destination stores. **The second phase** of our pilot for our sales training program, focused on our convenience-focused stores, **was launched in 2014.** We expect to exceed our goal by delivering training to at least 75% of our store managers in 2014.

Business Strategy	Goals for 2014	2014 Progress
3. Implement an Industry Leading Information Technology Platform We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business.	Achieve significant milestones in the implementation of the Company's new ERP system with little or no impact on customers. Milestones include 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.	**Status: In Progress** During the first six months of 2014 **we selected a new ERP system through a competitive proposal process** and we are currently evaluating implementation partners. We now anticipate that our design and planning phase will be completed by mid-2015, with the core implementation of the selected ERP system by late 2016.
4. Invest in our Store Network We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers.	Renovate/refresh 5% of our existing stores in 2014.	**Status: On Track** The Company is on track to renovate 5% of our existing stores by the end of 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.	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.	**Status: On Track** In Q1 and Q2 2014, we **launched a digital marketing program called the "*Celebration Club*"** across all regions. To date in 2014, we have decreased the number of weeks that we distributed flyers and redirected our marketing spend to other marketing avenues including: radio, social media, digital, and local newspapers that we believe better target our customer demographics. Our merchants have been focused on sourcing exclusive and control brands from our suppliers. We will be introducing a selection of new items in the fall of 2014 and providing our stores with training on how to merchandise and sell these items.

Business Strategy	Goals for 2014	2014 Progress
6. Increase Operating Margins We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.	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.	**Status: On Track** We are currently reviewing our categories in all regions to improve competitiveness, profitability and relevance of individual categories, and are assessing various options to formalize product assortment plans. We have also implemented new operational processes to decrease in-store out-of-stocks on high volume, promotional and exclusive brands. **We are on track to implement product assortment plans into a selection of our stores by the end of 2014.**
7. Pursue Expansion We plan to strategically expand our business in existing markets in Canada and the United States, and into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal.	Targeting a 2% to 3% organic store growth rate per year for the next two to three years. Strategically invest in new square footage in our existing regions as a result of population growth and, in the case of Kentucky, capitalize on opportunities resulting from certain counties going from 'dry' to 'wet'. The Company continually explores opportunities to develop and/or acquire stores in Alberta, British Columbia and the United States where regulatory regimes permit private liquor stores. Management will continue to evaluate and assess potential store development and store acquisition opportunities for their ability to add accretive cash flow and shareholder value. Developing new destination-focused/large-format stores in our current regions to complement our existing convenience-focused store network and expand market share. Sourcing opportunities to expand geographically through new store development and/or acquisitions to capitalize on opportunities in new regions and to reduce the concentration risk of any particular region. Based on a proven track record of success, the Company anticipates it will invest significantly in large-format expansion in both Canada and the United States.	**Status: On Track** To date in 2014 we have **opened 4 new stores** in Alberta. We **anticipate opening an additional 3 new stores by the end of 2014 (Canada: 1 store; U.S.: 2 stores)** and have commitments to open a further 10 stores in 2015 (Canada: 8 stores; U.S.: 2 stores).

8. Industry Regulation and Competitive Environment

Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. We currently operate 175 liquor stores in Alberta where there are 1,338 liquor stores and 92 agency stores [Source: Alberta Gaming and Liquor Commission, as at July 2014]. Our "Liquor Depot" and "Liquor Barn" trade names are well recognized throughout the province as leading alcoholic beverage retailers.

We operate 35 stores in British Columbia. British Columbia's model for liquor distribution is a blend of 729 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 July 2014].

We operate 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 July 2014]. In Alaska, there are 363 retail liquor stores with 108 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.

We operate 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 898 package retail license stores in Kentucky with 261 in Jefferson County, 82 in Fayette County, 8 in Boyle County, and 24 in Warren County [Source: Kentucky's Alcoholic Beverage Control Board, as at July 2014].

9. Dividends

Dividend Policy

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

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

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Presently, shares issued pursuant to the DRIP are issued at a discount of 3% from the

market price (as such term is defined in the Plan) and no brokerage or administration fees are charged by the Company for participating in the Plan.

As at July 31, 2014, shareholders enrolled in the DRIP held approximately 2.2 million shares.

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

10. Analysis of Financial Results – Three Months June 30, 2014

The following table summarizes the operating results for the three months ended June 30, 2014 and 2013.

	Three months ended June 30,			
	2014		2013	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores	125,421	70.3%	120,087	71.6%
Other Canadian stores (1)	1,701	1.0%	2,630	1.6%
Canadian wholesale	6,536	3.7%	6,091	3.6%
Total Canadian store sales	133,658	75.0%	128,808	76.8%
U.S. same-stores (US$)	37,721	21.2%	37,235	22.2%
Other U.S. stores (US$) (2)	3,105	1.7%	733	0.5%
Foreign exchange on U.S. store sales	3,684	2.1%	893	0.5%
Total U.S. store sales	44,510	25.0%	38,861	23.2%
Total sales	178,168	100.0%	167,669	100.0%
Gross margin	44,715	25.1%	41,575	24.8%
Operating and administrative expense	35,459	19.9%	29,863	17.8%
Operating margin	9,256	5.2%	11,712	7.0%
Adjusting items (3)	1,386	0.8%	-	0.0%
Adjusted Operating Margin	10,642	6.0%	11,712	7.0%

Notes:

(1) *Sales for Other Canadian stores for the three months ended June 30, 2014 and 2013 include those of four stores opened and nine stores closed subsequent to March 31, 2013, and one same-store in Canada that is in close proximity to two of the stores closed.*

(2) *Sales for Other U.S. stores for the three months ended June 30, 2014 and 2013 include those of two stores opened in Alaska subsequent to March 31, 2013, and one same-store in Alaska that is in close proximity to one of the stores that was opened in Alaska 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.*

(3) *Adjusting items for the three months ended June 30, 2014 include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement*

with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year. 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.

Second Quarter 2014 Operating Results Compared to Second Quarter 2013 Operating Results

Sales

Total sales increased by $10.5 million or 6.3% to $178.2 million in the second quarter of 2014 (Q2 2013 - $167.7 million). The increase is primarily the result of the sales contribution from same-stores in Canada, the calendar shift in Easter, new store expansion in the United States and Canada offsetting store closures in Canada (two new stores opened in the United States and four new stores opened in Canada, and nine stores closed since March 31, 2013), and a $2.8 million positive change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales

- Canadian same-store sales increased by $5.3 million, or 4.4%.
    - Same-store sales were impacted positively 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 1.9%.
    - Canadian same-store sales in Q2 2014 were primarily impacted by changes to our pricing and marketing strategies. Management does not believe that weather in the second quarter had a significant positive or negative impact on our quarterly results. Historically, the Company has relied almost exclusively on price promotion through a flyer circulation program to drive customers to our stores and remain competitive. Consistent with our Seven Point plan, we have taken the initial steps to implement new pricing and promotion strategies, improve customer loyalty with the introduction of the Celebration Club, and increase brand promotion. In Q2 2014, as part of this change in strategy, we placed more emphasis on the use of various forms of media that have not been fully utilized previously by the Company. We believe that the use of multiple forms of media allows us to better target our customers and will allow us, in time, to focus more on brand promotion and customer loyalty programs. However, it will take time to realize the full benefits from these changes and we anticipate that our same-store sales growth in the interim may vary from quarter to quarter as we transition from flyers to these other forms of media and promotion.
- U.S. same-store sales increased by $0.5 million or 1.3%.
    - Management estimates that the calendar shift in Easter contributed approximately 1.0% to the U.S. same-store sales increase in the second quarter.
    - Same-store sales in the United States have been positively impacted by same-store sales growth in Kentucky. While we continue to be impacted by certain counties in Kentucky that have gone from 'dry' to 'wet' in recent periods, we believe that changes to our pricing and marketing strategies and the introduction of store level training programs during the latter half of 2013 and early 2014 have assisted in counteracting this challenge to our business and allowed us to compete more effectively.

- The increases in Kentucky were offset by same-store sales decreases in Alaska primarily as a result of increased competition in that state. Management is currently implementing new pricing and marketing strategies to more effectively respond to increased competition in our Alaska market.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $6.5 million for the three months ended June 30, 2014, representing an increase of $0.4 million or 7.3% from the prior year (2013 - $6.1 million), primarily due to the calendar shift in Easter and as a result of adding new licensee customer accounts in the quarter.
- Sales for the Other Canadian stores have declined $0.9 million compared to the prior year, primarily as a result of the sales from the four new stores opened in the quarter being more than offset by the closure of nine stores since March 31, 2013. Sales for Other U.S. stores have increased by $2.4 million compared to 2013, primarily as a result of two new stores opened in Alaska in the latter half of 2013.

Gross Margin

For the three months ended June 30, 2014, gross margin was $44.7 million, up 7.6% from $41.6 million for the same period last year. The increase in gross margin was primarily attributable to the improvement in Canadian same-store sales, excluding the effect of Easter ($1.0 million), the calendar shift in Easter ($0.7 million), an improvement in gross margin as a percentage of sales to 25.1% (2013 – 24.8%) ($0.5 million), the sales increase from new stores net of store closures ($0.3 million), and a positive change in foreign exchange on translation of U.S. dollar denominated gross margin to Canadian dollars ($0.6 million).

The improvement in our gross margins as a percentage of sales was primarily attributable to initial changes made to our pricing and marketing strategies in the latter half of the second quarter. These improvements were partially offset by certain temporary reductions in our gross margin percentage that arose in the first quarter and continued into the early part of the second quarter (see further discussion of these matters in the *Analysis of Financial Results* section for the six months ended June 30, 2014).

Operating and Administrative Expenses

Operating and administrative expenses for the three months ended June 30, 2014 were $35.5 million, up 18.7% from $29.9 million a year earlier. Excluding adjusting items of $1.4 million in the quarter, these expenses increased by 14.1% or $4.2 million.

- The adjusting items for the current quarter include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year.
- The increases related to the operation of our stores include: higher overall costs associated with the additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), net of store closures ($0.4 million), rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.5 million), increases in operating costs associated with running same-stores, including the use of additional various forms of media in our marketing

plans ($1.5 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 ($0.4 million).

- Administrative expenses have increased by approximately $1.4 million over the prior year. This increase is primarily attributable to increased costs associated with the execution of our Seven-Point Plan, 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.

Adjusted Operating Margin

Adjusted operating margin for the three months ended June 30, 2014 decreased by $1.1 million to $10.6 million, primarily due to the 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, which were partially offset by increases in gross margin as explained above. Adjusted operating margin as a percentage of sales was 6.0%, down from 7.0%.

Since March 31, 2013, the Company has added six 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. The Company has also closed nine stores since March 31, 2013, which has impacted operating margins due to reduced profitability leading up to the closure and costs associated with closing the stores.

Operating margin for the three months ended June 30, 2014 decreased by $2.5 million to $9.3 million or 5.2% as a percentage of sales (Q2 2013 – 7.0%).

Amortization

Amortization expense of $2.3 million for the second quarter of 2014 was down $0.4 million from the prior year (Q2 2013 - $2.7 million). The decline primarily related to accelerated amortization recorded for assets in stores that were closed in the prior year.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long-term debt and convertible debentures of $2.0 million (Q2 2013 - $1.9 million); non-cash interest of $0.4 million (Q2 2013 - $0.4 million), and a marginal unrealized gain on the mark-to-market adjustments related to an interest rate swap (Q2 2013 - $0.5 million gain). Cash interest expense has increased primarily as a result of the higher average long-term debt balances during the period as compared to the prior year.

Income Taxes

In the second quarter of 2014, we recorded an income tax expense of $1.1 million (Q2 2013 - $1.9 million income tax expense). The effective rate of 25% for the quarter is lower than the prior year (26%) as a result of the difference in the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2014 compared to 2013.

Net Earnings

For the three months ended June 30, 2014, net earnings of $3.4 million were recorded (Q2 2013 –$5.3 million). The decrease in net earnings in 2014 is primarily the result of the increase in operating and administrative expenses (inflationary increases and ongoing investments to support the Company's business strategies), and the $0.4 million net change in the mark-to-market adjustments related to an interest rate swap, which were partially offset by increases in gross margin and lower amortization expense as discussed earlier in this MD&A.

11. Analysis of Financial Results - Six Months Ended June 30, 2014

The following table summarizes the operating results for the six months ended June 30, 2014 and 2013.

	Six months ended June 30,			
	2014		2013	
(Cdn $000's, unless otherwise stated)	$	%	$	%
	(unaudited)		(unaudited)	
Sales				
Canadian same-stores	219,279	69.5%	216,372	71.2%
Other Canadian stores [(1)]	3,152	1.0%	5,114	1.7%
Canadian wholesale	11,649	3.7%	11,347	3.7%
Total Canadian store sales	234,080	74.2%	232,833	76.6%
U.S. same-stores (US$)	68,593	21.7%	68,598	22.6%
Other U.S. stores (US$) [(2)]	5,718	1.8%	1,372	0.4%
Foreign exchange on U.S. store sales	7,152	2.3%	1,168	0.4%
Total U.S. store sales	81,463	25.8%	71,138	23.4%
Total sales	315,543	100.0%	303,971	100.0%
Gross margin	78,621	24.9%	76,493	25.2%
Operating and administrative expense	68,369	21.7%	58,289	19.2%
Operating margin	10,252	3.2%	18,204	6.0%
Adjusting items [(3)]	1,386	0.4%	-	0.0%
Adjusted operating margin	11,638	3.7%	18,204	6.0%

Notes:

(1) *Sales for Other Canadian stores for the six months ended June 30, 2014 and 2013 include those of four stores opened, ten stores closed subsequent to December 31, 2012, and one same-store in Canada that is in close proximity to two of the stores closed.*

(2) *Sales for Other U.S. stores for the six months ended June 30, 2014 and 2013 include those of two stores opened in Alaska subsequent to December 31, 2012, and one same-store in Alaska that is in close proximity to one of the stores that was opened in Alaska 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.*

(3) *Adjusting items for the six months ended June 30, 2014 include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year. 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.*

Six Months ended June 30, 2014 Operating Results Compared to Six Months ended June 30, 2013 Operating Results

Sales

Total sales increased by $11.6 million or 3.8% to $315.5 million in the first six months of 2014 (2013 - $304.0 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 in Canada (two new stores opened in the United States and four stores opened in Canada, and ten stores closed since December 31, 2012) and a $6.0 million positive change in foreign exchange on translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales

- Canadian same-store sales increased by $2.9 million, or 1.3%. When adjusted for the sales tax changes in British Columbia (see further discussion below), Canadian same-store sales were 1.5% higher than the prior year.
  - Canadian same-store sales for the six months ended June 30, 2014 were impacted by unfavourable weather in Q1 2014 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 our stores and remain competitive. Consistent with our Seven Point plan, we have taken the initial steps to implement new pricing and promotion strategies, improve customer loyalty with the introduction of the Celebration Club, and increase brand promotion. In 2014, as part of this change in strategy, we placed more emphasis on the use of various forms of media that have not been fully utilized previously by the Company. We believe that the use of multiple forms of media allows us to better target our customers and will allow us, in time, to focus more on brand promotion and customer loyalty programs. However, it will take time to realize the full benefits from these changes and we anticipate that our same-store sales growth in the interim may vary from quarter to quarter as we transition from flyers to these other forms of media and promotion.
  - Same-store sales in the first quarter of 2014 were 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 for the first three months of 2014. The second quarter of 2014 was unaffected as we have now 'lapped over' this change that occurred on April 1, 2013. The estimated impact of this strategy on Canadian same-store sales for the first six months of 2014 was a decrease of approximately 0.2%.

- U.S. same store sales were flat compared to the prior year.
  - Same-store sales in the United States have been positively impacted by same-store sales growth in Kentucky. While we continue to be impacted by certain counties in Kentucky that have gone from 'dry' to 'wet' in recent periods, we believe that changes to our pricing and marketing strategies and the introduction of store level training programs during the latter half of 2013 and early 2014 have assisted in counteracting this challenge to our business and allowed us to compete more effectively.
  - The increases in Kentucky were offset by same-store sales decreases in Alaska primarily as a result of increased competition in that state. Management is currently implementing new pricing and marketing strategies to more effectively respond to increased competition in our Alaska market.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers, were $11.6 million for the six months ended June 30, 2014, representing an increase of $0.3 million or 2.7% from the prior year (2013 - $11.3 million), primarily due to adding new licensee customer accounts in the current year.
- Sales for the Other Canadian stores have declined $2.0 million compared to the prior year primarily as a result of the sales from the four new stores opened in the quarter being more than offset by the closure of ten stores since December 31, 2012. Sales for Other U.S. stores have increased by $4.3 million compared to 2013 primarily as a result of two new stores opened in Alaska in the latter half of 2013.

Gross Margin

For the six months ended June 30, 2014, gross margin was $78.6 million, up $2.2 million or 2.8% from $76.5 million for the same period last year. Gross margin did not grow at a rate consistent with the sales growth primarily due to the decline in gross margin as a percentage of sales to 24.9% (2013 – 25.2%). These decreases were offset by initial changes we made to our pricing and marketing strategies in the latter half of Q2 2014 and a $1.3 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, we implemented more competitive pricing in late 2013 to gain back market share. Customer counts have been trending positively since this change and Management has been focused in the second quarter on capitalizing on opportunities to grow margins as we regain market share.

- In early 2014, Management implemented improved processes and policies to better ensure that product expiries are minimized. As part of these changes, we implemented a price markdown strategy for inventory identified for clearance. Clearance sales related to this inventory have had a negative impact on gross margin percentage in 2014 as customers 'traded-down' to discounted product. While we made certain changes in second quarter that improved the gross margin on clearance inventory, we anticipate that our gross margin percentage will be impacted for the remainder of the year as we sell through our clearance inventory.

- As part of the execution of our Seven-Point Plan initiative to increase brand awareness and customer loyalty, the Company introduced a digital marketing program, the *Celebration Club*, during the first quarter. Gross margin percentages in the first quarter and in the early part of the second quarter were impacted by the launch of this new program as we temporarily used price promotion in all regions, in addition to other methods, to successfully drive membership sign ups. We anticipate being able to rely on promotional efforts other than price promotion to drive membership growth now that we have built a strong membership base.

Operating and Administrative Expenses

Operating and administrative expenses for the six months ended June 30, 2014 were $68.4 million, up 17.3% from $58.3 million a year earlier. Excluding adjusting items of $1.4 million in the quarter, these expenses increased by 14.9% or $8.7 million.

- The adjusting items for the current quarter include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year.
- The increases related to the operation of our stores include: higher overall costs associated with the additional store locations that have been opened in the past twelve months (e.g. rent, payroll, utilities, etc.), net of store closures ($0.9 million); rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.9 million), increases in operating costs associated with running same-stores ($1.8 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 ($1.2 million).
- Administrative expenses have increased by $3.8 million, which is primarily attributable to pursuing growth and acquisition opportunities ($0.5 million); an increase in administrative expenses as a result of the foreign exchange on translation of U.S. dollar denominated expenses to Canadian dollars ($0.2 million); and increased costs associated with the execution of our Seven-Point Plan, 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.

Adjusted Operating Margin

Adjusted operating margin for the six months ended June 30, 2014 decreased by $6.6 million to $11.6 million, primarily due to the 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, which were partially offset by increases in gross margin as explained above. Adjusted operating margin as a percentage of sales was 3.7%, down from 6.0%.

Since December 31, 2012, the Company has added six 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. The Company has also closed ten stores since December 31, 2012, which has impacted operating margins due to reduced profitability leading up to the closure and costs associated with closing the stores.

Operating margin for the six months ended June 30, 2014 decreased by $8.0 million to $10.2 million or 3.2% as a percentage of sales (2013 – 6.0%).

Amortization

Amortization expense of $4.5 million for the first six months of 2014 was down $0.3 million from the prior year (2014 - $4.8 million). The decline primarily related to accelerated amortization recorded for assets in stores that were closed in the prior year.

Finance Costs

Finance costs are comprised of cash interest on bank indebtedness, long-term debt and convertible debentures of $3.9 million (2013 - $3.8 million); non-cash interest of $0.7 million (2013 - $0.7 million), and $nil change on the mark-to-market adjustments related to an interest rate swap (2013 - $0.3 million gain). Cash interest expense has primarily decreased as a result of the slightly higher long-term debt balances during the period.

Income Taxes

In the first six months of 2014, we recorded an income tax expense of $0.3 million (2013 - $2.4 million). The effective rate of 25% for the quarter is lower than the prior year (26%) as a result of the difference in the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2014 compared to 2013.

Net Earnings

For the six months ended June 30, 2014, net earnings of $0.9 million were recorded (2013 –$6.8 million). The decrease in net earnings in 2014 is primarily the result of the increase in operating and administrative expenses (inflationary increases and ongoing investments to support the Company's business strategies), and the $0.3 million net change in the mark-to-market adjustments related to an interest rate swap, which were partially offset by increases in gross margin and lower amortization expense as discussed earlier in this MD&A.

12. Condensed Quarterly Information

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

	2014		2013				2012	
	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Statement of Financial Position								
Cash	$ 4,391	$ 5,197	$ 4,529	$ 5,550	$ 4,223	$ 3,159	$ 5,724	$ 1,825
Total assets	517,128	520,410	512,676	532,510	529,382	530,340	533,681	516,929
Current bank indebtedness	932	4,462	-	2,518	1,657	-	3,891	-
Total current liabilities	43,514	45,178	46,498	40,145	40,529	35,086	47,227	28,121
Long-term debt	157,907	155,670	133,819	154,965	152,253	164,160	146,566	150,702
Total liabilities	215,258	213,642	200,754	215,930	211,482	215,417	215,931	199,603
Shareholders' equity	301,809	306,738	311,922	316,580	317,900	314,923	317,750	317,300
Non-controlling interest	61	30	94	30	63	34	92	26
Statement of Earnings								
# stores, end of period	245	243	246	246	245	248	249	243
Sales	178,168	137,375	184,106	172,903	167,669	136,302	179,359	164,490
Adjusted operating margin (1)	10,642	996	14,147	13,725	11,712	6,492	14,387	14,588
Net earnings/(loss)	3,417	(2,498)	(1,108)	5,811	5,321	1,457	5,403	6,481
Basic and diluted earnings/(loss) per share	$ 0.14	($ 0.11)	($0.05)	$0.25	$0.23	$ 0.06	$ 0.23	$ 0.28
Dividends declared per share	$0.27	$ 0.27	$0.27	$0.27	$0.27	$ 0.27	$ 0.27	$ 0.27

Note:

(1) *Adjusted operating margin is a non-IFRS measure that does not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A. There were no adjusting items for the three month periods ended March 31, 2014, June 30, 2013, and March 31, 2013 and therefore adjusted operating margin for these periods is equal to operating margin.*

Analysis of Consolidated Financial Position

At June 30, 2014, net working capital (current assets, excluding cash, less current liabilities) was $101.9 million, an $8.4 million decrease from the comparative period last year (June 30, 2013 - $110.3 million). The decline is primarily attributable to Management's focus on increasing inventory turns through a reduction in inventory on a same-store basis. Net working capital has increased $7.8 million from year end 2013 (December 31, 2013 -$94.1 million) as a result of ramping up our inventory buys as we head into the summer season. 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 in Kentucky and Alaska where we generally have 30 day trade payment terms.

Property and equipment was $47.3 million a $0.5 million increase from year end (December 31, 2013 - $46.8 million). Additions during the period of $4.5 million, related primarily to the four new stores opened in the second quarter and maintenance capital expenditures, were consistent with the prior year (2013 - $3.5 million). These additions were offset by amortization of $4.3 million (2013 - $4.6 million). Foreign exchange differences on property and equipment assets held in the U.S. resulted in an increase in the carrying value of $0.9 million (2013 - $0.6 million).

Long-term debt was $157.9 million at June 30, 2014, a $24.1 million increase from year end (December 31, 2013 - $133.8 million). During the quarter, proceeds from long-term debt were $23.4 million (2013 - $5.0 million), offset by $0.7 million in accretion of the subordinated convertible debentures and amortization of deferred financing charges (2013 - $0.7 million). The increase in long-term debt from year end primarily related to the increase in net working capital from year end as we ramp up inventory for the summer season. The increase in long-term debt from June 30, 2013 of $5.6 million was primarily the result of the $8.3 million reduction in cash from operations compared to the prior year, offset by Management's focus on improving inventory turns through a reduction of inventory on a same-store basis. The working capital freed up from the inventory reduction was used to repay long-term debt.

13. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

	Three months ended June 30,		**Six months ended June 30,**	
(expressed in thousands)	**2014**	**2013**	**2014**	**2013**
Changes in non-cash working capital	$ 1,572	$ 8,594	$ (9,512)	$ 1,641
Cash provided by operating activities	7,168	9,958	275	8,622
Cash used in investing activities	(2,245)	(2,279)	(3,925)	(3,721)
Cash provided by (used in) financing activities	(7,174)	(15,523)	12,991	(7,841)
Effect of exchange rate on changes in cash	(127)	314	33	392
Net increase (decrease) in cash and cash equivalents	(806)	1,064	(138)	(907)

Operating activities

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

Cash provided in 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 (loss) per share for the three and six months ended June 30, 2014 were $0.14 and $0.04, respectively (2013 - $0.23 and $0.29). The Company believes that cash

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

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

	Three months ended June 30,		**Six months ended June 30,**	
(expressed in thousands, except per share amounts)	**2014**	**2013**	**2014**	**2013**
Cash provided by operating activities	$ 8,740	$ 18,552	$ (9,237)	$ 10,263
Changes in non-cash working capital [(1)]	(1,572)	(8,594)	9,512	(1,641)
Cash provided by operating activities before changes in non-cash working capital	7,168	9,958	275	8,662
Adjusting items [(2)]	1,386	-	1,386	-
Cash provided by operating activities before changes in non-cash working capital and adjusting items	$ 8,554	$ 9,958	$ 1,661	$ 8,662
Weighted average number of common shares outstanding – basic	23,187,867	23,008,043	23,162,014	22,973,535
Per share amount	0.31	0.43	0.01	0.38
Per share amount before adjusting items	0.37	0.43	0.07	0.38
Cash dividends per share	0.27	0.27	0.54	0.54

Notes:

(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.*

(2) *Adjusting items for the three and six months ended June 30, 2014 include $0.6 million for a payment made to a former officer of the Company upon his departure from the Company during the quarter, $0.4 million for a settlement with a vendor for software license fees from prior years, $0.3 million for legal and tax professional fees not expected to reoccur in related to changes made to our corporate structure, and $0.1 million for a settlement related to an early termination of a lease in conjunction with a store closure in a prior year. 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.*

The decrease in cash provided by operating activities before changes in non-cash working capital and adjusting items of $1.4 million for the three months ended June 30, 2014 and $7.0 million for the six months ended June 30, 2014 as compared to the same period in 2013 is primarily due to the decrease in operating margins (see further discussion earlier in the MD&A in the 'Analysis of Financial Results' section).

Investing activities

For the three months ended June 30, 2014, cash used in investing activities was $2.2 million, a $0.1 million decrease from $2.3 million used for the same period a year ago, primarily as a result of timing difference on when stores will be renovated in 2014 compared to 2013. Cash used in investing activities for the six months ended June 30, 2014 of $3.9 million has increased as a result of the new stores opened to date in 2014. To date in 2014 the mix of capital expenditures was weighted more heavily on new stores and less on store renovations compared to the mix in 2013.

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 that cash provided from operating activities on an annual basis 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 four new stores in the U.S. and nine new stores in Canada in the next 24 months with an estimated aggregate cost of $12.0 million. The timing of the store openings is subject to, among other things, completion of store construction and/or fixturing.

Financing activities

For the three months ended June 30, 2014, cash used in financing activities was $7.2 million, a $8.3 million decrease from the same period a year ago, primarily as a result of a reduction in the repayment of long-term debt and bank indebtedness as a result of the decrease in operating margins and decreased net change in non-cash working capital items.

For the six months ended June 30, 2014, cash provided by financing activities was $13.0 million, a $20.8 million change from the same period a year ago, primarily as a result of an increase in proceeds from long-term debt and bank indebtedness as a result of the decrease in operating margins and decreased net change in non-cash working capital items.

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 weakened against the Canadian dollar in the three months ended June 30, 2014, the Company has recorded a loss on cash held in foreign currency. There was an insignificant change in the U.S. dollar against the Canadian dollar for the six months ended June 30, 2014, and as such there was an insignificant gain recorded on cash held in foreign currency for this period.

Credit Facilities and Subordinated Debentures

On March 31, 2014, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility available to the Company, which is effective until May 31, 2016 and consists of a $175 million extendible revolving operating loan (increased from $150 million previously), and a US$5.0 million facility

with a U.S. bank. At August 13, 2014, there was approximately $101 million drawn on the Canadian credit facility and US$1 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 having been paid on October 31, 2012. The Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $24.90 per share.

The Company's 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 $4.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at June 30, 2014, the Company was in compliance with all financial covenants.

Ratio	Covenant	As at June 30, 2014
Funded debt to EBITDA	< 3.50:1.00	2.39:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	4.12:1.00
Fixed charge coverage	> or = 1.00:1.00[1]	1.08:1.00

(1) On August 8, 2014, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility. The primary change was to amend the fixed charge coverage covenant to be greater than or equal to 0.90 : 1.00 from the date of the agreement and will be greater than or equal to 1.00 : 1.00 as at September 30, 2015 and thereafter.

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

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at August 13, 2014, the Company has undrawn credit of approximately $39 million under its credit facility available to finance operating requirements and growth opportunities.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company is party to an interest rate swap with a Canadian Schedule I bank that matures December 14, 2015 whereby the interest rate paid by the Company on $60.0 million is equivalent to 1.388% per annum plus the applicable credit spread determined with reference to the credit facility. At August 13, 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 $102 million, of which $60.0 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at June 30, 2014.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 420	$ (420)
Increase (decrease) in net earnings	(315)	315

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$8.0 million for the twelve months ended June 30, 2014.

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

Contractual Obligations

The table below sets forth, as of June 30, 2014, 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	$ 12,601	$ 22,353	$ 19,469	$ 15,834	$ 12,371	$ 36,330
5.85% Debentures	-	-	-	-	67,500	-
Long-term bank indebtedness	-	-	95,656	-	-	-
Total	$ 12,601	$ 22,353	$ 115,125	$ 15,834	$ 78,871	$ 36,330

14. Shareholders' Equity

At June 30, 2014, the Company had 23,214,706 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended June 30, 2014 were 23,187,867

(compared to 23,008,043 and 23,038,100, respectively, for the comparative period). The basic and diluted weighted average number of common shares outstanding for the six months ended June 30, 2014 were 23,162,014 (compared to 22,973,535 and 23,008,959, respectively, for the comparative period). As at August 14, 2014, 23,233,149 common shares of the Company were issued and outstanding.

15. Off-Balance Sheet Arrangements

As at June 30, 2014 and August 14, 2014, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

16. Related Party Transactions

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

During the six months ended June 30, 2014, the Company incurred expenses in the normal course of business for (i) professional fees of $42 thousand (2013 - $75 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 former director of the Company which amounted to $194 thousand to May 15, 2014 when the director retired from the Board (2013 - $232 thousand). There was $8 thousand included in accounts payable and accrued liabilities as at June 30, 2014 relating to these transactions (December 31, 2013 - $12 thousand). The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

17. Financial Instruments

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

18. Critical Accounting Estimates and Accounting Policies

There are no updates to the Company's critical accounting estimates. For further discussion, refer to the Company's annual MD&A for the year ended December 31, 2013.

19. Recent Accounting Pronouncements

There were new IFRS pronouncements that have been issued and are effective for the Company on January 1, 2014. 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 and six months ended June 30, 2014 for further discussion.

20. Non-IFRS Financial Measures

Operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusting items, 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, adjusted operating margin, adjusting items, cash provided in operating activities before changes in non-cash working capital, cash provided in 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, adjusted operating margin, adjusting items, cash provided in operating activities before changes in non-cash working capital, cash provided in 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, adjusted operating margin, adjusting items, cash provided in operating activities before changes in non-cash working capital, cash provided in 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 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 *'Summary of the Three and Six Months June 30, 2014'* and *'Analysis of Financial Results'* sections. Management believes the presentation of adjusted operating margin 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.

21. Outlook

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

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-store sales increases and the opening of new store locations. The Company has commitments to open four new stores in the U.S. and nine new stores in Canada in the next 24 months with an estimated aggregate cost of approximately $12.0 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.

22. 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 6, 2014 and the Company's annual MD&A for the year ended December 31, 2013.

23. Disclosure Controls and Procedures

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

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

The Chief Executive and Chief Financial Officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the year ended December 31, 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 or six months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.