LIQUOR STORES N.A. LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

(Unaudited, expressed in thousands of Canadian dollars)

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	**March 31, 2014 $**	**December 31, 2013 $**
Assets			
Current assets:			
Cash		5,197	4,529
Accounts receivable		1,303	1,342
Inventory		137,116	131,716
Prepaid expenses and deposits		7,723	7,525
		151,339	145,112
Deferred tax assets		2,175	2,732
Property and equipment		47,653	46,782
Intangible assets		35,676	35,282
Goodwill		283,567	282,768
		520,410	512,676
Liabilities			
Current liabilities:			
Bank indebtedness	3	4,462	-
Accounts payable and accrued liabilities		34,539	40,746
Dividends payable to shareholders	5	2,082	2,080
Income tax payable		3,965	3,577
Derivative instrument	12	130	95
		45,178	46,498
Long-term debt	3	155,670	133,819
Deferred tax liabilities		12,794	20,437
		213,642	200,754
Shareholders' Equity			
Equity attributable to shareholders		306,738	311,828
Equity attributable to non-controlling interest		30	94
		306,768	311,922
		520,410	512,676

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Attributable to Shareholders of the Company							
	Share capital $	**Equity component of convertible debentures $**	**Contributed surplus $**	**Accumulated other comprehen-sive income $**	**Deficit $**	**Total $**	**Non-controlling interest $**	**Total equity $**
	(note 7)							
Opening balance – January 1, 2013	185,696	3,328	174,900	(4,505)	(41,761)	317,658	92	317,750
Net earnings for the period	-	-	-	-	1,426	1,426	31	1,457
Foreign currency translation adjustment	-	-	-	1,345	-	1,345	-	1,345
Comprehensive income for the period	-	-	-	1,345	1,426	2,771	31	2,802
Share-based payments	-	-	53	-	-	53	-	53
Exercise of share options	105	-	(11)	-	-	94	-	94
Dividends declared	-	-	-	-	(6,195)	(6,195)	-	(6,195)
Dividend reinvestment plan issuance	508	-	-	-	-	508	-	508
Dividends declared by subsidiaries	-	-	-	-	-	-	(89)	(89)
Transactions with owners	613	-	42	-	(6,195)	(5,540)	(89)	(5,629)
Balance – March 31, 2013	186,309	3,328	174,942	(3,160)	(46,530)	314,889	34	314,923
Opening balance – January 1, 2014	188,824	3,328	174,695	342	(55,361)	311,828	94	311,922
Net loss for the period	-	-	-	-	(2,525)	(2,525)	27	(2,498)
Foreign currency translation adjustment	-	-	-	3,058	-	3,058	-	3,058
Comprehensive loss for the period	-	-	-	3,058	(2,525)	533	27	560
Share-based payments	-	-	42	-	-	42	-	42
Exercise of share options	-	-	-	-	-	-	-	-
Dividends declared (note 5)	-	-	-	-	(6,249)	(6,249)	-	(6,249)
Dividend reinvestment plan issuance (note 5)	584	-	-	-	-	584	-	584
Dividends declared by subsidiaries	-	-	-	-	-	-	(91)	(91)
Transactions with owners	584	-	42	-	(6,249)	(5,623)	(91)	(5,714)
Balance – March 31, 2014	189,408	3,328	174,737	3,400	(64,135)	306,738	30	306,768

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Earnings and Comprehensive Income

Three Months Ended March 31, 2014 and 2013

(in thousands of Canadian dollars)

	Note	**March 31, 2014** $	**March 31, 2013** $
Sales		137,375	136,302
Cost of sales		103,469	101,384
Gross margin		33,906	34,918
Operating and administrative expenses		32,910	28,426
		996	6,492
Amortization			
Property and equipment		2,060	2,031
Intangible assets		88	89
		(1,152)	4,372
Finance costs	4	2,168	2,394
Earnings (loss) before income taxes		(3,320)	1,978
Income tax expense (recovery)	6	(822)	521
Net earnings (loss)		(2,498)	1,457
Other comprehensive income			
Items that may be reclassified subsequently to net earnings:			
Currency translation difference on foreign subsidiaries		3,058	1,345
Comprehensive income		**560**	**2,802**
Net earnings (loss) attributable to			
Owners of the parent		(2,525)	1,426
Non-controlling interest		27	31
		(2,498)	1,457
Comprehensive income attributable to			
Owners of the parent		533	2,771
Non-controlling interest		27	31
		560	2,802
Earnings (loss) per share			
Basic	8	(0.11)	0.06
Diluted	8	(0.11)	0.06

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Liquor Stores N.A. Ltd.
Condensed Interim Consolidated Statements of Cash Flow
Three Months Ended March 31, 2014 and 2013
(in thousands of Canadian dollars)

	Note	**March 31, 2014 $**	**March 31, 2013 $**
Cash provided by (used in)			
Operating activities:			
Net earnings (loss) for the period		(2,498)	1,457
Adjustments to reconcile net income to net cash flows from operating activities:			
Amortization of property and equipment		2,060	2,031
Amortization of intangible assets		88	89
Amortization of financing charges	4	10	82
Non-cash interest on convertible debentures	4	271	250
Fair value adjustment on derivative instrument	12	35	145
Deferred income tax		(7,003)	(5,445)
Share-based payments		42	53
Cash used in operating activities before changes in non-cash working capital		(6,995)	(1,338)
Net change in non-cash working capital items		(11,085)	(6,966)
		(18,080)	(8,304)
Investing activities:			
Purchase of property and equipment		(1,674)	(1,370)
Purchase of intangible assets		(6)	(71)
		(1,680)	(1,441)
Financing activities:			
Proceeds (repayment)of bank indebtedness		4,373	(3,892)
Proceeds from long-term debt		21,570	17,262
Dividends paid	5	(5,660)	(5,690)
Proceeds received on exercise of stock-options		-	94
Dividends paid to non-controlling interest by subsidiaries		(91)	(89)
		20,192	7,685
Foreign exchange gain on cash held in foreign currency		236	89
Increase (decrease) in cash		668	(1,971)
Cash – Beginning of quarter		4,529	5,130
Cash - End of quarter		5,197	3,159

The accompanying notes are an integral part of these condensed interim consolidated financial statements

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act on November 8, 2010 and is the successor entity to Liquor Stores Income Fund. The address of the Company's registered office is 300, 10508 – 82 Avenue, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB.A".

The Company's principal activity is the retailing of wines, beers and spirits. As at March 31, 2014, the Company operated 243 (2013 - 246) retail liquor stores, of which 174 (2013 - 176) were in Alberta, 35 (2013 - 36) were in British Columbia, 22 (2013 - 22) were in Alaska and 12 (2013 - 12) were in Kentucky. Of the stores operated, 201 (2013 - 202) were acquired and 42 (2013 - 44) were developed by the Company.

These condensed interim consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on May 12, 2014.

2 Basis of preparation and significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2013.

The preparation of condensed interim consolidated financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013.

The Company's operations are seasonal in nature. Accordingly, sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a higher level of earnings in the third and fourth quarters. This business seasonality results in quarterly performance that is not necessarily indicative of the year's performance.

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2013 except as described below.

(in thousands of Canadian dollars)

Changes in Accounting Policies

The Company has adopted IFRIC 21, Levies which provides guidance on when to recognize an obligation to pay a levy other than income tax. The standard was effective January 1, 2014 and adoption of IFRIC 21 did not result in any current or retrospective adjustment.

3 Bank indebtedness and long-term debt

On March 31, 2014, the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility described in note 9(b) to the December 31, 2013 financial statements. Significant changes to the credit facility include an increase in the extendible revolving operating facility from $150,000 to $175,000 and an extension of the maturity date to May 31, 2016.

4 Finance costs

Finance costs comprise the following:

	Three months ended March 31,	
	2014	**2013**
	$	**$**
Interest expense		
Bank indebtedness	134	108
Long-term debt(i)	784	915
Convertible debenture(ii)	1,259	1,237
Change in fair value of interest rate swap	35	145
Net gain on foreign exchange from financing activities	(44)	(11)
	2,168	2,394

i) Included in interest expense on long-term debt was amortization of deferred financing costs of $10 (2013 - $82).

ii) Interest expense on the convertible debentures of $1,259 (2013 - $1,237) represents coupon interest of $988 (2013 – $987) and $271 (2013 – $250) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

5 Dividends

Dividends are determined in accordance with the Board of Directors periodic review of Company performance. During the three months ended March 31, 2014, the Company declared monthly dividends of $0.09 per share or $6,249 (2013 - $0.09 per share or $6,195). Dividends of $6,244 (2013 - $6,198) were paid during the period, of which $584 (2013 - $508) was paid in shares pursuant to the Company's dividend reinvestment plan. Dividends of $2,082 were payable as at March 31, 2014 (2013 - $2,080). Dividends are paid mid-month following the month of declaration.

(in thousands of Canadian dollars)

Dividends were declared on April 15, 2014 in the amount of $0.09 per common share and are payable to the holders of common shares as at the close of the record date of April 30, 2014.

6 Income tax

Income tax is recognized based on management's estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual effective tax rate for 2014 is 25% (the effective tax rate for the year ended December 31, 2013 was 22.5%).

7 Share capital

a) Authorized:
An unlimited number of voting common shares are authorized to be issued.

b) Issued and outstanding:

	#	$
Balance – January 1, 2013	22,924,591	185,696
Exercised share options	6,750	94
Transfer from contributed surplus for share options exercised	-	11
Shares issued under dividend reinvestment plan	27,551	508
Balance – March 31, 2013	22,958,892	186,309
Balance – January 1, 2014	23,113,172	188,824
Shares issued under dividend reinvestment plan	47,395	584
Balance – March 31, 2014	23,160,567	189,408

8 Earnings (loss) per share

	Three months ended March 31, 2014 $	2013 $
Net earnings (loss) attributable to owners of the parent	(2,525)	1,426
	2014 #	**2013** #
Weighted average number of common shares outstanding – Basic	23,135,874	22,938,643
Effect of dilutive securities		
Equity-settled share-based payment awards	-	43,904
Weighted average number of common shares outstanding - Diluted	23,135,874	22,982,547

(in thousands of Canadian dollars)

	2014 $	2013 $
Basic earnings (loss) per share	(0.11)	0.06
Diluted earnings (loss) per share	(0.11)	0.06

Due to their anti-dilutive effect, the equity-settled share options and potential shares issuable in exchange for convertible debentures were not included in the diluted earnings per share calculation for the three months ended March 31, 2014.

The potential shares issuable in exchange for convertible debentures were not included in the diluted earnings per share calculation for the three months ended March 31, 2013.

9 Share-based payments

During the three months ended March 31, 2014, the Company granted 24,468 restricted share units with a value of $270, and recognized $3 in compensation expense related to these awards. No performance share units were awarded during the period.

10 Related party transactions

The following transactions were carried out with related parties:

Operating and administrative expenses

	Three months ended March 31, 2014 $	2013 $
Professional fees[(i)]	17	38
Rent expense[(ii)]	116	117
	133	155

[(i)] A Director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services.
[(ii)] The Company paid rent to entities controlled by a Director of the Company.

These operating and administrative expenses are incurred in the normal course of business at terms similar to those applicable to unrelated parties.

There was $3 included in accounts payable and accrued liabilities (December 31, 2013 – $12) relating to these transactions.

(in thousands of Canadian dollars)

11 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	2014 $	2013 $
Accounts receivable	48	1,647
Inventory	(4,056)	(2,104)
Prepaid expenses and deposits	(133)	1,732
Accounts payable and accrued liabilities	(7,332)	(11,301)
Income tax payable (recoverable)	388	3,060
	(11,085)	(6,966)

Interest and income taxes paid are included in cash flows from operating activities in the Statement of Cash Flows.

	2014 $	2013 $
Interest paid	918	941
Income taxes paid	5,796	2,904

12 Fair value of financial instruments

a) Financial instruments measured at fair value

Financial instruments recognized at fair value include deferred share and restricted awards, which are level 1 measurements and the interest rate swap, which is a level 2 measurement. There have been no transfers of instruments between levels in the hierarchy.

The fair values of interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date.

Fair value heirarchy

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

b) Financial instruments measured at other than fair value

Financial assets that are measured at other than fair value on the consolidated statements of financial position include cash and accounts receivable. The carrying value less impairment provision of trade receivables approximates fair value due to the short-term nature of the instruments.

Financial liabilities that are valued at other than fair value are comprised of bank indebtedness, accounts payable and accrued liabilities, dividends payable to shareholders, and long-term debt.

The carrying value of trade payables and dividends payable approximates their fair value due to the short-term nature of the instruments. The carrying value of bank indebtedness and long-term debt approximates the fair value, as the interest rate affecting these instruments is at a variable market rate. Debentures with a carrying value of $67,500 have a fair value of $69,525 (December 31, 2013 – 69,525), determined based on market trading values at the balance sheet date.

13 Operating segments

The Company has two reportable segments: Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating margin, which is defined as earnings before amortization, finance costs and income tax expense (recovery), as included in the internal management reports that are reviewed regularly by the Company's Chief Executive Officer (the Company's chief operating decision maker) and follow the organization, management and reporting structure of the Company. Operating margin is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating margin to earnings before income taxes, an earnings measure used in the Company's Consolidated Statement of Earnings and Comprehensive Income, has been included in the table below.

Operating margin is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, operating margin may not be comparable to similar measures presented by other issuers. Investors are cautioned that operating margin should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

(in thousands of Canadian dollars)

Three months ended March 31, 2014	Canadian Operations $	US Operations $	Consolidated $
Sales to external customers	100,420	36,955	137,375
Operating margin	1,010	(14)	996
Property and equipment amortization			2,060
Intangible asset amortization			88
Finance costs			2,168
Loss before income taxes			(3,320)
Other information			
Expenditures for additions to			
Property and equipment	2,215	139	2,354
Intangible assets	127	5	132
Total assets at March 31, 2014	427,908	92,502	520,410

Three months ended March 31, 2013	Canadian Operations $	US Operations $	Consolidated $
Sales to external customers	104,025	32,277	136,302
Operating margin	5,338	1,154	6,492
Property and equipment amortization			2,031
Intangible asset amortization			89
Finance costs			2,394
Earnings before income taxes			1,978
Other information			
Expenditures for additions to			
Property and equipment	952	354	1,306
Intangible assets	66	5	71
Total assets at December 31, 2013	422,118	90,558	512,676