LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

Dated as of March 14, 2018

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1. Basis of Presentation

Management's Discussion and Analysis ("**MD&A**") provides a comparison of Liquor Stores N.A. Ltd.'s performance for the three months and year ended December 31, 2017 with the three months and year ended December 31, 2016. This MD&A should be read in conjunction with the Company's annual audited consolidated financial statements and notes thereto for the years ended December 31, 2017 and 2016 (the "**Financial Statements**"), and the Annual Information Form of the Company, each of which is available on SEDAR at www.sedar.com**.** The information in this MD&A is current to March 14, 2018, unless otherwise noted.

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

Unless otherwise stated, financial information in this MD&A 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 Chartered Professional Accountants – Part I (the "**CPA Handbook**"), for financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

Effective November 18, 2017, the Company sold its Kentucky operations consisting of 15 retail liquor stores. On November 30, 2017, the Company sold its 51% indirect interest in Birchfield Ventures LLC ("**Birchfield**"), which consisted of two retail liquor stores in New Jersey. The Company determined to not open its Massachusetts operation (one unopened location under lease) and entered into negotiations to sell its one retail store location in Norwalk, Connecticut. Collectively, the Company has classified these operations as discontinued operations, and further information on the operating results of these operations and financial impact of the sales can be found in note 5 of the Financial Statements. Accordingly, the operating results for the Company in this MD&A are presented on the basis of the Company's continuing operations only, unless otherwise noted.

Throughout this MD&A references are made to non-IFRS financial measures, including same-store sales, operating profit before amortization, operating profit before amortization as a percentage of sales, adjusted operating profit before amortization, adjusted net earnings from continuing operations, and adjusted earnings per share from continuing operations. A description of these measures and their limitations are discussed under the heading *"Non-IFRS Financial Measures",* along with a reconciliation to the nearest IFRS financial measure.

Additional information relating to Liquor Stores can be found at www.liquorstoresna.ca/investors. 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, various news releases and material change reports issued by the Company are also available on its website or directly through SEDAR at www.sedar.com.

2. Strategic Direction and Outlook

At the June 2017 Annual General Meeting, shareholders voted overwhelmingly for new board leadership that would implement a new strategic direction for the Company (the "**Strategic Plan**").

The new board has directed Management to focus on two key strategic goals:

- Restore the Company's place as the market leader in Alberta retail alcohol sales and regain the Company's lost market share.

- Establish a market-leading cannabis retail brand in jurisdictions such as Alberta and B.C. where private retail will be permitted.

Accomplishing these goals will necessitate a period of significant capital investment which is expected to place downward pressure on short-term financial and operational results. The Company is committed to focusing on the long-term enhancement of shareholder value and will be driven by that objective.

The Strategic Plan is Fully Funded

The Company has taken the necessary actions to ensure that sufficient capital is available to make the needed investments to execute its Strategic Plan:

- **Reversed the former strategy of expansion in the United States and sold all poorly performing non-core assets** being the 15 liquor stores in Kentucky and 51% interest in Birchfield which owns two stores in New Jersey. Collectively, these two transactions resulted in a long-term debt reduction of up to $47 million (US$ 37 million), in addition to extinguishing the Company's obligation to purchase the remaining 49% interest in Birchfield as early as January 1, 2019 (valued at CAD$12.8 million at the time of sale).

- **Attracted a strategic investment from Aurora Cannabis Inc.** ("**Aurora**") via a private placement of common shares representing 19.9% of the Company's total common shares outstanding (the "**Common Shares**") in consideration for approximately $103.5 million cash. The cash was received in full by the Company and the Common Shares were issued on February 14, 2018. The Aurora investment includes the issuance of additional convertible securities where, if approved by the holders of Common Shares (the "**Shareholders**"), Aurora will increase its ownership interest in the Company to 25% for an additional $34.5 million and provide the option for Aurora to increase that ownership stake to approximately 40% at any time within the 18 months following the closing.

- **Eliminated redundant operating costs from the liquor business** by simplifying and streamlining the business structure, performing a store network optimization analysis to review stores that are not strategic or contributing enough to the Company's operating profits for closure or repositioning, and optimizing the operating hours of the Company's locations. This included streamlining the management structure and reducing overall administrative overhead by closing the U.S. regional office in Kentucky, eliminating duplicative U.S. management team members and placing those responsibilities under executives based in the Edmonton head office.

  These initiatives are expected to reduce selling, distribution and administrative costs by more than $5 million on an annualized basis. With the cost base recalibrated to eliminate redundant expenses, additional improvements in the Company's operating costs as a percentage of sales will come from driving increases in the Company's sales off the existing cost base.

- **Optimized the Company's inventory levels** by clearing out slow-moving inventory and rationalizing product assortments. These efforts have already produced an inventory reduction of approximately $29 million at December 31, 2017 compared to the same period in the prior year for Canada and Alaska. Further reductions are expected to come from the renovation of the Company's store fleet resulting in the installation of new fixtures that will require a smaller inventory investment and improve product visibility to customers.

The collective result from these initiatives has resulted in a complete repayment of the Company's operating line of credit, leaving the Company with cash reserves of approximately $60 million as of the date of this MD&A. Management is confident that the Company will be able to finance the execution of the Strategic Plan.

Strategic Plan

Restore our position as market leader in retail alcohol sales

The past six years have seen intense competition in Liquor Stores' core market of Alberta, where there are now more than 1,400 retail liquor stores and 600 off premise liquor stores. Competitors are concentrated in the low-price, low-margin segment of retail alcohol sales. As these competitors entered Liquor Stores' markets, the Company did not adequately respond. Liquor Stores' Alberta store network is outdated, with some stores not in optimal locations, and the Company has suffered from negative brand image among Albertans in recent years. The core Alberta assets of the business were allowed to atrophy, as financial resources and management's focus was allocated to the expansion in the United States. As a result, the Company has seen its market share in Alberta decline over the past several years. The Company also expects further competitive pressure in the Edmonton market, the Company's largest market with 79 stores, due to relaxation or elimination of certain radius restrictions that provide for a minimum distance between liquor stores.

The Company is implementing initiatives in the following areas to drive sales, improve profitability and ultimately regain market share lost to new competitors in recent years:

- **Improve the brand image of the Company** through accelerating the pace of renovating Alberta and British Columbia store locations. This effort is expected to drive same-store sales increases in Canada and better position the Company against intensifying competition. The Company expects to renovate approximately 50 stores in the next year.

- **Deliver a superior customer experience** by investing in the right level of pay, benefits and other resources required to drive a customer service culture that consistently exceeds expectations and is distinctive in the market. The adult beverage retail experience in the Company's core markets has become commoditized which presents an opportunity to distinguish our business and increase the Company's market share.

- **Increase the Company's scale and market presence** by repositioning existing stores and/or building or acquiring new liquor stores in more desirable trade areas of the Company's existing operating regions. This will also include sourcing locations to open additional Wine and Beyond large format stores.

- **Rationalize and improve the private label product assortment** and improve inventory turns and sales from these products. Management believes that this program is a key element to the future success of Liquor Stores through volume sales and margin enhancement.

Launch a market leading retail cannabis business

The Company is well advanced in our plans to develop and launch a market leading retail cannabis business in jurisdictions where private retail is permitted:

- **Invest in a strong leadership team for cannabis** to supplement the existing infrastructure in place at the Company, including hiring a separate President and Chief Operating Officer for the cannabis business to ensure the development of this business does not distract existing Management's focus from liquor retail operations.

- **Obtain superior cannabis store locations** by leveraging the Company's strong financial position, well-established reputation with landlords and extensive real estate network. We have proven ourselves to be a market leading and responsible retailer of controlled substances like alcohol and will use these strengths to position the Company as the lessee of choice for landlords looking to lease potential new cannabis locations. We will also leverage, where possible and strategic, existing liquor stores to convert into retail cannabis stores.

- **Ensure store management and associates are well trained and highly knowledgeable** by leveraging the deep cannabis product knowledge from our strategic relationship with Aurora, and the wealth of experience and materials available from Aurora's strategic acquisition of CanvasRX Inc. in 2016.

- **Develop a market leading brand and store design** by leveraging both the deep cannabis product knowledge and brand development expertise of Aurora, the Company's knowledge of consumer behavior and preferences of the core markets of Alberta and B.C., supplemented with external brand development experts with significant consumer experience qualifications.

- **Be 'first to market'** by operating 'best in class' retail cannabis stores from day one that are focused on executing a customer service and education culture. The Company has significant experience in building, opening and operating mass market stores selling controlled substances that it believes many of its competitors will not possess.

- **Continue to be a strong partner for Provincial regulators** by ensuring that the Company's unparalleled 25-year track record for regulatory compliance in the responsible retail sales of alcohol continues for the retail sale of cannabis. We have industry-leading internal programs and controls to meet our goal of 100% compliance in each of our stores to ensure the retail cannabis industry is developed in the Company's core markets with a focus on social responsibility and safety.

While the provinces of Alberta and British Columbia and major municipalities have released initial frameworks and some details on their plans to implement regulation governing the licensing and operation of retail cannabis stores, there are still many unknowns. The Company is focused on developing a market leading cannabis business to be in the best possible position to obtain as many retail licenses as possible within the regulatory framework. At the same time, the Company will concentrate on building our brand in a reasoned and measured way. The Company's focus for the cannabis brand is on long term value creation over three to five years. The Company plans on making the investments in people, assets, product knowledge and customer experience and loyalty to ensure we build a profitable business over the long term.

Expected Capital Investment of the Strategic Plan

The Company expects to make the following capital investments in the next 12 months as part of its implementation of the Strategic Plan:

- Renovations of approximately 50 existing retail liquor store locations at an aggregate capital cost of $15 million to $20 million.

- Re-branding of eight to twelve existing retail liquor store locations to a discount banner at an aggregate capital cost of $4 million to $6 million. We will select these stores, and limit the use of the discount banner, to a small number of locations in close proximity to existing competitors who operate a low price, low margin discount pricing strategy.

- Targeting, subject to applicable provincial licensing and municipal regulations, approximately 50 cannabis retail locations in Alberta and British Columbia at an aggregate capital cost of $18 million to $22 million, plus aggregate inventory investments of $15 to $20 million.

- Completing the implementation of a new enterprise resource planning ("**ERP**") system that will improve business operations, enhance inventory management and procurement to further reduce capital invested in inventory, enhance internal data management, create significant insight into customer shopping behavior, and provide a scalable growth platform. The implementation cost is estimated to be between $12-15 million and the Company is targeting implementation in mid-2019 for liquor, and is expected to have the new system in place to be the ERP for the Company's cannabis operations. The project has already commenced and is currently on schedule and on budget.

Outlook

The Company's strategic focus is clear – to regain our place as a market leader in retail alcohol sales and establish ourselves as a socially-responsible market leader in retail cannabis sales. Accomplishing these goals will not only require an investment of capital (as discussed earlier in this MD&A) but also Management focus and forward-looking vision. As we transform the Company, our results will need to be viewed in the context of our long term initiatives to create a significant increase in shareholder value. The Company's financial position is strong and will use that strength to its best advantage. The Company's focus over the next two to three years is on long-term shareholder value enhancement.

Having already achieved much of what shareholders voted for in June 2017, the Company will now execute our twin strategies for liquor and cannabis with an eye to where our business will be in the future. The Company believes there is no other responsible way to transform and create meaningful shareholder value.

The execution of the Strategic Plan may put downward pressure on the Company's results in the short-term:

- During the period of renovating retail liquor stores, we typically experience a significant reduction in sales from that location as customers will look to avoid the disruption caused by construction activity. In some cases, the location is closed completely while the renovation is completed. Given the number of renovations targeted in 2018, we expect a temporary decline in same-store sales.

- In eight to twelve select strategic locations, we expect to recalibrate pricing which will result in a much lower gross margin percentage for those locations to win back market share lost to discount competitors. The goal is to maximize sales for these locations, but it may come at the expense of reducing overall profitability in these locations compared to the previous year.

- We anticipate incurring upfront costs to: develop and launch a cannabis brand; build an executive and operational management team for the cannabis business; and invest in the hiring and training of a workforce to operate the cannabis store locations. While we will leverage the existing administrative operation in place for liquor retail to the extent possible (i.e. IT, accounting and other administrative services), we will invest in the incremental costs required to build a market leading cannabis brand and retail operations team focused on executing and maintaining that brand. We also expect to incur rent costs for leased premises to secure favorable real estate locations.

- In the early stages of operating our cannabis retail locations, our focus will be on attracting and retaining as many cannabis customers as possible. Our goal will be to win market share and increase the size of the legal cannabis market through efforts to make the cannabis retail experience as immersive, educational and welcoming as possible. We will make substantial investments in the staffing and ongoing training of store associates and management, and create a pricing strategy and in-store assortment that we expect will be market leading. As such, we expect that early profitability from these locations will be limited, similar to when we open new liquor stores. However, our long-term profitability from these stores is anticipated to be significant if we can generate higher per store revenues than we experience for our retail liquor stores through building a higher market share and sustainable customer loyalty.

3. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended December 31, 2017 and 2016:

	Three months ended December 31,					
	2017		2016		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores(3)	128,448	76.8%	131,606	77.3%	(3,158)	-2.4%
Other Canadian stores(1)	4,685	2.8%	2,908	1.7%	1,777	61.1%
Canadian wholesale	7,944	4.8%	8,073	4.7%	(129)	-1.6%
Total Canadian store sales	141,077	84.4%	142,587	83.7%	(1,510)	-1.1%
U.S. same-stores (US$)(3)	20,571	12.3%	20,771	12.2%	(200)	-1.0%
Foreign exchange on U.S. store sales	5,544	3.3%	6,942	4.1%	(1,398)	-20.1%
Total U.S. store sales	26,115	15.6%	27,713	16.3%	(1,598)	-5.8%
Total sales	167,192	100.0%	170,300	100.0%	(3,108)	-1.8%
Gross margin	43,449	26.0%	44,246	26.0%	(797)	-1.8%
Other income	-	0.0%	(704)	-0.4%	704	-100.0%
Selling and distribution expenses	30,527	18.3%	29,081	17.1%	1,446	5.0%
Administrative expenses	5,096	3.0%	4,879	2.9%	217	4.4%
Operating profit before amortization(3)	7,826	4.7%	10,990	6.5%	(3,164)	-28.8%
Adjusted operating profit before amortization(3)	8,164	4.9%	11,131	6.5%	(2,967)	-26.7%
Net earnings (loss) from continuing operations	(1,034)	-0.6%	3,488	2.0%	(4,522)	-129.6%
Adjusted net earnings from continuing operations(3)	874	0.5%	4,669	2.7%	(3,795)	-81.3%
Basic loss per share from continuing operations	(0.04)		0.11		(0.15)	-136.4%
Adjusted earnings per share from continuing operations(3)	0.03		0.17		(0.14)	-82.4%

Notes:

(1) *Sales for Other Canadian stores for the three months ended December 31, 2017 and 2016 include those of one new store opened, seven stores closed, two stores in British Columbia relocated to more desirable locations, and one wine-only store in British Columbia sold to a third party subsequent to October 1, 2016.*

The following table summarizes highlights of the Company's financial performance for the year ended December 31, 2017 and 2016:

	Year ended December 31,					
	2017		2016		Variance	
(Cdn $000's, unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores(3)	455,371	73.3%	468,175	73.4%	(12,804)	-2.7%
Other Canadian stores(2)	32,773	5.3%	31,913	5.0%	860	2.7%
Canadian wholesale	32,329	5.2%	31,606	5.0%	723	2.3%
Total Canadian store sales	520,473	83.8%	531,694	83.4%	(11,221)	-2.1%
U.S. same-stores (US$)(3)	77,854	12.5%	80,006	12.5%	(2,152)	-2.7%
Foreign exchange on U.S. store sales	23,034	3.7%	25,898	4.1%	(2,864)	-11.1%
Total U.S. store sales	100,888	16.2%	105,904	16.6%	(5,016)	-4.7%
Total sales	621,361	100.0%	637,598	100.0%	(16,237)	-2.5%
Gross margin	163,906	26.4%	165,234	25.9%	(1,328)	-0.8%
Other income	-	0.0%	(704)	-0.1%	704	-100.0%
Restructuring costs	4,747	0.8%	629	0.1%	4,118	654.7%
Selling and distribution expenses	116,306	18.7%	110,247	17.3%	6,059	5.5%
Administrative expenses	21,607	3.5%	22,058	3.5%	(451)	-2.0%
Operating profit before amortization(3)	21,246	3.4%	33,004	5.2%	(11,758)	-35.6%
Adjusted operating profit before amortization(3)	27,764	4.5%	35,094	5.5%	(7,330)	-20.9%
Net earnings from continuing operations	(569)	-0.1%	11,728	1.8%	(12,297)	-104.9%
Adjusted net earnings from continuing operations(3)	6,576	1,1%	14,351	2.3%	(7,775)	-54.2%
Basic loss per share from continuing operations	(0.03)		0.42		(0.45)	-107.1%
Adjusted earnings per share from continuing operations (3)	0.24		0.52		(0.28)	-53.8%

Notes:

(2) *Sales for Other Canadian stores for the year ended December 31, 2017 and 2016 include those of two new stores opened, ten stores closed, two stores in British Columbia relocated to more desirable locations, and one wine-only store in British Columbia sold to a third party subsequent to January 1, 2016, along with seven stores that were closed for a significant portion of Q2 2016 due to the evacuation of the Fort McMurray area due to a forest fire.*

(3) *Same-store sales, operating profit before amortization, adjusted operating profit before amortization, adjusted net earnings from continuing operations, and adjusted earnings per share from continuing operations are non-IFRS measures that do not have standardized meaning prescribed by IFRS. For more information and a reconciliation of non-IFRS measures to the closest IFRS measure see the 'Non-IFRS Financial Measures' section of this MD&A.*

Fourth Quarter 2017 Operating Results Compared to Fourth Quarter 2016 Operating Results

Sales

Total sales decreased by $3.1 million or 1.8% to $167.2 million in the fourth quarter of 2017 (Q4 2016 - $170.3 million), attributable to the following:

Same-store sales[1]

- Canadian same-store sales decreased by $3.2 million, or 2.4%.
    - Approximately 28% of the decline in Canadian same-store sales compared to the prior year was attributable to the seven stores in Fort McMurray, AB that were closed due to an evacuation arising from the forest fire. In the fourth quarter of 2016, sales in Fort McMurray increased due to a temporary population increase related to the clean-up and restoration efforts from the Q2 2016 forest fires.
    - Approximately 10% of the decline came from three locations in St. Albert, AB and one in Edmonton, AB that were temporarily closed and rebranded as part of the Company's previously disclosed test pilot of a new retail liquor store concept.
    - The remaining decline in Canadian same-store sales was primarily related to a continued increase in the competitive pressure that the Company faces in Alberta from new competitor store openings.
    - The British Columbia market overall had same-store sales increase compared to the same quarter last year.
- U.S. same-store sales decreased by $0.2 million or 1.0%.
    - Same-store sales in Alaska continue to be negatively impacted by the Alaska economy.

Other sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $7.9 million for the three months ended December 31, 2017, which decreased by $0.1 million or 1.6% compared to Q4 2016. This decline was driven entirely by a decrease in wholesale sales in Fort McMurray, AB for the reasons discussed above.
- Sales for the Other Canadian stores have increased by $1.8 million compared to the same period in the prior year due to the opening of a new Wine and Beyond location in Calgary, AB in September 2017, along with strong performance from the two relocated stores in British Columbia more than offsetting the sales decline from closed stores.

Foreign exchange

- The impact of foreign exchange on the Company's U.S. store sales resulted in a $1.4 million negative adjustment in $USD sales being converted to $CAD compared to the same period last year as a result of the strengthening in the Canadian dollar compared to the U.S. dollar.

[1] See the 'Non-IFRS Financial Measures' section of this MD&A

Gross margin

Gross margin as a percentage of sales for the period remained flat at 26.0% (Q4 2016 – 26.0%) compared to the same period in the prior year. Gross margin percentage was reduced by an initiative of the Company to clear out aging and slow-moving inventory items, which was fully offset by the Company's continued focus on increasing sales of private label products which attract a higher gross margin percentage than comparable national brands.

Gross margin for the period was $43.4 million, a decrease of $0.8 million or 1.8% from $44.2 million for the same period last year, which was due primarily to the decrease in sales over the same period compared to last year due to the factors discussed above.

Other income

Other income recognized in the fourth quarter of the prior year of $0.7 million, is attributable to the settlement of an insurance claim related to the business interruption experienced as a result of the forest fires in Fort McMurray during Q2 2016.

Selling and distribution expenses

Selling and distribution expenses for the three months ended December 31, 2017 were $30.5 million, up $1.4 million from $29.1 million a year earlier. The Company's selling and distribution expenses increased as a result of the impact of an increase in the minimum wage in Alberta and British Columbia, and additional marketing costs incurred in the fourth quarter to promote the Company's inventory clear-out sales, support the launch of the new Wine and Beyond location in Calgary and launch the Company's test pilot brand.

Administrative expenses

Administrative expenses for the three months ended December 31, 2017 were $5.1 million, an increase of $0.2 million from $4.9 million a year earlier, primarily due to the costs incurred related to the departure of the Company's previous Chief Executive Officer.

Operating profit before amortization

Operating profit before amortization for the three months ended December 31, 2017 decreased by $3.2 million to $7.8 million or 4.7% as a percentage of sales (Q4 2016 – 6.5%). The decrease in operating profit before amortization was due to the decline in gross margin combined with the increase in selling, distribution and administrative costs and the decline in other income as discussed above.

Amortization of property, equipment and intangible assets

Amortization expense on property, equipment and intangible assets of $3.8 million for the fourth quarter of 2017 increased by $1.3 million compared to the same period in the prior year (Q4 2016 - $2.5 million). Additional amortization in the current year related primarily to accelerated amortization for stores renovated or closed in the current period.

Finance costs

Finance costs for the fourth quarter of 2017 decreased by $0.9 million to $1.6 million (Q4 2016 - $2.5 million) primarily related to lower average long-term debt balances compared to the same period in the prior year resulting in lower interest paid on the Company's operating line of credit.

Fair value adjustments

Fair value adjustments are comprised of a gain recorded on the interest rate swap of $0.1 million (2016 - $0.6 million gain). The interest rate swap continued to increase in value in Q2 and Q3 of 2017 due to increasing market interest rates, however its value stabilized in Q4 2017.

Net gain or loss on foreign exchange from financing activities

During the three months ended December 31, 2017, the Company recorded a net gain on foreign exchange from financing activities of $0.2 million (2016 - $0.2 million loss). The movement from a loss to gain position in the current year is due to a strengthening of the Canadian dollar over that period.

Provision for (reversal of) impairment of intangible assets

During the three months ended December 31, 2017, the Company recorded a net reversal of previously recorded impairment charges of $1.6 million (2016 - $1.5 million impairment charge). This net reversal related to retail liquor licenses of eleven stores in British Columbia where Management's forecasted sales and profitability increased due to a sustained improvement in operating results, net of impairment charges recorded for four stores in British Columbia where Management's forecasted sales and profitability declined for these locations. In the prior year, the Company recorded a charge of $2.6 million to remove the intangible asset previously recorded as capitalized software and development costs, net of $1.1 million of net reversals of previously recorded impairments related to retail liquor licenses in British Columbia.

Income taxes

The Company's income tax expense increased by $3.8 million in the three months ended December 31, 2017 compared to the same period in 2016. This was due to the Tax Cuts and Jobs Act being enacted into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, which caused a decline in measurement (and tax expense) of the Company's U.S. deferred tax assets.

Net earnings from continuing operations

For the three months ended December 31, 2017, a net loss of $1.0 million was recorded, which is a $4.5 million decrease from Q4 2016 (Q4 2016 – $3.5 million). The decrease in earnings is due to the decrease in operating profit coupled with the net effect of the year over year changes in finance costs, foreign exchange, fair value adjustments, impairment charges and income taxes discussed further above. On a per share basis, basic loss per share from continuing operations was $0.04 for Q4 2017 (Q4 2016 – $0.11 earnings per share).

Normalized for other adjusting items (see "Non-IFRS Financial Measures" of this MD&A for a summary of adjusting items) and the impairment charges discussed above, adjusted net earnings in the current quarter were $0.9 million, a decrease of $3.8 million compared to the same period in the prior year.

Year ended December 31, 2017 Operating Results Compared to the Year ended December 31, 2016 Operating Results

Sales

Total sales decreased by $16.2 million or 2.5% to $621.4 million for the year (2016 - $637.6 million), related primarily to the following:

Same-Store Sales[2]

- Canadian same-store sales decreased by $12.8 million or 2.7%.
  - Stores located in Alberta continued to face pressure from an increasing level of competition faced from discounters that have opened stores in locations in close proximity to many of the Company's existing stores.
  - Same-store sales increased in British Columbia compared to the same period in the prior year. The large format Wine and Beyond stores also increased sales at all locations compared to the prior year.
- U.S. same-store sales decreased by $2.2 million or 2.7%.
  - Same-store sales in Alaska continue to be negatively impacted by the Alaska economy.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $32.3 million for the year, representing an increase of $0.7 million or 2.3% from the prior year (2016 - $31.6 million).
- Sales for the Other Canadian stores have increased $0.9 million compared to the prior year due to the opening of a new Wine and Beyond location in Calgary, AB in September 2017, along with strong performance from the two relocated stores in British Columbia more than offsetting the sales decline from closed stores.

Foreign Exchange

- The impact of foreign exchange on the Company's U.S. store sales resulted in a $2.9 million negative adjustment in $USD sales being converted to $CAD compared to the last year as a result of the strengthening in the Canadian dollar compared to the U.S. Dollar.

Gross Margin

Gross margin for the year was $163.9 million, a decrease of $1.3 million or 0.8% from $165.2 million for last year. The change in gross margin is attributable to impact of the decline in same store sales in the current year, partially offset by the higher gross margin as a percentage of sales compared to the prior year. Gross margin as a percentage of sales for the period increased to 26.4% (2016 – 25.9%).

Selling and distribution expenses

Selling and distribution expenses for the year were $116.3 million, an increase of $6.1 million or 5.5% from $110.2 million a year earlier. This was primarily the result of: an increase in the in-store labor cost in Alberta and British Columbia due to the minimum wage increasing in both jurisdictions on October 1, 2016 and October

[2] *See the 'Non-IFRS Financial Measures' section of this MD&A*

1, 2017; an increase in promotional and marketing spend in 2017 to launch new Wine and Beyond locations along with several store renovations/rebrands; and an increase in rent costs from renewals of existing locations and rent costs of new locations opened in 2017.

Administrative expenses

Administrative expenses for the year were $21.6 million, a decrease of $0.5 million or 2.0% from $22.1 million a year earlier. Ongoing cost containment measures were offset by additional costs of $1.4 million incurred the second quarter of 2017 in preparation for the contested annual meeting of the shareholders.

Restructuring charges

Restructuring charges of $4.7 million were incurred in 2017, an increase of $4.1 million over a year earlier. In 2017, these costs related to the closure of the Company's U.S. head office in Kentucky and termination of its U.S. based executives and management. Costs incurred in 2016 related to costs incurred to reduce administrative headcount. Charges in both years relate to severance paid to the former employees.

Other income

Other income recognized in 2016 of $0.7 million was attributable to the settlement of an insurance claim related to the business interruption experienced as a result of the forest fires in Fort McMurray during Q2 2016. There was no other income recognized in 2017.

Operating profit before amortization

Operating profit before amortization for the year decreased by $11.8 million to $21.2 million or 3.4% as a percentage of sales (2016 – 5.2%). The decrease in operating profit before amortization was due to the decline in gross margin combined with the increase in selling and distribution costs and decline in other income as discussed above.

Normalized for adjusting items (see "Non-IFRS Measures" of this MD&A for a summary of adjusting items), adjusted operating profit was $27.8 million or 4.5% of sales.

Amortization of property, equipment and intangible assets

Amortization expense on property, equipment and intangible assets of $11.7 million for the year increased by $1.4 million from the prior year (2016 - $10.3 million). Additional amortization in the current year related to the new stores opened subsequent to January 1, 2017 along with accelerated amortization for stores renovated in 2017. Amortization expense was partially offset by the reduced amortization related to stores that were closed over this same period.

Gain on sale of liquor store

The Company completed a transaction with a third party whereby the Company sold store fixtures, a wine-only liquor license and net working capital for a store location in British Columbia for gross proceeds of $2.3 million. The Company has recorded a gain on sale of $1.4 million from this transaction.

Finance costs

Finance costs have increased by $0.8 million to $8.7 million for the year (2016 - $7.9 million) related to the $1.2 million of non-cash finance costs recorded upon the early redemption of the 5.85% debentures, along with additional interest costs incurred from the issuance of the 4.70% convertible unsecured subordinated debentures due January 31, 2022 (the "**4.70% Debentures**") issued prior to the redemption of the 5.85% debentures. The increased finance costs were partially offset by lower interest paid on the Company's operating line of credit over that same period.

Fair value adjustments

Fair value adjustments are comprised of a gain recorded on the interest rate swap of $0.9 million (2016 - $0.5 million gain) due to an increase in market interest rates.

Net gain or loss on foreign exchange from financing activities

During the year ended December 31, 2017, the Company recorded a net loss on foreign exchange from financing activities of $0.1 million (2016 - $1.5 million gain). The reduction related primarily to a decline in unhedged USD borrowings made by the Canadian legal entities of the business in the current year.

Provision for (reversal of) impairment of intangible assets

During the year ended December 31, 2017, the Company recorded a net reversal of previously recorded impairment charges of $1.6 million (2016 - $1.5 million impairment charge). This net reversal related to retail liquor licenses of eleven stores in British Columbia where Management's forecasted sales and profitability increased due to a sustained improvement in operating results, net of impairment charges recorded for four stores in British Columbia where Management's forecasted sales and profitability declined for these locations. In the prior year, the Company recorded a charge of $2.6 million to remove the intangible asset previously recorded as capitalized software and development costs, net of $1.1 million of net reversals of previously recorded impairments related to retail liquor licenses in British Columbia.

Income taxes

The Company's income tax expense increased by $1.6 million in the year ended December 31, 2017 compared to the same period in 2016. This was due to the Tax Cuts and Jobs Act being enacted into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, which caused a decline in measurement (and tax expense) of the Company's U.S. deferred tax assets, offset by lower pre-tax income.

Net earnings from continuing operations

For the year ended December 31, 2017, net loss of $0.6 million from continuing operations was recorded, representing a decrease of $12.3 million compared to the prior year (2016 – $11.7 million). The decrease in earnings is due to the decrease in operating profit coupled with the net effect of the year over year changes in finance costs, foreign exchange, fair value adjustments, income tax and impairment charges discussed further above. On a per share basis, basic loss per share from continuing operations was $0.03 for the year ended December 31, 2017 (2016 – $0.42 earnings per share).

Normalized for the adjusting items and impairments discussed above (see "Non-IFRS Financial Measures" of this MD&A for a summary of adjusting items), adjusted net earnings were $6.6 million, a decline of $7.8 million compared to the prior year.

A summary of the results from operations that were discontinued by the Company in the current period as part of the execution of its strategy to exit the lower 48 U.S. states (see "Basis of Presentation" section earlier in this MD&A) can be found in note 5 of the Financial Statements.

4. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

(expressed in thousands)	Three months ended December 31, 2017 (unaudited)	2016 (unaudited)	Year ended December 31, 2017	2016
Cash provided by operating activities	$20,664	$31,954	$32,907	$47,729
Cash provided by (used in) investing activities	23,985	(3,832)	8,894	(34,934)
Cash used in financing activities	(43,632)	(25,214)	(46,599)	(9,253)
Effect of exchange rate on changes in cash	50	116	(67)	(312)
Net increase (decrease) in cash	1,067	3,024	(4,865)	3,230

Operating activities

(expressed in thousands)	Three months ended December 31, 2017 (unaudited)	2016 (unaudited)	Year ended December 31, 2017	2016
Cash provided by operating activities	$20,664	$31,954	$32,907	$47,729
Less, cash (provided by) used in operating activities, discontinued operation	(9,012)	(7,995)	1,481	(9,950)
Cash provided by operating activities of the continuing operation	11,652	23,959	34,388	37,779

For the three months ended December 31, 2017, cash provided by operating activities from continuing operations was $11.7 million, a $12.3 million decrease from $24.0 million provided for the same period in the prior year. The decrease in operating cash flow was primarily a result of the decline in operating profit before amortization compared to Q4 2016 along with a lower inventory reduction achieved in Q4 2017 compared to Q4 2016 (the Company's large inventory reduction push came in Q3 2017, whereas it occurred in Q4 in the prior year).

For the year ended December 31, 2017, cash provided by operating activities from continuing operations was $34.4 million, a $3.4 million decrease from $37.8 million provided in the prior year. The decrease in cash provided by operating activities was primarily a result of a decline operating profit of the Company, offset by reductions in the Company's overall same-store inventory levels compared to the prior year. Management has been focused on increasing inventory turns and strategically managing working capital levels.

Investing activities

For the three months ended December 31, 2017, cash provided by investing activities was $24.0 million, a $27.8 million increase from $3.8 million used in investing activities for the same period in the prior year. Cash used for investing activities primarily related to assets acquired for the construction of new stores and renovations. While there was a consistent capital spend in Q4 2017 compared to Q4 2016, the Company collected a large portion of the sale proceeds from the disposition of its Kentucky locations and the entire proceeds from a sale of a wine-only location in British Columbia in Q4 2017.

For the year ended December 31, 2017, cash provided by investing activities was $8.9 million, a $43.8 million increase from $34.9 million of cash used in investing activities for the prior year, which related to the following:

- Cash used for the purchase of property and equipment of $18.1 million (2016 - $13.4 million) primarily related to assets acquired for the construction of new stores and renovations, and the settlement in Q1 2017 of accounts payable and accrued liabilities at December 31, 2016 related to property and equipment additions in 2016.
- The Company generated cash proceeds of $25.8 million on the sale of its 15 stores in Kentucky and its 51% interest in Birchfield, which represented a partial payment of the sale proceeds due (with the remainder of $11.5 million collected subsequent to year-end).
- The Company also sold a wine-only store location in British Columbia for $2.3 million in 2017.
- In 2016, the Company acquired its 51% interest in Birchfield for $20.9 million.

Financing activities

For the three months ended December 31, 2017, cash used for repayment of debt and return of capital to shareholders was $43.6 million, compared to $25.2 million from the same period a year ago.

For the year ended December 31, 2017, cash used for repayment debt and return of capital to shareholders was $46.6 million, compared to $9.3 million in the prior year. This is primarily a result of higher net repayments of long-term debt (between the Company's credit facility and repayment of the 5.85% Debentures) due to the higher cash flows from investing activities and lower cash dividends in 2017.

Foreign currency translation gain on cash

The accounts of the Company's subsidiaries with a U.S. dollar functional currency are translated into Canadian dollars as follows:

- 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 accumulated other comprehensive income. 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. The U.S. dollar experienced increases and decreases against the Canadian dollar at times during the three and twelve months ended December 31, 2017, and based on the timing and level of cash held in U.S. dollars, the Company has recorded a $0.1 million gain and $0.1 million loss on cash held in foreign currency in the three and twelve months ended December 31, 2017, respectively.

Credit Facilities and 4.70% Debentures

On August 31, 2016, the Company and a syndicate group of lenders agreed to amend and restate the credit facility available to the Company. The primary purpose of the amendment was to extend the maturity date of the credit facility to September 30, 2019, and to increase the total size of the credit facility to $165 million plus $15 million USD. At March 14, 2018, there was nothing drawn on the credit facility and the Company was in a positive net cash position from the Aurora financing (see "Subsequent Event" section in this MD&A). Pursuant to the terms of the credit facility, the Company has the ability to request an additional $50 million of loan availability (to be provided by the lenders on a best-efforts basis).

The Company's credit facility is subject to a number of financial covenants. Under the terms of the Company's credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR and fixed coverage ratio. The amendment resulted in an increase in the fixed charge coverage ratio covenant of greater than or equal to 1.05:1.00 commencing April 1, 2017 (from 1.00:1.00). The remaining financial covenants were unchanged. There are no financial covenants attributable to the 4.70% Debentures.

Funded debt to EBITDA ratio

Funded debt is defined under the amended and restated credit facility as all of the Company's obligations, liabilities and indebtedness which would, in accordance with IFRS, be classified on a consolidated statement of financial position 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 downs of goodwill and intangible assets, restructuring charges for stores 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. The Company also includes a trailing twelve months of estimated EBITDA for any new acquisitions and removes the trailing twelve months of EBITDA for business dispositions.

Adjusted debt to EBITDAR

Adjusted debt is defined under the amended and restated credit facility as the Company's debt plus seven times aggregate rent expense. EBITDAR is defined as EBITDA plus aggregate rent expense.

Fixed charge coverage ratio

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

As at December 31, 2017, the Company was in compliance with all financial covenants, as set forth below:

Ratio	Covenant	As at December 31, 2017
Funded debt to EBITDA	< 3.50:1.00	1.07
Adjusted debt to EBITDAR	< 5.00:1.00	4.03
Fixed charge coverage	> or = 1.05:1.00	1.25

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.

5.85% Debentures

On May 3, 2017, the Company redeemed all of its outstanding 5.85% convertible unsecured subordinated debentures (the "**5.85% Debentures**"). The 5.85% Debentures were redeemed prior to their maturity date of April 30, 2018 in accordance with the terms of the trust indenture governing the 5.85% Debentures. The aggregate principal amount of the 5.85% Debentures redeemed was $67.5 million, reflecting a redemption price equal to $1,000 for each $1,000 principal amount of 5.85% Debentures held. The Company had previously issued the 4.70% Debentures, as described below, to fund the repayment of the 5.85% Debentures, which effectively refinanced these Debentures at a lower interest rate and extended the maturity to January 31, 2022.

4.70% Debentures

On September 29, 2016 the Company issued $67.5 million principal amount of 4.70% Debentures and on October 4, 2016 the Company issued an additional $10.1 million principal amount of 4.70% Debentures upon exercise of the over-allotment option of the underwriters for a total aggregate principal amount of $77.6 million. The 4.70% Debentures are due January 31, 2022 and bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year. The 4.70% Debentures are convertible at any time at the option of the holders into Common Shares at a conversion price of $14.60 per share. The primary use of proceeds of the 4.70% Debentures was to repay the 5.85% Debentures prior to their maturity, as described above, to lower the ongoing interest costs of the Company.

The 4.70% Debentures will not be redeemable prior to January 31, 2020. On or after January 31, 2020 and prior to January 31, 2021, the 4.70% Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption; provided that the volume-weighted average trading price of the Common Shares on the Toronto Stock Exchange (the "**TSX**") for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after January 31, 2021 and prior to the maturity date, the Company may, at its option, redeem the 4.70% Debentures by way of cash payment or through the issuance of Common Shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at March 14, 2018, the Company has undrawn credit of approximately $110.0 million under its credit facility available to finance operating requirements, growth opportunities and for general corporate purposes.

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 entered into a forward starting interest rate swap effective on December 14, 2015 and expiring December 14, 2019, to fix the effective interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At March 14, 2018, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.73% per annum after taking into account the applicable credit spread determined with reference to the credit facility. 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 a $nil amount drawn on the credit facility, along with a notional $60.0 million principal subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at March 14, 2018:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	(600)	600
Increase (decrease) in net earnings	439	(439)

An increase/decrease of 1.00% in market interest rates would result in a nominal decrease/increase in the Company's net earnings 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. Refer to the "Performance Overview" section of this MD&A where we highlight the impact that translating our U.S. dollar denominated sales into Canadian dollars has had on the Company's consolidated sales.

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. This exposure primarily relates to U.S. intercompany management fees, interest payments and dividends which totalled US$4.8 million for the year ended December 31, 2017.

Other than as noted above, foreign currency transactions are generally not material.

Contractual Obligations

The table below sets forth, as of December 31, 2017, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, finance leases for a portion of the Company's vehicles, software licenses and maintenance, long-term debt and the 4.70% Debentures.

(expressed in thousands)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Credit facility advance	-	29,889	-	-	-	-
Operating leases	29,547	26,484	23,559	20,743	16,104	40,058
Finance leases	424	421	402	197	123	-
4.70% Debentures	-	-	-	-	77,625	-
Software licenses and maintenance	309	-	-	-	-	-
Total	30,280	56,794	23,961	20,940	93,852	40,058

5. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	**As at December 31, 2017**	**As at December 31, 2016**
Cash	2,155	7,020
Accounts receivable	19,168	3,184
Inventory	84,333	155,425
Assets held for sale	2,860	-
Total current assets	117,654	176,009
Property and equipment	49,534	63,674
Intangible assets	35,576	46,690
Goodwill	145,519	158,318
Total assets	356,402	463,047
Accounts payable and accrued liabilities	47,639	67,857
Dividends payable	2,501	830
Total current liabilities	53,397	69,461
Long-term debt	101,903	135,838
Total liabilities	162,617	227,652

The Company is required, consistent with other liquor retailers, to pay for inventory prior to receiving it in Alberta and British Columbia. As we do not have traditional payment terms on the Company's inventory in those jurisdictions, the Company's long-term debt (which funds inventory purchases) and overall leverage is not directly comparable to retailers who have trade payment terms.

The discussion below analyzes certain changes in the Company's consolidated financial position compared to December 31, 2016:

- Accounts receivable increased by $16.0 million to $19.2 million as at December 31, 2017, primarily as a result of the sale proceeds that had from the sale of Birchfield ($4.4 million, received in full in February 2018) and from the sale of the 15 stores in Kentucky, and transitional support provided to the new owners of that business ($9.6 million, received in full in Q1 2018). The Company also had an increase in lease inducement receivables from construction of new stores that were completed in late Q3 and early Q4 2017.

- Inventory decreased by $71.1 million to $84.3 million as at December 31, 2017. Approximately $34.8 million of the decrease was a result of the sale of the Company's 15 stores in Kentucky and its 51% interest in Birchfield in Q4 2017. The Company also classified $2.7 million of inventory for the Norwalk, Connecticut location as held for sale at December 31, 2017. The remaining decrease was due to Management's focus on optimizing inventory levels in Canada and Alaska and increasing inventory turns.

- The carrying value of property and equipment was $49.5 million, a $14.2 million decrease from the prior year end (December 31, 2016 - $63.7 million). Property and equipment decreased by $9.7 million as a result of the sale of the Company's 15 stores in Kentucky and its 51% interest in Birchfield in Q4 2017, and by a $5.1 million reduction in the carrying amount of property and equipment prior to reclassification to assets held for sale related to the Company's operations in Norwalk, Connecticut. Additions during the period related to the construction costs for two store relocations in British Columbia, six renovations, a new Wine and Beyond location in Calgary and maintenance capital expenditures.

- Intangible assets decreased by $11.1 million to $35.6 million as at December 31, 2017. Approximately $11.8 million of the decrease was as a result of the sale of the Company's 15 stores in Kentucky and its 51% interest in Birchfield in Q4 2017, which was partially offset by a $1.6 million net reversal of previously recorded impairment charges related to retail liquor licenses of eleven stores in British Columbia. The remaining decrease was due to amortization in the current year.

- Goodwill decreased by $12.8 million to $145.5 million as at December 31, 2017 primarily as a result of the sale of the Company's 51% interest in Birchfield in Q4 2017.

- Accounts payable and accrued liabilities decreased by $20.2 million to $47.6 million as at December 31, 2017 primarily as a result of the sale of the Company's 15 stores in Kentucky and its 51% interest in Birchfield in Q4 2017, and due to reclassifications to assets held for sale related to the Company's operations in Norwalk, Connecticut.

- Long-term debt was $101.9 million at December 31, 2017, a $33.9 million decrease from the prior year end (December 31, 2016 - $135.8 million) as a result of the net proceeds received from the sale of the Company's 15 stores in Kentucky and its 51% interest in Birchfield in Q4 2017 and continued inventory reduction efforts.

As at December 31, 2017 and March 14, 2018, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified above under the heading "Liquidity and Capital Resources - Contractual Obligations".

6. Shareholders' Equity

At December 31, 2017, the Company had 27,791,562 Common Shares outstanding. The basic and diluted weighted average number of Common Shares outstanding for the year ended December 31, 2017 was 27,744,741 and 27,744,741, respectively (compared to 27,594,903 and 27,751,063, respectively, for the comparative period for both basic and diluted weighted average number of Common Shares outstanding). As at March 14, 2018, 34,709,259 Common Shares were issued and outstanding. Refer to the "Subsequent Event" section of this MD&A for further discussion of the increase in the number of Common Shares.

7. Dividends

Dividend Policy

Dividends are paid, if declared, on or about the 15th day of each month to Shareholders of record as at the last day of the previous month. Effective for the fourth quarter of 2017, the Company has changed the frequency of the dividend payments to quarterly. The dividend for the fourth quarter of 2017 of $ 0.09 was paid in January 2018. The Company was previously paying a monthly dividend of $0.03 per Common Share.

The amount of future cash dividends, if any, will be subject to the discretion of the board of directors of Liquor Stores (the "**Board**") and may vary depending on a variety of factors and conditions existing from time to time, including the prevailing economic and competitive environment, Liquor Stores' results of operations and earnings, financial requirements for Liquor Stores' operations and the execution of its Strategic Plan, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, the satisfaction of solvency tests imposed by the *Canada Business Corporations Act* (the "**CBCA**") for the declaration and payment of dividends and other factors and conditions existing from time to time. Depending on these and various other factors, many of which are beyond the control of the Board and Management, the Board may change the Company's dividend policy from time to time, and as a result, future cash dividends could be reduced or suspended entirely. The market value of the Common Shares may deteriorate if the Board reduces or suspends the amount of cash dividends that Liquor Stores pays in the future and such deterioration may be material. See the "*Risk Factors*" section of this MD&A.

Although it is expected that dividends declared and paid by the Company will qualify as "eligible dividends" for the purposes of the *Income Tax Act* (Canada), and thus qualify for the enhanced gross-up and tax credit regime available to certain holders of Common Shares, no assurances can be given that all dividends will be designated as "eligible dividends" or qualify as "eligible dividends".

The agreement governing Liquor Stores' Credit Facility contains provisions which restrict its ability to pay dividends to Shareholders in the event of the occurrence of certain events of default. The full text of the agreement governing Liquor Stores' Credit Facility is available on SEDAR at www.sedar.com. For additional information regarding the Credit Facility, see note 10 to the Financial Statements and the "Liquidity and Capital Resources" section in this MD&A.

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. Presently, Common Shares issued pursuant to the DRIP from treasury 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 March 14, 2018, Shareholders enrolled in the DRIP held approximately 2,378,392 million Common Shares.

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

8. Related Party Transactions

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

During the year ended December 31, 2017, the Company had no related party transactions.

In 2016, the Company incurred expenses in the normal course of business for professional fees of $50 thousand paid to a law firm of which a director of the Company was a partner and recognized professional fees of $34 thousand from this same firm in the carrying value of long-term debt. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

9. 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, an interest rate swap, 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 the *"Liquidity and Capital Resources"* section of this MD&A for a discussion of the risks associated with financial instruments.

10. Business Overview

The Common Shares and 4.70% Debentures trade on the TSX under the symbols "LIQ" and "LIQ.DB.B", respectively.

Liquor Retail

As of March 14, 2018, the Company owned and operated 174 retail liquor stores in Alberta, 33 stores in British Columbia, 22 stores in Alaska and one store in Connecticut that is currently in the process of being disposed of. The stores are comprised of 8 destination-format stores, 221 convenience format liquor stores and one wine only store.

Liquor Stores primarily operates under the brand name "Liquor Depot" for its convenience format locations in Alberta and British Columbia, which range in size from 2,000 to 5,000 square feet. While several of the locations in Alberta and British Columbia operate under the brand name "Liquor Barn" currently, the Company is actively rebranding these locations to "Liquor Depot" as these stores are renovated. The Company also operates five large format locations in Alberta under the brand name "Wine and Beyond" with significantly expanded product selection compared to the convenience format stores and range in size from 10,000 to 20,000 square feet. The Company's stores in Alaska, which operate under the brand name "Brown Jug", range in size from 1,400 to 14,000 square feet, with one combined store and warehouse premises being in excess of 40,000 square feet.

The following provides a summary of the Company's locations as at March 14, 2018:

	January 1/17 to Mar 14/18				
	1-Jan-17	Opened	Sold	Closed[4]	14-Mar-18
Alberta					
Edmonton[1]	83	-	-	(1)	82
Calgary[1]	44	1	-	(2)	43
Other[2]	52	-	-	(3)	49
	179	1	-	(6)	174
British Columbia					
Interior	10	-	-	-	10
Lower Mainland	13	2	(1)	(2)	12
Vancouver Island	11	-	-	-	11
	34	2	(1)	(2)	33
Alaska					
Anchorage	18	-	-	-	18
Other[3]	4	-	-	-	4
	22	-	-	-	22
Kentucky					
Lexington	6	-	(6)	-	-
Louisville	6	-	(6)	-	-
Other	3	-	(3)	-	-
	15	-	(15)	-	-
New Jersey					
Lawrenceville	1	-	(1)	-	-
Woodbridge	1	-	(1)	-	-
	2	-	(2)	-	-
Connecticut					
Norwalk	1	-	-	-	1
	1	-	-	-	1
Total	**253**	**3**	**(18)**	**(8)**	**230**

Notes:

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

(2) *Other stores in Alberta by region: Northern (24), Southern (10), Central (13) and resort communities (two).*

(3) *Other communities served in Alaska include Wasilla (three) and Fairbanks (one).*

(4) *The stores closed by region:*

  a. *Edmonton – One store closed due to underperformance.*

  b. *Calgary – An additional Wine and Beyond store opened. One store closed due to underperformance and one store closed due to a consolidation of the Company's warehousing operations.*

  c. *Other Alberta – one store closed in Lethbridge, one store closed in Red Deer and one store closed in Slave Lake, in each case due to underperformance.*

  d. *Lower Mainland British Columbia – two stores were relocated to more desirable locations. One wine-only store was sold at a significant gain.*

Approximately 99% (2016: 99%) of the retail sales in Alberta, 97% (2016: 97%) of the retail sales in British Columbia, and 88% (2016: 88%) of the retail sales in Alaska in the year-ended December 31, 2017 were derived from the sale of alcoholic products. Stores in British Columbia and Alaska are permitted to sell tobacco products, to varying extents, in addition to alcoholic products and related accessories. Approximately 8% (2016: 9%) of Alaska's retail sales in the year ended December 31, 2017 were derived from tobacco products.

Cannabis Retail

The Company intends to establish a retail cannabis business in Alberta and British Columbia, through the conversion of existing retail outlets and the establishment of new cannabis retail outlets, once the use of cannabis is legalized, and subject to necessary licenses and government approvals, which is expected to occur in the summer of 2018.

In Alberta, the Company has applied to the Alberta Gaming and Liquor Commission (the "**AGLC**") for retail cannabis licenses. Liquor Stores believes that it is well-positioned to obtain retail cannabis licenses given its strong track record in liquor retail, which is also regulated by the AGLC.

In British Columbia, the provincial government will be opening cannabis stores through the British Columbia Liquor Distribution Branch (the "**BCLDB**") and will be responsible for the wholesale distribution of products. The British Columbia Liquor Control & Licensing Branch will likely be responsible for licensing and compliance for private retail participants, similar to the current BC liquor system. The application process for private licenses in this jurisdiction has not yet commenced, however the Company intends to apply for cannabis retail licenses in British Columbia once the licensing process commences.

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 2017, 21% (2016 - 21%) of annual sales occurred in the first quarter, 26% (2016 - 26%) in the second quarter, 26% (2016 - 26%) in the third quarter, and 27% (2016 - 27%) in the fourth quarter. The Company's working capital requirements are greatest in the second and third quarters as we increase inventory for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

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 the Company uses to assess 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 have opened in the last 12 full months; (iii) stores where same-store sales have increased due to the closure of closely-located stores in the last 12 full months; and (iv) stores where sales have been suspended due to a fire, evacuation or natural disaster in the last 12 full months.

11. Industry Regulation and Competitive Environment

Alberta

Alberta is the only province in Canada that has a fully privatized retail distribution system for alcoholic beverages. The AGLC regulates the retail liquor business pursuant to the *Gaming and Liquor Act* (Alberta). Licenses to operate retail liquor stores must be renewed annually and are issued by the AGLC. The *Gaming and Liquor Act* (Alberta) does not restrict the total number of outlets or their location. Specific store locations; however, may be subject to regulation through local and municipal bylaws and zoning requirements. AGLC inspectors regularly conduct inspections of liquor stores. The Company currently operates 174 liquor stores in Alberta where there are 1,478 retail liquor stores[3]. The Company's "Liquor Depot" trade name is well recognized throughout the province as leading alcoholic beverage retailers, however the Company has seen significant growth in both the number and aggressiveness of competitors in the province. As discussed previously in this MD&A, this has put downward pressure on the Company's same-store sales in Alberta.

British Columbia

The British Columbia government regulates the importation, distribution and retailing of liquor through the *Liquor Control and Licensing Act* (British Columbia) and the *Liquor Distribution Act* (British Columbia). The British Columbia Liquor Control and Licensing Branch (the "**BCLCLB**") enforces the *Liquor Control and Licensing Act* (British Columbia) and the BCLDB enforces the *Liquor Distribution Act* (British Columbia). Liquor store licenses may only be issued to residents of British Columbia who normally reside in the province, which includes a corporation whose agent or manager is a resident of, and normally resides in, the province.

In November of 2007, British Columbia extended indefinitely a moratorium (initially imposed in 2002) on new retail liquor store licenses. Anyone wishing to enter the market must acquire a license from an existing private operator. As a result, the number of private industry stores, government-owned stores and independent wine stores has remained relatively stable. The Company operates 33 stores in British Columbia. British Columbia's model for liquor distribution is a blend of over 700 private stores and 198 government operated stores[4]. There is currently a 1km radius requirement of separation between two liquor stores, and coupled with the moratorium on the issuance of new liquor retail store licenses in the Province, greatly reduces the competitive pressure faced in British Columbia compared to Alberta. The Province is permitting the retail of British Columbia VQA wine in grocery stores, subject to current radius requirements and usage of the existing licenses in the Province (no new licenses are being awarded for this purpose); however this has not currently resulted in a significant negative impact on the Company's same-store sales in British Columbia.

Alaska

Alaska issues licenses to private sellers and regulates alcohol sales through the Alaska Alcoholic Beverage Control Board (a division of the Alaska Department of Commerce, Community, and Economic Development) ("**ABCB**"), which controls the manufacture, barter, possession and sale of alcoholic beverages. The Company operates 22 stores in Alaska, with 18 stores in the greater Anchorage area, three 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 Alaska to one per 3,000 people in urban areas. In Alaska, there are 394 retail liquor stores with 114 stores in the greater

[3] *Source: Alberta Gaming and Liquor Commission, as at February 2018.*
[4] *Source: British Columbia Liquor Distribution Branch, as at February 2018.*

Anchorage, Wasilla and Fairbanks areas[5]. The Company's "Brown Jug" trade name is well-recognized throughout the state as a leading alcoholic beverage retailer.

12. Subsequent Event

On February 14, 2018, Liquor Stores' issued 6,900,000 Common Shares through a private placement to an indirect wholly-owned subsidiary of Aurora, 2095173 Alberta Ltd. (the "**Investor**") at a price of $15 per Common Share for total gross proceeds of $103.5 million. As a result, the Investor owns approximately 19.9% of the Common Shares.

In addition, the Investor has subscribed for 2,300,000 subscription receipts at a price of $15.00 per subscription receipt for aggregate gross proceeds of $34.5 million. The subscription receipts are contingent on the approval of the Shareholders (other than Aurora, its associates and affiliates) at the next annual general meeting and the satisfaction of other escrow release conditions. If the conversion of the subscription receipts are approved and the other escrow release conditions are met, it will increase the Investor's ownership to approximately 25% of the Common Shares.

The Company has also issued to Aurora two classes of Common Share purchase warrants:

- 10,130,000 warrants at an exercise price of $15.75 per Common Share to allow Aurora to increase its equity interest in the Company to approximately 40%; and

- Up to 1,750,000 warrants exercisable by Aurora at an exercise price of $15.00 per Common Share contingent upon the conversion of any of the outstanding 4.70% Debentures, to allow Aurora to maintain its pro rata equity interest in the Company.

The above warrants are not exercisable unless approved by the Shareholders (other than Aurora, its associates and affiliates) at the next annual general meeting and subject to approval under the Competition Act (Canada).

Pursuant to the related Shareholder Rights Agreement and subject to applicable law, the Company has committed to use a portion of the net proceeds from Aurora and commercially reasonable efforts to open 30 retail cannabis stores in Alberta and 10 retail cannabis stores in British Columbia either through the conversion of existing retail liquor outlets or the acquisition of new stores.

13. Critical Accounting Estimates and Accounting Policies

The Company's financial statements include estimates and assumptions made by Management in respect of operating results, financial conditions, contingencies, commitments and related disclosures. Actual results may vary from these estimates.

The Company has:

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

[5] *Source: Alaska's Alcoholic Beverage Control Board, as at February 2018.*

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

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

The Company's summary of significant accounting policies, estimates and critical judgments are contained in note 3 to the Financial Statements.

14. Non-IFRS Financial Measures

Same-store sales, operating profit before amortization, operating profit before amortization as a percentage of sales, adjusted operating profit before amortization, adjusted net earnings from continuing operations, and adjusted basic and diluted earnings per share from continuing operations are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that these measures 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 method of calculating the aforementioned non-IFRS financial measures may differ from the methods used by other issuers. Therefore, these measures may not be comparable to similar measures presented by other issuers.

- Same-store sales include 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 the Company's uses to assess performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers; (ii) stores where same-store sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores opened in the last 12 full months; and (iii) stores where same-store sales have increased due to the closure of closely-located stores in the last 12 full months; and (iv) stores where sales have been suspended due to a fire, evacuation or natural disaster in the last 12 full months.

- Operating profit before amortization for purposes of disclosure under the headings "Performance Overview - Fourth Quarter 2017 Operating Results Compared to Fourth Quarter 2016 Operating Results" and "Performance Review - Year ended December 31, 2017 Operating Results Compared to the Year ended December 31, 2016 Operating Results" in this MD&A has been derived by subtracting selling and distribution expenses, restructuring charges, and administrative expenses from the aggregate of gross margin and other income. Operating profit before amortization as a percentage of sales is calculated by dividing operating profit before amortization by sales.

- Adjusted operating profit before amortization represents operating profit before amortization adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, in the fourth quarter and year ended December 31, 2017 related to the following:
    - The Company incurred costs of $1.4 million by the previous board of directors in preparation for the contested annual meeting of the Shareholders ($1.4 million) consisting of legal, public relations, proxy solicitation and financial advisory costs. The dissident proxy was ultimately

successful, resulting in the election of the six new directors and new strategy being implemented for the Company, discussed earlier in this MD&A.

    - As part of implementing the new Strategic Plan for the Company, restructuring charges of $4.7 million were incurred related to the costs incurred to terminate three U.S.-based executives and move the executive management of the Company to its Canadian headquarters.
    - The Company also incurred costs of $0.3 million related to the departure of the Company's Chief Executive Officer in December 2017.

- Adjusted net earnings or loss is calculated as net earnings or loss from continuing operations less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Additional adjusting items affecting net earnings or loss in the fourth quarter and year ended December 31, 2017 related to the following:
    - Non-cash reversals of previously recorded impairment charges, net of impairment charges recorded in the current period, related to the results of impairment testing on the Company's indefinite life intangible assets in the current period.
    - A one-time re-measurement of the Company's remaining U.S. deferred tax assets and liabilities as a result of a significant reduction in the U.S. federal tax rate.
- Adjusted basic and diluted earnings or loss per share is calculated as adjusted net earnings or loss from continuing operations divided by basic or diluted weighted average number of common shares outstanding.

Management has assessed the circumstances that gave rise to each of the adjusting items above along with the nature of the expense and whether adjusting for these items would provide greater transparency and predictive value for the Company's ongoing financial results. Given the unusual and non-recurring nature of the adjusting items noted above, the Company has adjusted operating profit before amortization and net earnings for these items to permit more accurate comparability between historical periods and operating results that are more reflective of the level of profitability that can be expected from the Company on a go-forward basis.

Management believes the presentation of same-store sales, operating profit before amortization, adjusted operating profit before amortization, adjusted net earnings from continuing operations and adjusted basic and diluted earnings per share from continuing operations provides for useful information to investors and Shareholders as it provides increased transparency and predictive value of the Company's recurring financial results. Management uses adjusted operating profit before amortization to set targets and assess performance of the Company.

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.

The following table provides a reconciliation of operating profit before amortization and net earnings (loss) to adjusted operating profit before amortization and adjusted net earnings:

(expressed in thousands)	Three months ended December 31, 2017 (unaudited)	Three months ended December 31, 2016 (unaudited)	Year ended December 31, 2017	Year ended December 31, 2016
Operating profit before amortization	$7,826	$10,990	$21,246	$33,004
Adjusting items:				
Expected settlement of business interruption claim	-	(704)	-	-
Early termination of leases in conjunction with store closures and exits of leases for planned new stores	-	845	-	1,199
Additional costs incurred in preparation for the contested 2017 annual shareholders meeting	-	-	1,433	
Restructuring charges	-	-	4,747	696
Legal, professional and travel fees incurred in evaluating potential acquisitions	-	-	-	195
Payments to former CEO upon departure from the Company	338	-	338	-
Total adjusting items	338	141	6,518	2,090
Adjusted operating profit before amortization	8,164	11,131	27,764	35,094

(expressed in thousands)	Three months ended December 31, 2017 (unaudited)	Three months ended December 31, 2016 (unaudited)	Year ended December 31, 2017	Year ended December 31, 2016
Net earnings (loss) from continuing operations	($1,034)	$3,488	($569)	$11,728
Adjusting items:				
Total adjusting items impacting operating profit per above	338	141	6,518	2,090
Impairment loss (reversal) related to goodwill and intangible assets	(1,616)	1,455	(1,616)	1,455
Re-measurement of U.S. deferred tax assets for change in federal tax rate	3,518	-	3,518	-
Tax effect of adjusting items	(332)	(415)	(1,275)	(922)
Adjusted net earnings	874	4,669	6,576	14,351

15. Risk Factors

The following information is a summary of certain risk factors relating to the business and affairs of Liquor Stores and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Shareholders (and other security holders) should consider carefully the information contained herein and, in particular, the following risk factors. The risks described below are not intended to be an exhaustive list of all of the risks facing Liquor Stores. Additional risks and uncertainties not currently known to Liquor Stores, or that Liquor Stores currently considers immaterial, may also affect the business and operations of Liquor Stores. If any of these risks actually occur, the business, sales, financial condition, liquidity or results of operations of Liquor Stores could be materially adversely affected.

Risks Related to Liquor Stores' Business

Government Regulation on Liquor and Cannabis Products

Liquor Stores operates in the highly regulated retail liquor and cannabis industry in the Provinces of Alberta and British Columbia and the State of Alaska. Liquor Stores is currently in the process of selling its one retail liquor store in the State of Connecticut.

The business, operations or licensing of liquor stores or cannabis stores may be materially adversely affected by: (i) new legislation, regulations, rules or bylaws; (ii) changes and court challenges to existing legislation, regulations, rules or bylaws; (iii) new interpretations of existing legislation, regulations, rules or bylaws; or (iv) decisions of the AGLC, BCLCLB, ABCB and Connecticut Liquor Control Commission or other governmental authorities (including federal, state, provincial, county, municipal, or other local governments or agencies) or applicable courts.

Competition in the Liquor Industry

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia and the States of Alaska and Connecticut is both competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location, convenience, price and service. Changes in the regulatory regime in a particular jurisdiction may increase competition that could materially adversely affect Liquor Stores' business, results of operations and financial position.

In Alberta, Liquor Stores competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Some municipalities have enacted zoning restrictions that limit the number of liquor store locations by establishing minimum distances of liquor stores to schools, religious establishments, playgrounds, and other areas that the municipality determines as requiring a minimum separation to a liquor store. The City of Edmonton has also enacted a “mature neighborhood overlay”, being a minimum distance separation between two liquor stores of 500 meters (subject to certain “grandfathering” exceptions). The City of Calgary has enacted a minimum distance separation between two liquor stores of 500 meters (subject to certain “grandfathering” exceptions). These zoning requirements limit the amount of competitors and competition in general in these municipalities and if they were to be relaxed or eliminated, could materially adversely affect Liquor Stores' business, results of operations and financial position.

In British Columbia, Liquor Stores competes with government owned and operated liquor stores, local independent stores and wine stores. In February 2010, the British Columbia government amended certain liquor control and licensing regulations, including an amendment that increased the relocation distance such that a retail liquor store is not permitted to be relocated anywhere within 1.0 kilometers of an existing retail liquor store, or the site of an application to license a new retail liquor store (subject to certain "grandfathering" exceptions). This arrangement limits the number of competitors who are able to enter into the market. As noted previously in this MD&A, BC VQA wines are currently permitted to be sold inside retail grocery stores as long as the grocery store obtains or owns a license and complies with the current licensing requirements (including the 1.0 km separation requirements to another liquor store). Although Liquor Stores has not yet experienced any significant impact from new British Columbia laws and regulations, future changes to the British Columbia regulatory regime (such as permitting U.S. wine in addition to BC VQA wine being permitted to be sold in grocery stores) may have a significant impact on the level of competition and the value of licenses in that province, and therefore could materially adversely affect Liquor Stores' business, results of operations and financial position.

In each of Alaska and Connecticut, Liquor Stores competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains (and in some instances, with U.S. national drug store chains who also offer alcoholic products for sale). Under the Alaska and Connecticut regulatory regimes, stores purchase products directly from distributors and are able to negotiate large volume discounts with suppliers; as such, competitors with greater financial resources are able to maintain a competitive advantage over smaller operators.

Competition in the Cannabis Industry

The Company intends to establish a retail cannabis business in Alberta and British Columbia, through the conversion of existing retail outlets and the establishment of new cannabis retail outlets. The Company expects that the cannabis retail business will be highly competitive, with a large number of potential entrants who will be competing for available real estate locations. It is likely a number of other, potentially more established and experienced companies, are also pursuing strategies to sell retail cannabis products. These companies may have a competitive advantage over the Company due to their size, cash resources, prior experience in retailing cannabis products or overall product knowledge, or may procure more desirable retail locations. In jurisdictions where integration is permitted such that a producer of cannabis may also be a retailer of cannabis, this could increase the wholesale price of cannabis while at the same time put downward pressure on the retail prices of cannabis as integrated retailers aggressively pursue an increase in their market share. Increased competition by larger and better financed competitors could materially adversely affect Liquor Stores' business, results of operations and financial position.

Liquor Retail Licenses

All of Liquor Stores' Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Similar to the process in Alberta, all British Columbia stores are operated pursuant to licenses issued by the BCLCLB, which must be re-applied for annually.

All of Liquor Stores' Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually. The Connecticut license is issued by the Department of Consumer Protection, Liquor Control Division and must be renewed annually.

Since its inception in 2004, Liquor Stores has never had a store license revoked or not reissued. All regulators have certain discretion in the granting or revocation of a license to operate a liquor store. If a significant number of the Company's licenses were revoked or not reissued, it could materially adversely affect Liquor Stores' business, results of operations and financial position.

Cannabis Retail Licenses

As of the date of this MD&A, no adult use retail cannabis market exists in Canada. However, it is anticipated that each of the Canadian provinces and territories will be responsible for implementing their own legislation to regulate the sale of cannabis. Provincial legislation may vary in material respects, including the minimum age to buy cannabis, cannabis products available for sale – dry, fresh, oil cannabis, seeds and plants, and whether cannabis will be sold by government liquor boards, licensed private retailers or both.

To apply for a provincial cannabis retail license, potential retailers are also required to receive municipal government approval prior to applying for such licenses. As with liquor retail, there is no assurance that the operations or licensing of cannabis stores will not be adversely affected by: (i) new legislation, regulations, rules or bylaws; (ii) changes and court challenges to existing legislation, regulations, rules or bylaws; or (iv) decisions of the AGLC, the BCLCLB, or other governmental authorities (including federal, provincial, municipal, or other local governments) or applicable courts.

Unfavourable Publicity or Consumer Perception

Liquor Stores believes the retail cannabis industry will be highly dependent upon consumer perception regarding the safety and efficacy of cannabis produced. Consumer perception of cannabis products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the retail cannabis industry, which could have a material adverse effect on the demand for cannabis products.

Potential decline in the consumption of products sold

Liquor Stores relies on consumers' demand for the products it sells in its stores. Consumer preferences may shift due to a variety of factors, including changes in demographic or social trends, public health policies and changes in leisure, dining and beverage consumption patterns. Shifts in consumer preferences, that do not negatively impact overall consumer impact in total liquid volume, but amongst sub-categories of alcoholic products from those that are more profitable (for example, high-end wine or the Company's preferred label products) to those that are less profitable (for example, domestic beer), could materially adversely affect Liquor Stores' business, results of operations and financial position.

A limited or general decline in consumption in one or more product categories could occur in the future due to a variety of factors, including:

- a general decline in economic or geopolitical conditions;
- concern about the health consequences of consuming alcoholic beverage products;
- a general decline in the consumption of alcoholic beverage products in on-premise establishments;
- consumer dietary preferences favouring lighter, lower calorie beverages such as diet soft drinks, sports drinks and water products;
- the increased activity of anti-alcohol groups;
- a decline in the consumption of alcoholic beverage products as a result of consumers substituting legalized cannabis or other similar products in lieu of alcoholic beverage products;
- increased federal, state, provincial and foreign excise or other taxes on alcoholic beverage products and possible restrictions on alcoholic beverage advertising and marketing;
- increased regulation placing restrictions on the purchase or consumption of alcoholic beverage products or increasing prices due to the imposition of duties or excise tax or changes to international trade agreements or tariffs;
- inflation; and
- wars, pandemics, weather and natural or man-made disasters.

Although the ultimate impact is currently unknown, the emergence of legal cannabis in certain Canadian provinces may result in a shift of discretionary income away from or a change in consumer preferences away from alcoholic beverages. As a result, a shift in consumer preferences away from alcoholic beverage products or a decline in their consumption could materially adversely affect Liquor Stores' business, results of operations and financial position.

Economic Conditions

Liquor Stores' success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and other operating results, which in turn could materially adversely affect Liquor Stores' business, results of operations and financial position.

Economic conditions in Alberta and Alaska that deteriorated in the prior two years resulting from a previous decline in the price of oil and increase in unemployment levels could be sustained or worsen, which could materially adversely affect Liquor Stores' business, results of operations and financial position.

Restrictions on Potential Growth

Payment of dividends on the Common Shares from the Company's operating cash flow makes the incurrence and payment of additional capital and operating expenditures potentially dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Liquor Stores and its cash flow, and/or result in the Company reducing or eliminating the payment of dividends on the Common Shares.

Commodity Taxes & Government Mark-Ups

Changes in tax rates or government mark-ups, and their corresponding effect on product pricing could affect sales and/or earnings. If taxes or government mark-ups increase and Liquor Stores increases prices by the full amount of the tax or the mark-up, as the case may be, sales volumes could be adversely impacted. If Liquor Stores is not able to pass the full amount of the tax or mark-up increase on to consumers, then gross margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax or mark-up rates in the future.

Acquisition and Development Risks

In the normal course, Liquor Stores evaluates and considers, and may be engaged in discussions with respect to, potential acquisition, investment and disposition opportunities that it believes may assist it in achieving its business and growth plans. Liquor Stores' ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on Liquor Stores' resources and, to the extent necessary, Liquor Stores' ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose Liquor Stores to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms; difficulties in maintaining uniform standards, controls, procedures and policies through all of Liquor Stores' stores; entry into markets or development of new store formats in which Liquor Stores has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Liquor Stores' ongoing business; and diversion of management time and resources. If Liquor Stores does complete any such transaction, it cannot assure Shareholders (or other security holders) that the transaction will ultimately strengthen Liquor Stores' financial or operating results, prospects or competitive position or that it will not be viewed negatively by customers, stock market analysts or investors. Any such activity may not be successful in generating revenue, income or other returns to Liquor Stores, and the resources committed to such activities will not be available to Liquor Stores for other purposes.

Liquor Stores expects that new store development will also continue to be a significant part of Liquor Stores' growth strategy. The development of new stores is subject to many of the same risks as acquisitions including but not limited to limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on Liquor Stores' resources. The rate of new store developments may be impacted by factors outside of Liquor Stores' control such as the availability of suitable site locations and the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital and profitability based on management's projections of future store performance (which may prove to be incorrect).

Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of Liquor Stores' retail stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where Liquor Stores' retail stores are located could decline in the future including because of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that Liquor Stores enters into long-term leases for its store locations, Liquor Stores' ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Weather

Weather conditions in Canada and the United States play an important role in Liquor Stores' success. Prolonged poor weather conditions in both the summer and winter months may reduce overall customer traffic in the Company's stores and consequently may have a material adverse effect on Liquor Stores' business, results of operations and financial position.

Key Personnel

Liquor Stores' success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of Liquor Stores' key employees could significantly weaken Liquor Stores' management expertise and its ability to deliver its services efficiently and profitably. The implementation of the Company's cannabis strategy will require new staffing with cannabis expertise. The Company expects there to be significant competition for cannabis experts given the pending legalization of cannabis in Canada. The Company's ability to attract, hire and retain skilled employees will be an important factor in its ability to establish a successful retail cannabis business.

Labour Costs and Shortages and Labour Relations

The success of Liquor Stores' business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the labour markets in which Liquor Stores operates could affect the ability of Liquor Stores to hire or retain staff at current wage levels. The occurrence of either of these events could materially adversely affect Liquor Stores' business, results of operations and financial position.

On October 1, 2017 Alberta's minimum wage was raised to $13.60 per hour (up from $12.20) for most employees in Alberta and is anticipated to increase to $15.00 per hour in October 2018. The province of British Columbia has also publicly announced its plans to increase the minimum wage to $15.20 by mid-2021. These increases could materially adversely affect Liquor Stores' business, results of operations and financial position.

Liquor Stores does not currently have any unionized staff; however there is no assurance that some or all of the employees of Liquor Stores will not unionize in the future. Such an occurrence could increase labour costs and could materially adversely affect Liquor Stores' business, results of operations and financial position.

Liquor Supply Interruption or Delay

Liquor Stores is dependent upon a limited number of distributors for a substantial majority of its products. Specifically, liquor store operators in Alberta are dependent on the Connect Logistics Service warehouse and Brewers Distributor Ltd. for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. With respect to Liquor Stores' U.S. operations, a limited number of private distributors serve the jurisdictions in which Liquor Stores operates. Any significant disruptions in the operations of these companies (for example, an organized work stoppage) and a resulting interruption in supply could materially adversely affect Liquor Stores' business, results of operations and financial position.

Cannabis Supply Interruption or Delay

While there is currently no existing legal supply chain in place for retailers to substantially procure cannabis or cannabis related products for the purposes of recreational retail sales, it is anticipated that the Governments of Alberta and British Columbia, either directly or through their agents, will act as wholesalers of all (or substantially all) cannabis or cannabis related products. Liquor Stores' business is also dependent on a number of key inputs, including raw materials and supplies related to its growing operations. Any significant interruption or adverse change in the availability or economics of the supply chain for key inputs could materially adversely affect Liquor Stores' business, results of operations and financial position. In addition, if a sole source supplier was to go out of business, Liquor Stores may be unable to find a replacement in a timely way or at all. Any inability to secure required supplies and services, or to do so on acceptable terms could materially adversely affect Liquor Stores' business, results of operations and financial position.

Importance of Information and Control Systems

Liquor Stores relies extensively on information systems, data and communication networks to effectively manage its operations. Liquor Stores also intends to implement a new enterprise resource planning system with a targeted completion date in 2019. Complete, accurate, available and secure information is vital to Liquor Stores' operations, including finance, human resources, supply and inventory management and loss prevention. Liquor Stores' ability to maintain, regularly upgrade its information systems and implement the new enterprise resource planning system is important to its future performance. Failure in the completeness, accuracy, availability of Liquor Stores' information systems, the risk of system interruption or failure during system upgrades or implementation, or a breach of data security could materially adversely affect Liquor Stores' business, results of operations and financial position.

Changes in Income Tax Legislation and Other Laws

Income tax laws, including the treatment of dividends, may in the future be changed or interpreted in a manner that adversely affects Liquor Stores and our Shareholders (both Canadian and U.S. Shareholders). Furthermore, tax authorities having jurisdiction over Liquor Stores or our Shareholders may disagree with how the Company calculates its income for tax purposes or could change administrative practices to the detriment of the Company and/or the Shareholders (including, without limitation, the interpretation of certain cross-border tax rules).

Leverage and Restrictive Covenants

In Canada, Liquor Stores has a secured revolving credit facility with a term ending on September 30, 2019 (the "**Credit Facility**"). The Credit Facility has a committed aggregate borrowing limit of $180 million ($15 million of which is in US Dollars) with the potential for an additional $50 million (the latter provided on request and on a "best efforts" basis by the lenders). As at the date hereof, $nil is outstanding under this Credit Facility.

The Credit Facility is subject to a number of financial covenants, all of which Liquor Stores is in compliance with as of the date hereof. Under the terms of the Credit Facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio.

The Company has $77,625,000 aggregate principal amount of Debentures due January 31, 2022. The 4.70% Debentures bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year, and are convertible at any time at the option of the holder into Common Shares at a conversion price of $14.60 per share. There are no financial covenants attributable to the 4.70% Debentures.

In the event that the Credit Facility is not extended past its current maturity date (or in the event the credit is renewed on different terms) it could materially adversely affect the Company's ability to fund its ongoing operations and, as repayment of such indebtedness has priority over the payment of dividends to Shareholders, to pay cash dividends to Shareholders and interest to the holders of the Debentures.

The degree to which Liquor Stores is leveraged could have important consequences to the holders of the Common Shares, including: (i) a portion of Liquor Stores' cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for the payment of dividends; and (ii) certain of Liquor Stores' borrowings are at variable rates of interest, which exposes Liquor Stores to the risk of increased interest rates. Liquor Stores' ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facility contains certain customary operating covenants that limit the discretion of Management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Liquor Stores to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the Credit Facility could result in an event of default that, if not cured or waived, could permit acceleration of the indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that Liquor Stores' assets would be sufficient to repay in full that indebtedness.

Credit Risk

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

Cybersecurity

Cybersecurity has become an increasingly problematic issue and cyber-attacks are increasing in sophistication, often focused on compromising sensitive data for inappropriate use or disrupting business operations. Such an attack could compromise Liquor Stores' confidential information as well as that of its customers and third parties with whom it interacts and may result in adverse consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage. As a result, Liquor Stores continually monitors for malicious threats and adapts accordingly in an effort to ensure it maintains high privacy and security standards. Liquor Stores leverages and invests in advancements in cyber defense technologies to support its business model, protect its systems and enhance the experience of its customers by employing industry best practices, considering where data and information is stored and considering whether and where to collect data and information. Particular sources and types of cyber security threats that the Company has historically considered and taken steps to mitigate against include impersonation, phishing, sensitive document exfiltration, distributed denial of service, brute force attacks and endpoint compromise. Liquor Stores works with a "Qualified Security Assessor" to conduct threat and risk assessments, controls and practices and vulnerability scans.

Conflicts of Interest

In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Liquor Stores are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Liquor Stores.

IP Risk Factors

Liquor Stores considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Liquor Stores will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Liquor Stores to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Liquor Stores believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard

Risks Related to the Common Shares

Unpredictability and Volatility of Share Price

The market price of the Common Shares may be subject to wide price fluctuations and cannot be predicted. The fluctuations in the market price of the Common Shares may be in response to many factors, including variations in the operating results of Liquor Stores and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Liquor Stores and its subsidiaries, general economic conditions, legislative changes, community support for the retail cannabis industry and other events and factors outside of Liquor Stores' control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Liquor Stores' Common Shares.

Cash Dividends are not Guaranteed

The actual cash flow available for the payment of cash dividends to Shareholders can vary significantly from period to period for a number of reasons, including among other things: (i) the Company's operational and financial performance; (ii) the amount of cash required or retained for debt service or repayment; (iii) amounts required to fund capital expenditures and working capital requirements. Certain of these amounts are, in part, subject to the discretion of the Board, which regularly evaluates Liquor Stores' dividend payout with respect to anticipated cash flows, debt levels, capital expenditures plans and amounts to be retained to fund acquisitions and expenditures. In addition, the level of dividend per Common Share will be affected by the number of outstanding Common Shares. Cash dividends may be increased, reduced or suspended entirely depending on Liquor Stores' operations and financial performance. The market value of the Common Shares may deteriorate if the Company is unable to meet dividend expectations in the future, and that deterioration may be material.

Dilution and Future Sales of Common Shares

Liquor Stores is authorized to issue an unlimited number of Common Shares for the consideration and on terms and conditions as are established by the Board without the approval of any Shareholders, except as required by law or the rules of the TSX. In the normal course of making capital investments to maintain and expand its business operations, additional Common Shares may be issued. Additionally, from time to time, Liquor Stores may issue Common Shares from treasury in order to reduce debt and maintain a more optimal capital structure. As well, additional Common Shares are issued on a monthly basis from treasury pursuant to the DRIP. Common Shares may become issuable to the Investor upon the conversion of the Subscription Receipts and exercise of the Pro Rata Warrants and Sunshine Warrants as discussed earlier in this MD&A. Conversely, to the extent that external sources of capital, including the issuance of additional Common Shares, becomes limited or unavailable, Liquor Stores' ability to make the necessary capital investments to maintain or expand its business operations will be impaired. To the extent that Liquor Stores is required to use additional cash flow to finance capital expenditures or acquisitions, or to pay debt service charges or reduce debt, the amount of cash dividends paid to Shareholders could be reduced. Any further issuances of Common Shares will also dilute the interests of existing Shareholders. Shareholders, other than Aurora, have no pre-emptive rights in connection with such future issuances.

The Company may determine to redeem the outstanding 4.70% Debentures for Common Shares or repay outstanding principal amounts of the 4.70% Debentures at maturity by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution in these circumstances.

Active Trading Market for Common Shares

While there is currently an active trading market for the Common Shares, we cannot guarantee that an active trading market will be sustained. If an active trading market in the Common Shares is not sustained, the trading liquidity of the Common Shares will be limited and the market value of the Common Shares may be reduced.

Risks Related to the 4.70% Debentures

Active Trading Market for the Debentures

Although the 4.70% Debentures trade on the TSX, the current trading market for the 4.70% Debentures has a low level of trading volume. If the trading market in the 4.70% Debentures does not become more active, or worsens, the liquidity of the 4.70% Debentures will remain limited and the market value of the 4.70% Debentures may be adversely affected.

The market price of the 4.70% Debentures may be volatile and subject to wide fluctuations and will be based on a number of factors, including: (i) the prevailing interest rates being paid by companies similar to the Company; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) actual or anticipated fluctuations in the financial condition, results of operations and prospects of the Company; (vi) the publication of earnings estimates or other research reports and speculation in the press or investment community; (vii) the market price and volatility of the Common Shares; (viii) changes in the industry in which the Company operates and competition affecting the Company; and (ix) general market and economic conditions in North America and globally.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Debentures.

Prior Ranking Indebtedness

The 4.70% Debentures are subordinate to all Senior Indebtedness (as defined in the Debenture Indenture[6]) of the Company and to any indebtedness of trade creditors of the Company. The 4.70% Debentures are also effectively subordinate to claims of creditors of the Company's subsidiaries for payment of which the Company is responsible or liable, whether absolutely or contingently. Therefore, if the Company becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Company's assets will be available to pay its obligations with respect to the 4.70% Debentures only after it has paid all of its senior and

[6] *The Debenture Indenture is the third supplemental indenture dated September 29, 2016, creating and setting forth the terms of the 4.70% Debentures, which is available on SEDAR at www.sedar.com.*

secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the 4.70% Debentures then outstanding.

Absence of Covenant Protection

The 4.70% Debenture Indenture does not restrict the Company from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness. Nor does the Indenture prohibit or limit the ability of the Company to pay dividends, except where an event of default has occurred and such default has not been cured or waived. The Debenture Indenture does not contain any provision specifically intended to protect holders of the 4.70% Debentures in the event of a future leveraged transaction involving the Company.

Prevailing Yields on Similar Securities

Prevailing yields on similar securities will affect the market value of the 4.70% Debentures. Assuming all other factors remain unchanged, the market value of the 4.70% Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

Credit Risk

The likelihood that purchasers of the 4.70% Debentures will receive payments owing to them under the terms of the 4.70% Debentures will depend on the financial health of the Company and its creditworthiness.

Redemption Prior to Maturity

The 4.70% Debentures may be redeemed, at the option of the Company, in whole or in part at any time on and after January 31, 2020, subject to certain conditions, at a price equal to the principal amount thereof plus accrued and unpaid interest. The 4.70% Debentures may be redeemed at such time if the Company is able to refinance at a lower interest rate or it is otherwise in the interests of the Company to redeem the 4.70% Debentures.

Change of Control

The Company will be required to make an offer to purchase all of the outstanding 4.70% Debentures for cash in the event of certain transactions that would constitute a Change of Control (as defined in the Debenture Indenture). The Company cannot assure holders of 4.70% Debentures that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the purchase price of the 4.70% Debentures in cash. The Company's ability to purchase the 4.70% Debentures in such an event may be limited by law, by the Debenture Indenture governing the 4.70% Debentures, by the terms of other present or future agreements relating to the Company's credit facilities and other indebtedness and agreements that the Company may enter into in the future which may replace, supplement or amend the Company's future debt. The Company's future credit agreements or other agreements may contain provisions that could prohibit the purchase by the Company of the 4.70% Debentures without the consent of the lenders or other parties thereunder. If the Company's obligation to offer to purchase the 4.70% Debentures arises at a time when the Company is prohibited from purchasing or redeeming the 4.70% Debentures, the Company could seek the consent of lenders to purchase the 4.70% Debentures or could attempt to refinance the borrowings that contain this prohibition. If the Company does not obtain consent or refinance these borrowings, the Company could remain prohibited from purchasing the 4.70% Debentures. The Company's failure to purchase the 4.70% Debentures would constitute an event of default under the Debenture Indenture, which might constitute a default under the terms of the Company's other indebtedness at that time.

In the event that Debenture holders holding 90% or more of the 4.70% Debentures have tendered their 4.70% Debentures for purchase pursuant to such an offer, the Company may redeem the remaining 4.70% Debentures of such class on the same terms. In such event, the conversion privilege associated with the 4.70% Debentures of such class would be eliminated.

Conversion Following Certain Transactions

Pursuant to the Debenture Indenture, in the event of certain transactions each 4.70% Debenture will become convertible into the securities, cash or property receivable by a Shareholder in accordance with such transactions. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the 4.70% Debentures. For example, if the Company were acquired in a cash merger, each 4.70% Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Company's future prospects and other factors.

Volatility of Market Price of Common Shares as it pertains to the* 4.70%** ***Debentures

The market price of the Common Shares may be volatile, which may affect the ability of holders of 4.70% Debentures to sell the 4.70% Debentures at an advantageous price. This may then result in greater volatility in the market price of the 4.70% Debentures than would otherwise be expected for non-convertible securities. Refer to the section above "Risks Related to the Common Shares". Market fluctuations in the price of Common Shares may adversely affect the market prices of the 4.70% Debentures.

Change in Tax Laws

The Debenture Indenture does not contain a requirement that the Company increase the amount of interest or other payments to holders of 4.70% Debentures in the event that the Company is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the 4.70% Debentures. At present, no amount is required to be withheld from such payments to holders of 4.70% Debentures resident in Canada or in the United States who deal at arm's length with the Company, but no assurance can be given that applicable income tax laws or treaties will not be changed in a manner that may require the Company to withhold amounts in respect of tax payable on such amounts.

16. Internal Controls over Financial Reporting, 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 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. 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 have certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the year ended December 31, 2017. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months or year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

17. Condensed Quarterly Information

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

	2017				2016			
	Dec 31	**Sep 30**	**June 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
Statement of Earnings								
# stores, end of period	231	250	251	252	253	252	253	254
Sales from continuing operations	167,192	163,975	162,435	127,759	170,300	167,242	164,993	135,063
Net earnings (loss) attributable to owners of the parent from continuing operations	(1,122)	556	2,765	(2,931)	3,386	5,138	3,809	(760)
Net earnings (loss) attributable to owners of the parent	(20,342)	(3,208)	(2,067)	(4,910)	(6,094)	4,371	4,121	(1,743)
Basic and diluted earnings (loss) per share from continuing operations	($0.04)	$0.02	$0.10	($0.11)	$0.11	$0.19	$0.14	($0.03)
Basic and diluted earnings (loss) per share	($0.73)	($0.12)	($0.07)	($0.18)	($0.22)	$0.16	$0.15	($0.06)

Quarterly sales in 2017 compared to 2016 were affected by the following significant items:

- Easter shifted timing in 2017 where it occurred in Q2 compared to occurring in Q1 in 2016, which reduced the Company's sales in Q1 2017 compared to Q1 2016. The Easter shift caused an improvement in the sales trend of the Company in Q2 2017.

- The Company had one-less sales day in Q1 2017 which reduced sales compared to Q1 2016 which contained an extra day of sales (February 29, 2016) due to 2016 being a leap year.

- The Company experienced poor weather in B.C. and Alberta in Q2 2017 compared to Q2 2016, which caused a decline in beer sales compared to the prior year.

- Sales from the Company's seven Fort McMurray locations increased in Q2 2017 compared to Q2 2016, as these stores were closed for approximately one month due to forest fires that occurred in the region in Q2 2016. The Company's sales from these locations decreased in Q3 and Q4 2017 compared to those same periods in 2016 as a result of the rebuilding and restoration efforts (which caused a temporary increase in the population of Fort McMurray) during those periods that drove a higher level of sales in Q3 and Q4 2016.

- The Company's sales were negatively impacted in 2017 from a strengthening Canadian dollar compared to the U.S. dollar in 2016 as the year progressed.

Quarterly net (loss) earnings in 2017 compared to 2016 were affected by the following significant items:

- The overall declines in sales discussed above negatively impact the Company's net earnings (loss). Much of the Company's operating and administrative cost base is fixed and therefore largely does not scale up or down to match sales trends.

- The Company's operating costs were impacted throughout 2017 by an increase in the minimum wage in compared to 2016 in Alberta and British Columbia. The minimum wage increased again on October 1, 2017 in Alberta and is now $13.60 per hour.

- The Company incurred additional operating expenses in Q1, Q2 and Q3 2017 related to the opening of a new large format store in Norwalk, Connecticut in October of 2016. The Company also incurred costs in Q2 2017 to rebrand and relaunch this store location.

- The Company incurred additional finance costs in Q1 and Q2 2017 compared to Q1 and Q2 2016 related to additional interest costs incurred from the issuance of a new series of subordinated debentures (the 4.70% Debentures) in Q4 2016, along with additional non-cash interest costs associated with the redemption of the previous 5.85% Debentures in May 2017.

- The Company incurred costs of approximately $1.4 million in Q2 2017 related to legal, public relations, proxy solicitation and financial advisory costs in preparation for the contested annual meeting of shareholders.

- The Company incurred costs of approximately $4.7 million in Q3 2017 related to the termination of three U.S.-based executives of the Company.

- The Company sold a single wine-only location in British Columbia for a gain on sale of approximately $1.4 million in Q3 2017.

- The Company completed a store network optimization plan, which resulted in accelerated amortization being recorded for these stores in Q3 and Q4 2017, which increased amortization expense compared to 2016 for those same periods.

- The Company recorded a net reversal of previously recorded impairment charges of $1.6 million in Q4 2017, compared to a net impairment charge of $1.5 million in Q4 2016.

- The Company recorded a one-time re-measurement of the Company's remaining U.S. deferred tax assets and liabilities as a result of a significant reduction in the U.S. federal tax rate in Q4 2017.

For an explanation and analysis of quarterly results, refer to Management's Discussion and Analysis for each of the respective quarterly periods filed on SEDAR at www.sedar.com.

18. Condensed Annual Information

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

	As at and for the year ended December 31,		
	2017	**2016**	**2015**
Statement of Financial Position			
Total assets	356,402	463,047	455,554
Total non-current liabilities	109,220	158,191	135,023
Statement of Earnings			
# stores, end of year	231	253	252
Sales from continuing operations	621,361	637,598	633,335
Net earnings (loss) attributable to owners of the parent from continuing operations	(732)	11,573	(100,215)
Net earnings (loss) attributable to owners of the parent	(30,527)	655	(99,587)
Basic and diluted earnings (loss) per share from continuing operations	($0.03)	$0.42	($3.64)
Basic and diluted earnings (loss) per share	($1.10)	$0.02	($3.64)
Dividends declared per share	$0.36	$0.48	$1.08

Significant factors that have caused variations in the financial position and financial performance of the Company in these historical annual periods are as follows:

- As previously discussed under the "Basis of Presentation" section of this MD&A, in Q4 2017, the Company sold its Kentucky operations consisting of 15 retail liquor stores, and sold its 51% indirect interest in Birchfield, which consisted of two retail liquor stores in New Jersey. The Company also concluded to not open its Massachusetts operation (one unopened location under lease) and entered into negotiations to sell its one retail store location in Norwalk, Connecticut. Collectively, the Company has classified these operations as discontinued operations and restated the selected information in the statement of earnings to exclude the discontinued operations unless otherwise indicated.

- The sale, or classification as held for sale, of the discontinued operations significantly impacted the financial position of the Company compared to the 2016 and 2015 periods. For a summary of the impact of the discontinued operations in 2017 and 2016, refer to note 5 of the Financial Statements.

- In January 2016, the Company acquired a 51% interest in Birchfield which significantly impacted the financial position and cash flows of the Company compared to 2015. Refer to note 4 of the Financial Statements for further information.

- In 2015, the Company recorded an impairment charge of $116.8 million to Goodwill allocated to its Canadian cash generating unit ("CGU") and $12.6 million to its Alaska CGU. In 2016, the Company recorded impairment charges of $1.5 million and in 2017 recorded a net reversal of previously recorded impairment charges of $1.6 million, as discussed further in this MD&A.

- In 2017, the Company incurred several significant one-time costs related to the contested annual meeting of shareholders in June 2017 and restructuring charges in the third quarter of 2017 as discussed further in this MD&A.

- In 2017, the Company incurred a one-time charge to re-measure its remaining U.S. deferred tax assets and liabilities at a significantly lower U.S. federal tax rate as discussed further in this MD&A.

19. Forward Looking Statements

This MD&A contains forward-looking statements or information (collectively "**forward-looking statements**") within the meaning of the "safe harbour" provisions of applicable securities legislation. All statements and information, other than statements of historical fact contained in this MD&A, are forward-looking statements. In particular, this MD&A contains forward-looking statements, with respect to, without limitation, our future financial position, capital and liquidity, cash dividends, business strategy, proposed acquisitions and dispositions, the execution and impact of the Strategic Plan on the Company's business, results of operations and financial condition, retail cannabis strategy, plan to renovate existing liquor retails outlets, the Aurora investment, budgets, government regulation and laws, projected costs, plans and objectives of or involving Liquor Stores. Shareholders and prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words and the negative thereof.

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to: risks relating to government regulation and changes thereto (whether by court decisions, citizen referenda, or otherwise); competition; the state of the economy including general economic conditions in Canada (including Alberta) and the U.S.; the unpredictability and volatility of the price of the Common Shares; restrictions on potential growth; restrictions on the potential growth of Liquor Stores as a consequence of the payment of cash dividends by Liquor Stores representing a substantial amount of its operating cash flow; availability of sufficient financial resources to fund the Company's capital expenditures; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; the ability of Management to execute the Strategic Plan; Liquor Stores' ability to locate and secure acceptable store sites and to adapt to changing market conditions; poor weather conditions; dependence on key personnel; labour costs, shortages and labour relations including Liquor Stores' ability to hire and retain staff at current wage levels and the risk of possible future unionization; supply interruption or delays; dependence on suppliers; reliance on information and control systems; income tax changes; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores; credit risks arising from operations; dilution and future sales of Common Shares; and the potential lack of an active trading market for the Common Shares and the 4.70% Debentures. The information contained in this MD&A, including the information set forth under the heading "Risk Factors", and as disclosed in other filings made by the Company with Canadian securities regulatory authorities and available on SEDAR at www.sedar.com, identifies additional factors that could affect the operating results and performance of Liquor Stores. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

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 Liquor Stores assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities legislation.

20. Additional information

Additional information relating to the Company, including our Annual Information Form, is available on SEDAR at www.sedar.com.