# LIQUOR STORES N.A. LTD.

## ANNUAL INFORMATION FORM

### For the Year Ended December 31, 2016

**Dated as at March 29 , 2017**

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## 1. Defined Terms

Please refer to the "Glossary of Terms" in **Schedule "A"** for a list of defined terms used in this Annual Information Form.

## 2. Currency

All dollar amounts in this Annual Information Form are in Canadian dollars unless otherwise stated. On March 29, 2017, the Bank of Canada closing rate for one United States dollar was $1.333 Canadian dollars.

## 3. Forward Looking Statements

This Annual Information Form 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 Annual Information Form are forward-looking statements. In particular, this Annual Information Form contains forward-looking statements regarding, without limitation, the financial position, cash dividends, business strategy and plans, proposed acquisitions, government regulation and laws and objectives of or involving Liquor Stores N.A. Ltd. (the "**Corporation**", **"Company"** or "**Liquor Stores**"). 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 Corporation'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 Corporation'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 Annual Information Form. 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 Annual Information Form 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 Liquor Stores' Common Share price; 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 Corporation's capital expenditures; changes in commodity tax rates and government mark-ups or other taxes that impact the price of alcoholic beverages; risks relating to future acquisitions and development of new stores; the ability of management to execute the Corporation's business and strategic plans; 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 Liquor Stores' Common Shares; and the potential lack of an active trading market for Liquor Stores' Common Shares and the Convertible Debentures. These factors should not be construed as exhaustive. The information contained in this Annual Information Form, including the information set forth under "Risk Factors", and as disclosed in other filings made by the Corporation 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.

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

## 4. Effective Date of Information

Except where otherwise indicated, the information in this Annual Information Form is presented as at the end of Liquor Stores' most recently completed financial year, being December 31, 2016.

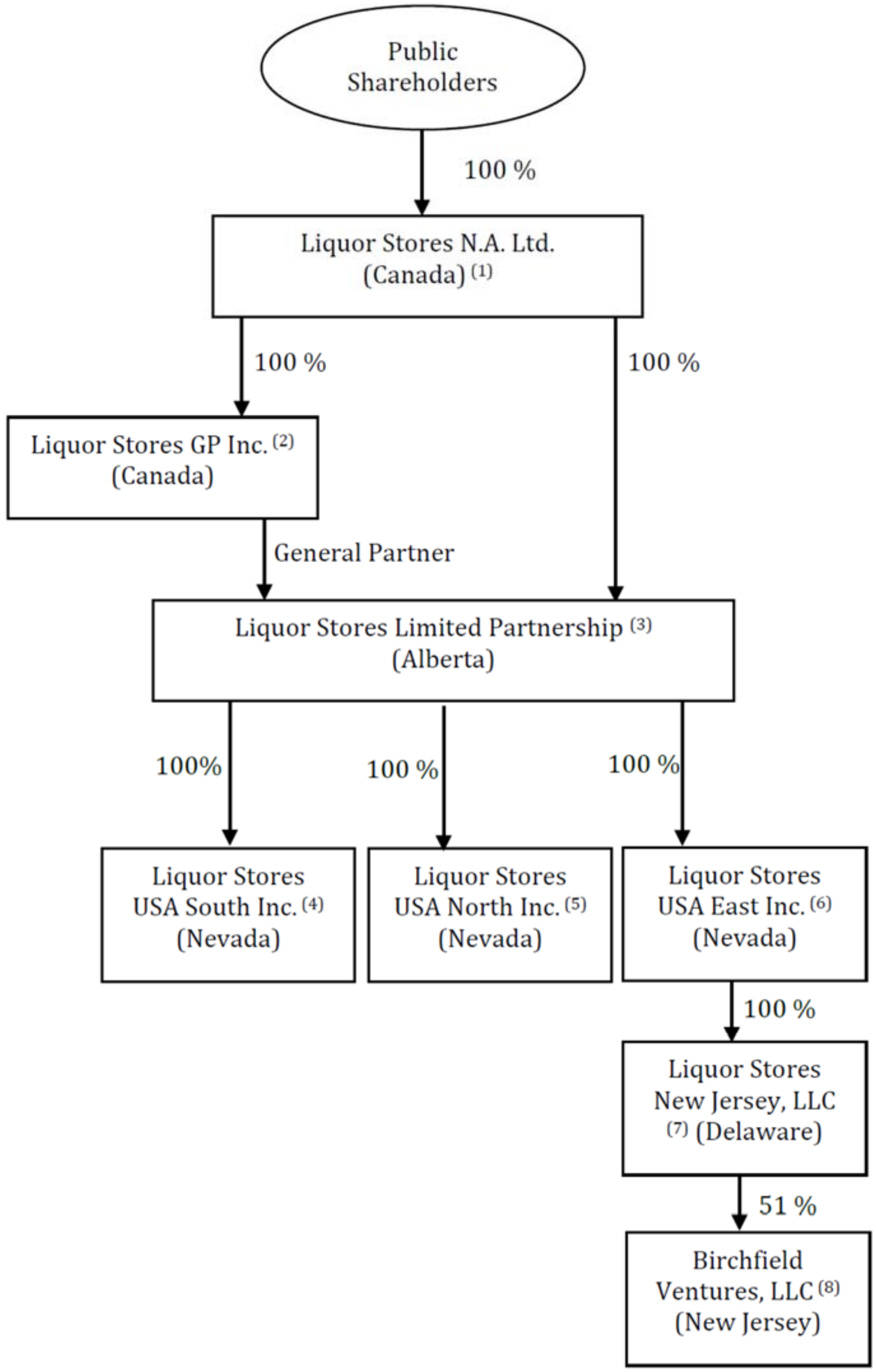
## 5. Corporate Profile

**General**

Liquor Stores N.A. Ltd. is a corporation incorporated under the CBCA and commenced operations as such on December 31, 2010. We are the successor to Liquor Stores Income Fund. Our head office is located at Suite 101, 17220 Stony Plain Road Edmonton, Alberta, T5S 1K6, and our registered office is located at Suite 2500, 10303 Jasper Avenue, Edmonton, Alberta T5J 3N6. Our Common Shares, the 2012 Debentures and the 2016 Debentures trade on the TSX under the trading symbols "LIQ", "LIQ.DB.A" and "LIQ.DB.B", respectively.

**Intercorporate Relationships**

The following chart illustrates on a simplified basis the structure of Liquor Stores and its material Subsidiaries, including the jurisdiction of incorporation/registration of the corporations and partnerships, as at the date hereof.




(1) All material subsidiaries listed herein are, directly or indirectly, 100% owned and controlled by Liquor Stores N.A. Ltd. with the exception of Birchfield Ventures, LLC (**"Birchfield")** of which 51% is owned indirectly by Liquor Stores N.A. Ltd.
(2) Liquor Stores GP Inc. is the general partner of Liquor Stores Limited Partnership and owns all of the GP units of Liquor Stores Limited Partnership.
(3) Liquor Stores Limited Partnership owns and operates all stores located in the Provinces of Alberta and British Columbia either directly or through subsidiary entities.
(4) Liquor Stores USA South Inc. owns and operates all stores located in the Commonwealth of Kentucky either directly or through subsidiary entities.
(5) Liquor Stores USA North Inc. directly owns and operates all stores located in the State of Alaska.
(6) Liquor Stores USA East Inc. owns 100% of Liquor Stores New Jersey, LLC and directly or indirectly holds retail liquor licenses in the northeastern United States.
(7) Liquor Stores New Jersey, LLC is the entity that holds Liquor Stores' interest in Birchfield**.**
(8) Birchfield owns and operates two stores in New Jersey – one in Lawrenceville and one in Woodbridge. On January 4, 2016, Liquor Stores, through Liquor Stores New Jersey, LLC, acquired a 51% interest in Birchfield. Liquor Stores also obtained the right to acquire the remaining 49% interest in Birchfield in the future on prenegotiated terms.

## 6. Description of our Business

Liquor Stores is North America's largest publicly-traded operator of retail liquor stores (as measured by number of stores and revenue). As of the date hereof, Liquor Stores operates or has interests in 178 stores in Alberta, 34 stores in British Columbia, 22 stores in Alaska, 15 stores in Kentucky, 1 store in Connecticut and has a 51% ownership interest in 2 stores in New Jersey. Liquor Stores also supplies liquor in Alberta on a wholesale basis to a number of restaurants, lounges, nightclubs, and other licensees. For the year ended December 31, 2016, approximately 98.4% of Liquor Stores' sales in Canada (2015 – 98.4%) and approximately 88.9% of its sales in the United States (2015 – 88.3%) were derived from the sale of alcoholic beverages.

Liquor Stores primarily operates under the brand names "Liquor Depot", "Liquor Barn", and "Wine and Beyond" in Alberta; "Liquor Depot", "Liquor Barn" and "Wine Cellar" in British Columbia; "Brown Jug" in Alaska; "LQR MKT" in Connecticut and "Liquor Barn, The Ultimate Party Source" and "Liquor Barn Express" in Kentucky. The stores in New Jersey operate under the name "Joe Canal's Discount Liquor Outlet."

Of our 252 stores as at the date hereof, 17 are destination/large-format stores, 233 are full liquor stores, and two are wine only stores. Product selection throughout the various brands is tailored to each location. Stores in Canada generally range in size, on average, from 2,000 to 5,000 square feet. Our U.S. stores are larger in size. The Company's stores in Alaska range in size from 1,400 to 14,000 square feet and we have a combined store and warehouse premises in Alaska in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 30,000 square feet as well as a flagship store of 44,000 square feet. Our three Wine & Beyond stores, our destination/large-format stores in Alberta, have areas of approximately 10,000, 17,000 and 20,000 square feet, respectively, and to our knowledge, the latter two are the largest liquor retail stores in western Canada. The two stores in New Jersey are approximately 17,000 and 25,000 square feet, while the LQR MKT store in Connecticut is approximately 20,000 square feet.

Since the end of fiscal 2013 to fiscal 2016 year-end, the Company's sales and number of store locations have grown as follows:

- Sales have grown 23.7% to $817.7 million.
- Number of store locations has increased from 246 stores to 253 stores

The following table shows the number of Liquor Stores outlets in Alberta, British Columbia, Alaska, Kentucky, New Jersey and Connecticut as well as major markets within those jurisdictions, as at December 31, 2016.

Liquor Stores closed 3 stores in 2016 and opened 2 stores in addition to the acquisition of our 51% interest in our two (2) Joe Canal's Discount Liquor Outlets in New Jersey operated by Birchfield.

| | 2016 | | | |
|---|---|---|---|---|
| | 1-Jan-16 | Opened or Acquired(5) | Closed (6) | 31-Dec-16 |
| **Alberta** | | | | |
| Edmonton (1) | 83 | | | 83 |
| Calgary (1) | 45 | | (1) | 44 |
| Other (2) | 52 | 1 | (1) | 52 |
| | 180 | 1 | (2) | 179 |
| **British Columbia** | | | | |
| Interior | 11 | - | - | 11 |
| Lower Mainland | 13 | - | (1) | 12 |
| Vancouver Island | 11 | - | - | 11 |
| | 35 | - | (1) | 34 |
| **Alaska** | | | | |
| Anchorage | 18 | - | - | 18 |
| Other (3) | 4 | - | - | 4 |
| | 22 | - | - | 22 |
| **Kentucky** | | | | |
| Lexington | 6 | - | - | 6 |
| Louisville | 6 | - | - | 6 |
| Other (4) | 3 | - | - | 3 |
| | 15 | - | - | 15 |
| **Connecticut** | | | | |
| Norwalk | - | 1 | - | 1 |
| | - | 1 | - | 1 |
| **New Jersey** | | | | |
| Lawrenceville | - | 1 | - | 1 |
| Woodbridge | - | 1 | - | 1 |
| | - | 2 | - | 2 |
| **Total** | **252** | **4** | **(3)** | **253** |

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 (25), Southern (10), Central (15), and resort (2).*
(3) *Other communities served in Alaska include Wasilla (3), and Fairbanks (1).*
(4) *Other communities served in Kentucky include Danville, Bowling Green, and Elizabethtown.*
(5) *2016 opened stores in Alberta and Connecticut were independently opened and developed by the Company. The company acquired a 51% interest in the stores in New Jersey in January 2016.*
(6) *The stores closed by region:*
   a. *Calgary – one store closed due to underperformance*
   b. *Other Alberta – one store closed due to underperformance*
   c. *Lower Mainland BC – one store closed due to property redevelopment to residential*

As at the date hereof, there have been no changes to the above other than one additional store closure in Calgary on February 17, 2017.

The following table shows the number of stores which Liquor Stores operated or had an investment in, at the end of the most recent three calendar years.

| Year ended Dec. 31 | Stores |
|---|---|
| 2016 | 253* |
| 2015 | 252 |
| 2014 | 243 |

* Including two (2) Birchfield/Joe Canal's Discount Liquor Outlet stores.

## 7. THE ALCOHOLIC BEVERAGE MARKET

In Canada, beer and liquor stores and agencies sold $21.3 billion worth of alcoholic beverages during the twelve-months ended March 31, 2015, an increase of 3.8% from the previous year (Statistics Canada; most recent published information). According to Statistics Canada's most recent figures, beer is still the most popular category at 42% of sales (2014 – 42%), while wine's market share has remained consistent at 31% (2014 – 31%) and spirits at 23% (2014 – 23%). In 2014, Alberta's share of the Canadian alcoholic beverage market had grown to 11.9% (2014 – 11.7%) and British Columbia's share had grown to 14.5% (2014 – 14.3%) Alcoholic beverage sales in British Columbia totalled $3.1 billion for the twelve-months ended March 31, 2015, increasing 5.1% over the previous year. In British Columbia, sales of spirits increased 3.3%, beer increased 3.1%, and wine increased 7.1%. In Alberta, alcoholic beverage sales totalled $2.5 billion for the twelve-months ended March 31, 2015, a 5.7% increase over the previous year. In Alberta, beer sales increased 4.6%, wine sales increased 9.5%, and spirits increased 3.1%. Sales of ciders, coolers and other refreshment beverages (CCORB) in British Columbia increased 15.5% and in Alberta by 16.6% in 2014 (Statistics Canada).

Comparable data for the Alaska, Connecticut, Kentucky and New Jersey markets is not readily available in the public domain, however, U.S. Census Bureau data shows sales in the "Beer, Wine and Liquor Stores" categories for all of the USA (in US dollars). The latest Annual Retail Trade Report (released March 6, 2017) shows consistent growth in the "liquor stores" category (estimated annual sales moving from $21.69 billion USD in 1992 up to $50.65 billion in 2015).

## 8. BUSINESS STRENGTHS

We attribute our success to the following competitive strengths:

**Our Brands -** The retail liquor store industry in Alberta, British Columbia, Kentucky, Alaska, Connecticut and New Jersey is a fragmented market. We operate some of the leading liquor retail brands in our respective markets. Our brands include:

- *Liquor Depot/Liquor Barn* – Convenience-focused stores located in Alberta and British Columbia, focused on convenient locations and store layouts, and great selection at fair prices.
- *Wine and Beyond* – Destination/large-format stores located in Alberta that are dedicated to having a great selection of wine, spirits and beer and strong customer service.
- *Wine Cellar* – Wine centric stores located in British Columbia, with a unique wine selection and a staff as passionate as our customers about the product that we sell.
- *Brown Jug* - Convenience-focused stores located in Alaska, focused on convenient locations and store layouts, and great selection at fair prices.

- *Liquor Barn, The Ultimate Party Source* - Destination/large-format stores located in Kentucky that are dedicated to having the best selection of wine, spirits, beer, and party supplies and strong customer service.
- *Liquor Barn Express* - Convenience-focused stores located in Kentucky, focused on convenient locations and store layouts, and great selection at fair prices.
- *Joe Canal's Discount Liquor Outlets* - Destination/large-format stores located in New Jersey, focused on high-traffic locations, dedicated to have a great selection of wine, spirits, beer at fair prices.
- *LQR MKT* – Destination/large-format store located in Connecticut that is dedicated to having a great selection of wine, spirits and beer and strong customer service.

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

**Product Selection -** Our stores offer an impressive selection of wine, spirits, coolers, liqueurs, beer, and specialty products. Product selection is individually tailored to our store brands and formats. In our convenience-focused stores, product selection varies between 1,000 and 4,000 wine, spirit, cooler and beer items, which management believes is a larger product selection and inventory than the industry average. Our Wine and Beyond large-format "destination" stores offer over 10,000 items. New, exclusive and private label varieties and products arrive in our stores throughout the year. Similar to our Wine and Beyond stores, our U.S. stores offer a significantly larger product selection than our convenience-focused stores, and although selection is again location-specific, alcoholic product selection in certain U.S. stores generally exceeds 7,000 items. In addition, we sell non-alcoholic beverages including pop, juice, bottled water and mixes, along with accessories for gift giving and everyday use such as gift bags, wine charms, bottle stoppers, aerators, bar supplies and unique items. In Kentucky, we have a specialty grocery offering focused on party and entertainment food items such as cheese, deli meats, olives, chips and crackers, desserts, and select frozen food items.

**Effective Sales Staff -** We pride ourselves on our customer service with employees who are well-versed in each liquor category to best serve our customers. We strive to have dedicated staff with product knowledge that they are enthusiastic to share. Liquor Stores endeavours to maintain product knowledgeable managers, assistant managers and line staff through frequent seminars and training. In 2013, we implemented a new company-wide training program called Liquor Stores University ("LSU") offered in person and online, with a goal of further fostering a customer-focused sales-driven culture in our stores. All new staff members receive training in Company policies and basic product knowledge, selling skills, operations overview, loss prevention and robbery prevention. Additionally, approximately 86% of employees have "graduated" from LSU's core courses. In the destination/large-format stores, store staff includes well-trained wine, beer, and spirits specialists. All store managers have received a more robust training in sales, customer service, workforce management, and store operational training, in addition to training on how to properly merchandise and sell our private label products.

**Strategic Markets -** Management's primary strategy in Canada and the United States is to focus on urban centres such as the Calgary, Edmonton, Vancouver, and the Anchorage, Louisville and Lexington metropolitan areas together with other urban areas in targeted markets in the United States for potential growth opportunities, primarily in the Northeast of the United States. Here we find the best opportunities for larger per store revenues and likelihood of population increases. While our focus is primarily on urban centres, we also have stores in other communities including rural or smaller urban centres where demographic and economic conditions warrant, such as those with resource-based economies. Such communities include Ft.

McMurray, Alberta (seven stores), Grande Prairie, Alberta (eight stores) and our destination/large-format store in Fairbanks, Alaska.

**Store Design and Format -** Liquor Stores generally designs its stores to optimize traffic flow and present its products in an upscale environment. Management has recently initiated a store "refresh" program and intends to update, modernize and refurbish a large number of stores. Our stores feature wooden cases and tasteful shelving as a primary display mechanism. Innovative new store layouts feature a fresh, contemporary design and interactive experiences. In certain stores, we offer in-store tasting sessions, seminars, recipes, social events and other in-store initiatives to enhance our customers' experience and to promote new products.

**Economies of Scale -** Liquor Stores' leading market position, large-scale operations (relative to most other industry participants), and cross-border presence provide it with a number of competitive advantages including: the benefit of operating efficiencies relative to non-liquor expenses (including finance, marketing, human resources, and corporate); and greater access to capital. In our US markets, we benefit from purchasing efficiencies and we have the ability to negotiate volume-discounts on our liquor purchases in many jurisdictions. Connecticut law prohibits manufacturers and wholesalers from discriminating amongst purchasers when offering price discounts. However, in this context, "discrimination" only occurs if all retailers purchasing similar amounts were not offered the same discount. As such, in effect, volume discounts do exist. Connecticut law also prohibits manufacturers and wholesalers from allowing any discount, rebate, free goods, allowance, or other inducement to make sales or purchases. As we continue to expand in the U.S., we expect our competitive purchasing advantage to increase.

**Stable and Growing Industry –** The retail liquor business in our current geographic markets is characterized by relatively stable demand. Total sales in Alberta grew by 5.7%[1], and by 5.1%[1] in British Columbia during the year ended March 31, 2015. Comparable annual sales information is not readily available for any of Alaska, Kentucky, New Jersey or Connecticut.

## 9. COMPANY STRATEGY

The Company plans to strategically expand its business in existing markets and select new markets over the next several years. Liquor Stores intends to adopt a measured approach to growth that will be scaled up or down depending on market conditions. We believe growth opportunities exist through a number of avenues including acquisition, green-field development, organic growth and expansion to new markets. The Company also plans to renovate a significant proportion of its current stores to improve the aesthetic elements, product signage and merchandising, and significantly increase the overall customer experience in several of our more dated locations.

In Alberta, our original and largest market, Management plans to focus primarily on the renovation of existing locations to grow and protect our existing market share. The Company also expects to pursue the development of greenfield locations and the acquisition of stores in Alberta markets that it does not currently occupy or that we believe will benefit our existing store base. In British Columbia, where regulators are currently not issuing new full service retail liquor licenses, we intend to focus primarily on the renovation of existing store locations, the relocation of existing stores to stronger locations and growth by acquisition.

Liquor Stores is also actively pursuing opportunities to further expand its business into additional geographic regions of the United States where the private distribution of alcoholic beverages is permitted by regulation (both in jurisdictions where it currently has store operations and in new jurisdictions). The diversification of our revenue base lessens the financial impact of a recession or of an adverse political or regulatory change in our core Alberta market. Diversification of our revenue base also helps to maintain overall financial performance when we are faced with an increase in competitive pressure impacting one of our markets. In October 2016, the Company opened its first location under the LQR MKT brand – a 20,000 square foot retail liquor store in Norwalk, Connecticut. The store is well positioned in a high traffic, grocery anchored retail centre and features a selection of over 4,000 wines, 2,000 spirits, 1,000 beers and Norwalk's largest walk-in cooler.

Liquor Stores intends to grow in Canada and the U.S. by acquiring existing stores or chains of stores if purchase prices are attractive and accretive to our shareholders. On January 4th, 2016, Liquor Stores acquired a 51% interest in Birchfield, a New Jersey liquor store operator with two stores operating under the name "Joe Canal's Discount Liquor Outlet", one in Lawrence Township that is approximately 17,000 square feet and another in Woodbridge Township that is approximately 25,000 square feet.

Consistent with the foregoing, Liquor Stores is continuously evaluating acquisition and new store opportunities and intends to proceed with measured growth in both our traditional convenience-focused smaller format stores and our larger format destination stores.

To execute on our business strategies, we are focused on the following Seven Point Plan to build on our competitive position, invest in opportunities to support long-term profitability and drive growth across our business:

- Enhance the Senior Leadership Team
- Invest in our People
- Implement an Industry Leading Information Technology Platform
- Invest in our Store Network
- Increase Brand Awareness and Loyalty
- Increase Operating Profits
- Pursue Expansion

In 2016, the Company achieved or partially achieved its objectives against the Seven Point Plan. In 2017, Liquor Stores intends to build on our successes to date with expansion of initiatives related to investment in people, brand awareness and loyalty and product selection designed to increase operating profits.

Liquor Stores has also adopted a measured approach to growth that we can scale up or down depending on market conditions. The goal is to advance our Seven Point Plan initiatives to invest in the store network and pursue expansion, while ensuring that the Company can continue to withstand the current period of economic pressure in Alberta while being positioned to emerge from these headwinds and increase our profitability.

The following is a summary of our goals under the Seven Point Plan and the progress made in 2016, along with a summary of our 2017 goals under the Seven Point Plan:

| **Business Strategy** | **Goals for 2016** | **2016 Progress** | **Goals for 2017** |
|---|---|---|---|
| ***1. Enhance the Senior Leadership Team***<br><br>We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives | N/A – completed in 2015 | N/A – completed in 2015 | N/A – completed in 2015 |

| | | | |
|---|---|---|---|
| with deep retail experience in both Canada and the United States. | | | |
| ***2. Invest in our People***<br><br>We have an opportunity to attract more customers to existing locations and increase sales per customer by improving our customer service. Our investments will include enhancing our hiring and retention strategies, the introduction of industry leading training programs, implementing competitive store level compensation and benefit programs, and a focus on providing our employees with career and performance management. | Program Expansion<br><br>Deliver our sales, workforce management and store operational training programs to at least 90% of our store managers by the end of 2016.<br><br>Enhance our current store level incentive program to continue to further align our store teams with our strategy related to private label products by adding further stretch goals to increase our private label penetration even further. | **Status: Achieved**<br><br>During the year we continued developing and delivered new training material to our staff and met our goal to deliver this training program to over 90% of our store managers.<br><br>We have also implemented an enhanced store level incentive program which adds further stretch goals to increase the penetration of our private label program. | Continued Program Expansion<br><br>Deliver our sales, workforce management and store operational training programs to our remaining store managers by the end of 2017.<br><br>Make enhancements to our performance management process and coaching programs to improve employee engagement.<br><br>Implement enhancements to our loss prevention strategies to continue to improve the safety and security of our employees. |
| ***3. Implement an Industry Leading Information Technology Platform***<br><br>We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business. | Deferred - Dependent on Market Conditions<br><br>Continue to evaluate economic conditions throughout the year, and if they show a sustained improvement, develop a revised implementation schedule. | **Status: N/A – deferred due to market conditions** | Re-commence the project<br><br>Develop a revised implementation schedule and software solution to reduce cost and complexity, and improve the return on investment of the project.<br><br>Re-commence the project during 2017 through a phased implementation approach where a small number of stores will have an initial end-to-end implementation for further testing and optimization prior to the new system being rolled out across the consolidated entity. |
| ***4. Invest in our Store Network***<br><br>We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers. | Measured Growth - Dependent on Market Conditions<br><br>Invest approximately $2.5 million on store refurbishments. This investment could adjust higher or lower depending on volatility of economic conditions in our key markets.<br><br>Continue to evaluate economic conditions | **Status: Achieved**<br><br>The Company has deployed the $2.5 million committed to store refurbishments. Ten renovations were completed prior to the end of 2016, with four additional renovations in progress and anticipated to be completed in Q1 2017. | Renovate/refresh 5% to 8% of our existing stores in 2017. This range has been set to allow for the number of projects to be scaled up or down depending on economic conditions and available capital. |

| | | | |
|---|---|---|---|
| | throughout the year, and if they show a sustained improvement, develop a revised store renovation schedule. | | |
| ***5. Increase Brand Awareness and Loyalty***<br><br>We will continue to increase our brand awareness and customer loyalty through investment in our store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts. | Expansion<br><br>Continue to enhance our customer relationship management strategy, and grow the number of customers enrolled in this program in 2016.<br><br>Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores. | **Status:** **Achieved**<br><br>We continue to enhance our marketing and promotion strategies, with a focus on digital forms of advertising to increase our brand awareness and sign-ups in our customer relationship management program, the Celebration Members Club, which grew membership by over 20% in the current year.<br><br>We added 73 new private label wine products in the current year, along with 34 new private label spirit products. | Continued Expansion<br><br>Continue to enhance our customer loyalty program, and grow the number of customers enrolled in this program in 2017. |
| ***6. Increase Operating Profits***<br><br>We have the opportunity to continue to improve our operating profits by leveraging our fixed occupancy costs and scalable infrastructure. | Expansion<br><br>Continue to implement product assortment plans (i.e. planograms) into our store locations in 2016.<br><br>Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores. | **Status:** **Achieved**<br><br>We are currently implementing product assortment plans into all new and renovated stores, and into a selection of our existing stores.<br><br>Our merchants have been focused on sourcing exclusive and control brands from our suppliers. Control/exclusive brand sales as a percentage of their respective categories continue to grow. | Expansion<br><br>Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.<br><br>Increase gross margin rates through dynamic price optimization strategies. |
| ***7. Pursue Expansion***<br><br>We plan to strategically expand our business in existing markets in Canada and the United States, and explore modest growth into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal. | To adjust to current economic conditions, the Company expects to open four to seven new stores over the next 24 months. The Company will continue to monitor economic conditions and evaluate plans for 2017 new store constructions in due course.<br><br>Management will continue to evaluate and assess potential store acquisitions for their ability to add accretive cash flow and create shareholder value. | **Status:** **Achieved**<br><br>We completed the acquisition of a 51% interest in Birchfield, operating two large format stores in New Jersey.<br><br>We opened our first LQR MKT location in Norwalk, CT in October 2016, a new region for the Company<br><br>In July 2016, we opened a new convenience format store in Lethbridge, Alberta.<br><br>We were successful in the Request for Proposal process for a new private retail license granted for Saskatoon, Saskatchewan, which we expect to be constructed and open in 2018. | Continued expansion through new store growth in Canadian markets and through modest levels of expansion in the U.S. should the right opportunities arise.<br><br>Relocate two existing British Columbia stores to more desirable locations.<br><br>Open a new large format Wine and Beyond location in Calgary, AB in fall 2017.<br><br>Evaluate opportunities to open 2-3 new locations in Alberta to protect our competitive position and grow market share. |

***Competition, Regulation, and Strategic Positioning***

The supply and distribution of alcoholic beverages in Canada and the U.S. is regulated mainly by provincial or state legislation and is subject to policy change that may positively or negatively impact Liquor Stores operations and financial performance. Regulations generally require, among others, the licensing of distribution outlets, the separation of liquor from other types of products and a prohibition on sales to minors or intoxicated persons.

In Alberta, Alaska, Connecticut, New Jersey and Kentucky, retail alcohol sales are conducted by private industry only. In British Columbia, retail alcohol sales are conducted by both private industry and provincial government-owned stores.

In all six jurisdictions, the liquor retail market is competitive and ownership of private retail liquor stores is fragmented. Liquor Stores' strategy is to take advantage of consolidation opportunities as they become available.

***The Alberta Competitive and Regulatory Environment***

Alberta is the only Canadian province with a fully privatized retail liquor industry. Our Alberta stores are located primarily in shopping centers with grocery store or other anchor tenants. A number of liquor stores associated with grocery chains also compete in the Alberta market. Management believes that Liquor Stores is the largest liquor store chain in Alberta by number of stores and revenue.

The Alberta Gaming and Liquor Commission ("**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.

We currently operate 178 liquor stores in Alberta where there are 1,442 retail liquor stores.[1]

**Alberta Store Operations**

Liquor store operators in Alberta are free to set their own retail prices, including selling at or below the wholesale cost, and may adjust prices based on the customer, the amount of the sale or any other factor determined relevant by the store operator.

Liquor stores in Alberta are permitted to be open from 10:00 a.m. to 2:00 a.m., seven days per week (except for Christmas Day). Our operating hours vary by location depending on specific markets; however we have numerous stores in Alberta open until 2:00 a.m.

In addition to selling alcoholic beverages, liquor stores may also sell certain related items, such as soft drinks and other drink mixes, ice, de-alcoholized beverages, glassware and other accessories, although sales of such items may not exceed 10% of total sales. Liquor stores may sell liquor to other liquor stores, other licensed premises (e.g., lounges, restaurants, pubs, taverns, etc.) and special event license holders. Liquor stores may also sell special event licenses for private functions and may provide delivery service. A liquor store in Alberta must

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[1] *Source: Alberta Gaming and Liquor Commission, as at February 2017.*

either be a freestanding building or, if it is in a building in which there are other businesses, must be physically separated from the other businesses. If the liquor store is in a building with other businesses, it must have its own entrance and exit, its own receiving and storage area, and a wall between the liquor store and any other business. A liquor store cannot be operated within the same commercial development as an existing non-liquor store business owned by the licensee if the existing business is larger than 929 square meters (10,000 square feet) unless certain requirements are met, including a separate building envelope. In that case, the premises for the liquor store must be physically separated and subject to approval by AGLC.

A person may own more than one liquor store and/or other licensed premises (other than a liquor manufacturing site), and operate them under the same or different names. While liquor stores must normally store their liquor products on site, the AGLC may approve a separate warehouse to enable a retail liquor store licensee to serve multiple liquor stores operated by the licensee. Liquor manufacturers or agents for manufacturers may not own or otherwise be financially involved in liquor stores or operators of premises used for on premises alcohol consumption.

**Alberta Advertising and Promotion**

Advertising is permitted in any medium, but is subject to restrictions imposed by advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta) as well as by the Canadian Radio-Television Telecommunications Commission (the "**CRTC**"). The common owner/operator of a liquor store and another non-liquor business may not conduct cross-market or co-operative advertising or promotions between the liquor store and the other business or company but can if not commonly owned. There are further limits on co-operative advertising between a liquor store and an affiliated non-liquor business or a liquor store and a manufacturer.

Subject to restrictions in the advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta), liquor stores are permitted to promote specific brands of liquor within their stores by such means as in-store tastings, displaying brand posters or banners, giving away small value items with brand logos and holding contests. Generally, a liquor store may give away merchandise it otherwise is not permitted to sell, other than liquor or food, to promote the store; provided the merchandise identifies the store and is not given to the store by suppliers. A liquor store may give away merchandise it is permitted to sell, with our without store identification. Suppliers' promotional activities must be directed to store customers and may not benefit a store owner directly.

**Alberta Supply**

The AGLC is the sole importer of liquor products into Alberta. Liquor stores must purchase liquor products at wholesale prices through the AGLC warehouse, from a manufacturer authorized by the AGLC to warehouse and distribute liquor products, or from other liquor stores. A number of domestic beers may be purchased from the AGLC by placing orders with the respective brewery. Breweries may set minimum order quantities for delivery service. Liquor stores are required to pay for products ordered before they are released from the warehouse.

We obtain wine, spirits and imported beer from Connect Logistics Services Inc. ("CLS"), which operates from its main warehouse in St. Albert and carries approximately 19,000 products. Liquor Stores obtains domestic beer from the three other licensed Alberta warehouse companies: Brewers Distributor Ltd., which warehouses and distributes beer products for Molson Canada and Labatt Brewing Company Limited in Edmonton and Calgary; Big Rock Brewery, which distributes its products from its brewery/warehouse in Calgary; and Sleeman Breweries Ltd., which warehouses and distributes its products from a warehouse in Calgary.

The AGLC operates a consignment system of inventory management, where the ordering, consolidation, shipment, and ownership of inventory are the responsibility of manufacturers and/or agents representing the manufacturers. In order to import liquor into Alberta, manufacturers must use a liquor agent registered with the AGLC. Manufacturers and/or their agents determine which products will be sold in Alberta and are responsible for promoting and marketing their products to retailers.

**Alberta Wholesale and Delivery Pricing System**

The AGLC requires that there be one wholesale price quoted for each product and individual retailers are not allowed to negotiate discounts with liquor suppliers. Supplier price changes are permitted on a biweekly basis. Approximately every two to four months, licensed manufacturers offer discounts through limited time offers ("LTO"), primarily on spirits and wine. We believe that we achieve savings and have a competitive advantage by appropriately using our cash flow and warehousing capabilities to purchase larger volumes at the discounted LTO prices and managing inventories to maintain stock until the next LTO, a practice known as "bridge buying".

The AGLC imposes a flat mark-up that is added to the supplier's price quotation and is levied in dollars per litre and varies by product class. The warehouse storage, handling, order processing and distribution charges are paid to the warehouse operator.

Wholesale prices for products shipped from CLS' warehouse are available when the order is a minimum of 25 cases. Customers must also pay order processing and distribution charges based on a delivery schedule (urgent or regular), pickup or delivery, and the number of cases ordered. Suppliers are charged for warehouse handling and storage. Wholesale prices are also available for beer purchased directly from a number of Alberta breweries that brew, warehouse, and distribute their own products to retailers. The individual breweries set minimum order quantities. The AGLC collects the wholesale price from the purchaser and, in turn, remits to the brewer its portion of the wholesale price.

A "postage stamp" delivery system applies for the delivery of liquor products from the warehouse, which means that the delivery charge per case shipped from CLS' warehouse is the same no matter where in Alberta the receiving store is located. A similar system exists for purchases of beer from certain beer manufacturers that are licensed to operate warehouses in Alberta.

**Alberta Liquor Store Association**

Liquor Stores is a member of the Alberta Liquor Store Association (ALSA), which has the objective of providing independent liquor store retailers with a strong collective voice when dealing with the provincial government and the AGLC. Members of the Alberta Liquor Store Association have historically owned approximately 50% of all liquor stores in the province. The association's principal function is to liaise with the AGLC on legislation, regulations, and operating guidelines as they affect the retail liquor store industry. Over the years, ALSA has played a significant role in promoting legislative and other regulatory initiatives in the interests of its members. As at the date hereof, Liquor Stores' Vice President of Government & Community Relations is a member of the Board of Directors of ALSA. ALSA was involved in the industry's response against proposed bylaw amendments in Edmonton; as further discussed below.

***The British Columbia Competitive and Regulatory Environment***

As at March 31, 2016, there were 871 liquor retail stores in British Columbia[2], with the British Columbia government being the largest liquor retailer in the province, operating 200 stores as at March 8, 2017. Liquor Stores, with 34, is the largest private liquor store chain in British Columbia.

The British Columbia government regulates the importation, distribution and retailing of liquor through the *Liquor Control and Licensing Ac*t (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 and the British Columbia Liquor Distribution Branch (the "BCLDB") enforces the Liquor Distribution Act. 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 aggregate number of private industry stores, government-owned stores and independent wine stores has remained relatively stable at approximately 880 stores since then. However, see the section "British Columbia Store Operations" below for a further discussion of a new class of license that has become available in British Columbia and further regulatory and policy changes.

**British Columbia Store Operations**

In British Columbia:

- Privately-owned retail liquor stores may set their own prices for products, subject to the minimum price for each product established by the BCLDB. All government-owned liquor stores and rural agency stores charge an identical price for the same product throughout the province. Since April 1, 2015, government, private and rural liquor stores pay the same wholesale price for alcohol, whereas, previously, there were differential discounts based off the government store retail price (12% for rural agency stores, 16% for private retail stores and 30% for independent wine stores).

- Liquor stores in British Columbia are permitted to be open from 9:00 a.m. to 11:00 p.m. 365 days a year. Outside of increased hours as permitted during holiday periods, the Corporation's stores in British Columbia are open for the maximum number of daily hours, 365 days per year.

- In addition to beer, wine, cider, coolers, liqueurs, and spirits, a privately-owned retail liquor store may sell liquor-related items such as glasses, bottle openers and corkscrews and, in most cases, other goods such as soft drinks and other drink mixes, tobacco, confectionary goods and British Columbia lottery tickets.

- If a privately-owned retail liquor store is located on the same property as a primary liquor establishment, such as a bar, cabaret, pub or hotel, the two establishments may share a common lobby but must have full-height walls between them and separate entrances. If a privately-owned retail liquor store is not located on the same property as the primary establishment, it may not appear to be part of any other business in close

[2] Source: British Columbia Government – Liquor Regulation & Licensing http://www2.gov.bc.ca/gov/content/employment-business/business/liquor-regulation-licensing/licensed-establishment-locations

proximity to it. Customers must enter the store from a public thoroughfare such as a street or mall entrance and not through any other business.

- In 2010, the British Columbia government amended certain liquor control and licensing regulations which increased the relocation distance such that a private retail liquor store is not permitted to be relocated anywhere within 1.0 kilometer of an existing retail liquor store, or the site of an application to license a new private retail liquor store (subject to certain "grandfathering" exceptions). British Columbia Liquor Control and Licensing Branch inspectors regularly conduct inspections of private retail liquor stores. Such inspectors must be given full and unrestricted access to the licensed establishment, as well as to any documents and records associated with such establishment.

On January 31, 2014, the British Columbia Ministry of Justice released its Liquor Policy Review Report (the "Report") and commenced implementing the 73 recommendations contained therein. Of the 73 recommendations, 29 require(ed) changes to the *Liquor Control and Licensing* Act of British Columbia. Bill 15 (given Royal Assent May 29, 2014) provided authority to implement 15 of the 29 recommendations. We anticipate a new *Liquor Control and Licensing Act,* which will implement the remainder of the 29 recommendations, to be brought into force in 2017; the legislative and regulatory drafting process is currently underway.

Recommendations, as made in the Report and clarified or changed thereafter, that have the potential to positively and negatively impact the Corporation include, but are not limited to, the following areas of law and regulation:

1. An existing requirement that a Licensed Retail Stores ("LRS") is limited to relocating within its current local jurisdiction or a 5 km radius of the originally licensed store if moving outside that jurisdiction has been removed.

   - *This change has given the Corporation the opportunity to relocate underperforming licenses to other regions in the province where we will have the potential to improve our profitability.*

2. The "1 km rule" that requires that no new store be located within 1 km of an existing store should remain in force. However, government owned liquor stores ("LDB's") should be covered by this rule (subject to some grandfathering). Previously, government stores were exempted and could locate anywhere. This also means that LRS's must be outside the 1 km radius of an existing LDB if they are relocating.

   - *Given the maintenance of the "1 km rule", the number of stores within 1 km of our existing locations will not increase.*

3. The LRS license moratorium will remain in effect until July 1, 2022

   - *Given the maintenance of this moratorium, the number of competitors in the province should not materially increase (subject to additional speciality licences described below).*

4. Liquor sales should be permitted in grocery stores. Grocery stores have the choice of a "store-within-store" model where all beer, wine and spirits can be sold, or they can opt to sell British Columbia Vintners Quality Alliance ("VQA") wines, or with a specialty license, "BC Made" wine, cider, mead or sake, within the existing store on the shelves. Further recommendations regarding grocery stores include:

a. Grocery stores are required to obtain a license for their stores. Store-within-store locations are required to obtain a private (LRS) or government owned (LDB) liquor license and abide by the 1 km rule. As at the date hereof, Liquor Stores is not aware of any "store-within-store" grocery stores obtaining the necessary license and opening a retail liquor store within a grocery store in BC.

b. Grocery stores opting to sell only VQA wines or "100% BC" products are required to obtain existing licenses. Existing licenses include 21 VQA licenses, 12 independent wine store licenses and 18 "Special Wine Store" licenses. With respect to the Special Wine Store Licenses, the B.C. government will auction up to 18 "Special Wine Store" licences; which are dormant and not new licenses, permitting the sale of "100% BC Wine" (including cider, mead and sake made from 100% BC agricultural inputs). The "Special Wine Store" licenses, as proposed, require the grocery store to be primarily engaged in retailing a general line of foods in the store amongst other conditions.

   As at the date hereof, to the best of Liquor Stores' knowledge, based on public information, approximately 11 licenses have relocated to grocery stores; and 12 of the proposed 18 auctions for the "Special Wine Store" licenses have occurred. VQA and "BC Made" specialty licensees are not required to adhere to the 1 km rule.[3]

c. To qualify to sell alcohol, the grocery store must be at least 10,000 square feet, obtain approximately 75% or more of its revenues from food products, and may not be a "big box" or convenience store (this was subsequently clarified in a policy statement providing: (i) that the sales revenue for foods must total at least 70% to qualify for the "store-within-store" model and if liquor sales are added to the grocery stores; (ii) at least 50% of the combined sales revenue must continue to come from food; (iii) in addition, after liquor sales are approved for the store, the 70% food sales requirement continues in regard to the total sales revenue from non-liquor products; and (iv) convenience stores and multipurpose stores are not eligible for the "store-within-store" model).

d. Maximum hours of liquor sales for grocery stores are the same as other liquor retailers, 9am to 11pm. All sales are required to be made at registers staffed by employees who have "Serving It Right" certification and are at least 19 years old.

- *Liquor Stores has not experienced any significant impact from the new British Columbia laws and regulations to date, and does not anticipate that competition from grocery stores will increase significantly in the near-term, as grocery stores are required to acquire an existing license should they want to sell a full offering of beer, wine and spirits, and they will need to adhere to the 1 km rule.*

5. Pricing for liquor products has been changed from a "discount" model, whereby LRS's purchase product on a price based on the retail price at the LDB, to a wholesale model whereby the LRS's and LDB stores purchase product from the government wholesaler at the same price.

[3] Source: BCLCLB presentation at Wine & Liquor Law Conference in Vancouver in February, 2017.

a. The previous discount model applied differential discount rates on LRS's (16%), as compared to independent wine stores (30%), and rural agency stores (12%). These differing prices should be abolished in favour of a single price.

- *We believe that this change will be positive for the Corporation as we will be operating on a more level basis compared to the LDB, however, this change took effect April 1, 2015 and at this time the full impact and opportunities related to this change have not been fully assessed.*

6. Government-owned BC Liquor stores, "LDB's", should be separated from the Liquor Distribution Branch's wholesale operation (BCLDB).

   - *We believe that this change will be positive for the industry as there will be better visibility as to the profitability of the LDB and BCLDB. This change is ongoing and has not been fully implemented, so Liquor Stores cannot fully assess the impacts of this change.*

7. BC government owned liquor stores (LDB's) should operate on the same basis as private LRS stores. This means, they should receive the same wholesale prices through the British Columbia Liquor Distribution Branch, and be required to establish retail prices that support their businesses. They should be able to acquire and install refrigeration equipment in the same manner as LRS's. They should be permitted to maintain the same operating hours as LRS stores (9 am – 11 pm). And they should be required to adhere to and be protected by the 1 km rule for future locations.

   - *We believe that this change may result in increased competition as the Government liquor stores extend their operating hours and their offering to consumers (e.g. more Government liquor store locations may offer cold beer).*

8. Licensees should be permitted to store liquor in secure, off-site locations, subject to notifying the regulator (this is currently not permitted).

   - *We believe that this change, if adopted, will be positive in the long-term for the Corporation as we may be permitted to have off-site storage, which would allow us the opportunity to better leverage our size in the province when buying inventory. The BC Liquor Control Licensing Branch is currently undertaking a policy review and stakeholder consultation of regarding warehousing storage regulations and we anticipate their recommendations forthwith.*

9. Individual establishments that are part of a larger company (i.e. a chain retailer) should be able to transfer $10,000.00 worth of liquor between locations per year

   - *We believe that this change, if adopted, will be positive for the Corporation as we will be able to transfer inventory between our store locations.* The BCLCLB is currently undertaking a policy review and stakeholder consultation of "Store Transfer Limits" in conjunction with warehousing regulations and we anticipate their recommendations in 2016.

See "Risk Factors – Government Regulation" for additional Information on potential liquor policy regulatory and legislative changes.

**British Columbia Advertising and Promotion**

Advertising is permitted subject to restrictions imposed by advertising policy guidelines under the *Liquor Control and Licensing Ac*t (British Columbia) and the CRTC. Liquor advertising may include the prices and brands of liquor available (including pricing specials) and licensees may enter into agreements with liquor manufacturers to promote and feature their products. Advertisements that encourage intoxication or target minors are prohibited, amongst other rules.

**British Columbia Supply**

Liquor Stores, like other retailers, purchases most of its products from the BCLDB, the sole importer of liquor products into British Columbia. BCLDB has distribution centers in Vancouver and Kamloops and purchases products from suppliers and manufacturers in British Columbia and in other provinces and countries. Licensed manufacturing sites in British Columbia include 346 wineries, 145 breweries and brew pubs, and 60 distilleries[4].

Liquor Stores, again like other retailers, purchases B.C. wine directly from the wineries and domestic beer from Brewers Distributor Ltd. ("BDL"), a private joint venture company owned by InBev (parent company of Labatt Breweries) and Molson-Coors (parent company of Molson Breweries). Privately-owned retail liquor stores must purchase all other liquor products directly from BCLDB.

**British Columbia Wholesale and Delivery Pricing System**

Unlike Alberta, there is no requirement that British Columbia wholesalers must sell product to all public and private retailers at the same price. The BCLDB used to sell to privately-owned retail liquor stores at a discount of 16% from the listed BCLDB retail price; however, as described above, the Report suggested changes to this structure. In addition, suppliers, including the BCLDB, decrease the wholesale prices of certain products from time-to-time pursuant to limited time offers. The 16% discount was in effect since January 2007. The new wholesale pricing model was part of the Report's recommendations that took effect on April 1, 2015. Retailers, including LDB's, now purchase their product from the BCLDB at a common wholesale price. Previously, different retailers operated with different discounts based off the LDB display price.

The BCLDB has month-long LTOs and three-month long temporary price reductions (TPR's) with a limited time frame to purchase. As in Alberta, Liquor Stores strives to achieve savings by purchasing larger volumes at the discounted prices and managing inventories to maintain stock until the next discount, however, in British Columbia, storing inventory off-site and transfers amongst stores are not permitted.

Akin to the Alberta system of liquor distribution, a "postage stamp" rate (i.e. every retailer pays the same delivered price per case for delivery regardless of the location of the retailer) applies to all products distributed from BCLDB in British Columbia. Similarly, the beer manufacturers deliver with freight charges included in the price per unit so every retailer pays the same landed price for beer.

***The Alaska Competitive and Regulatory Environment***

The supply and distribution of alcoholic beverages in the United States is regulated through state and federal legislation. The 50 states are split into two categories: control states, and licensure states. There are 17 control states that directly regulate alcohol sales by controlling retail and/or wholesale distribution. Each control state is also a member of the National Alcoholic Beverages Control Association. The remaining 33 states are licensure states that issue licenses to private sellers. Certain licensure states delegate control to a more regional level (for example, counties). Each state/region has its own Alcoholic Beverage Control Board. These boards are

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[4] Source: BC LBD website, report "All Licensed Establishments in B.C.".

regulatory and quasi-judicial agencies that control the manufacture, barter, possession and sale of alcoholic beverages in each state. Alaska is a licensure state and regulates alcohol sales through the Alaska Alcoholic Beverage Control Board (a division of the Alaska Department of Commerce, Community, and Economic Development) ("**ABCB**").

Operating pursuant to the authority of Chapter 6, Title IV of the *State of Alaska Statutes*, the ABCB enforces the Alcoholic Beverage Statutes and Regulations contained in the Alaska Statutes and Administrative Code. The ABCB issues operating licenses to private business under Alaska law, which limits the number of retail liquor (package liquor) stores in urban areas to one license per 3,000 people. Licenses are transferable within each municipality but cannot be used outside of the municipality. Licenses may be obtained by application for a newly available license if the population has grown to warrant a new license or by purchasing a license from an existing licensee.

Alaska's cities, such as Anchorage, Fairbanks, and Juneau have a wet designation (no restriction on volume of sales within community) with liquor stores, restaurants and bars that serve alcohol. Some grocery retailers have liquor stores adjacent to their location however the alcohol and grocery premises are separate. Local communities have the right to elect a dry designation (prohibiting barter, possession or sale of alcohol) or a damp designation (prohibiting licensed premises but allowing and limiting the possession and import of alcohol). Urban retailers, when receiving orders involving the shipment of alcohol, are required to respect dry and damp community regulations. As at the date hereof, Liquor Stores owns and operates 22 stores in Alaska, representing approximately 6% of the 365 licensed liquor stores in the state[5]. Liquor Stores operates approximately 19% of the approximately 114 stores in the Greater Anchorage, Wasilla and Fairbanks areas[6].

An ABC Steering Committee has submitted a comprehensive piece of legislation pertaining to a rewrite of Title IV of the Alaska Alcohol Statutes. Proposed changes affecting package stores (which Liquor Stores though subsidiaries operates) include allowing limited in store sampling of small quantities of alcohol and changing the way package stores can hold larger tasting events. The proposed amendments to Title IV also include a section on industry trade practices that restrict the actions of manufacturers and wholesalers to exercise undue influence on retailers (largely based on existing United States federal law, with changes to include beer which is sometimes excluded under federal law and to not require interstate commerce). Liquor Stores does not anticipate a material impact on its operations from any changes that have been proposed. The Bill pertaining to the rewrite of Title IV was filed March 13 as Senate Bill 76.

**Alaska Store Operations**

The minimum age to purchase alcohol in Alaska is 21 years, and persons under the age of 21 may not enter or remain in package store licensed premises unless accompanied by a parent, legal guardian or spouse over the age of 21 years. Liquor stores may exclude underage persons from licensed premises at any time.

In November of 2013, Liquor Stores opened, under the brand name Brown Jug, a flagship store in Fairbanks, which is its first venture outside the Greater-Anchorage region. There are 14 other package stores in Fairbanks, however the new Brown Jug is the largest, at 14,000 square feet, and Management believes it offers the best selection of wine, spirits, and beer in the Greater Fairbanks trade area.

Licensed businesses, including liquor stores, are permitted to remain open from 8 a.m. to 5 a.m. every day of the week. Municipalities are permitted to limit hours of operation by ordinance. The municipality of Anchorage has elected to restrict liquor store operating hours, as a result of which Brown Jug stores open at 10 a. m. Monday through Saturday, and 12 p.m. on Sunday. The stores in Anchorage are required to be closed by 1 a.m.

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[5] Alcohol & Marijuana Control Office https://www.commerce.alaska.gov/web/amco/OtherAlcoholResources.aspx

[6] Alcohol & Marijuana Control Office https://www.commerce.alaska.gov/web/amco/OtherAlcoholResources.aspx

Sunday through Thursday nights, and 2 a.m. on Friday and Saturday nights. Brown Jug's operating hours vary by location depending on specific markets. The Fairbanks store is required to be closed at midnight.

Business premises occupied by a holder of a liquor license may not be connected to a door, opening, or other means of passage intended for access to the general public to an adjacent retail business, unless approved by the ABCB (grocery stores operate in this manner).

Each license must be issued to a specific individual, corporation, limited liability organization or partnership. If issued to a corporation or a limited liability organization, the registered agent must be a resident of Alaska.

A liquor license may not be issued if the licensed premises would be located in a building where the public entrance is within 200 feet of a school ground or church building.

In addition to a liquor license, in most cases the holder must have a Conditional Use Permit issued by the municipality, approving the placement and operation of the license.

**Alaska Advertising and Promotion**

Alaska has few state requirements or regulations relative to the advertising of alcoholic beverages for liquor stores (dealing only with false advertising or disclosure of mixed beverages being wine based, if applicable), however, except for certain limited exceptions, federal laws prohibit co-operative advertising between a liquor store and a manufacturer or wholesaler.

**Alaska Supply**

Alaska utilizes a three-tiered distribution system comprised of manufacturers, wholesalers, and retailers. Package Store retailers may only purchase product from Alaska licensed wholesalers or Alaska licensed breweries, wineries or distilleries or other Alaska licensed package stores who in turn purchased the product from Alaska licensed wholesalers.

**Alaska Wholesale and Delivery**

Unlike Alberta where there is a requirement that wholesalers must sell product to all public and private customer at the same price, in Alaska Liquor Stores is able to fully negotiate the wholesale cost of products directly from the distributors. Retailers are also offered retailer incentive programs ("RIPS") for large volume discounts. Liquor Stores' operations and ordering system is aligned to take full advantage of RIPS, and has leased a large warehouse in Anchorage to store significant volumes of discounted products. Further advantages flow to the larger retailers in Alaska (such as Liquor Stores) at fiscal quarter-ends and year-ends of distributors because distributors routinely offer clearance pricing on products. Liquor Stores' ability to make larger volume purchases in Alaska can have significant impacts on our margins.

**Alaska Industry and Lobbying Activities**

Liquor Stores (through Brown Jug) is a member of the Alaska Cabaret, Hotel, Restaurant & Retailers Association ("**CHARR**"), a state-wide non-profit lobbying organization dedicated to serving the needs of the hospitality and retail liquor store industry in the State of Alaska. Lobbying activities at the local, state, and national levels assist CHARR in its top priorities of instituting legislative changes directed toward: reducing drunk driving, providing responsible service, and reducing the illegal consumption of alcohol by minors. Brown Jug is also a founding member of the Anchorage Responsible Beverage Retailers Association, ARBRA, which promotes responsible retailing, and works to alleviate problems associated with chronic inebriates; In 2015, Liquor Stores ceased its affiliation with ARBRA instead focusing time and financial resources on engaging directly with communities where Liquor Stores does business; allowing Liquor Stores more direct community involvement and involvement in other initiatives in the state.

***The Kentucky Competitive and Regulatory Environment***

Akin to Alaska, Kentucky is a licensure-type state and administers statutes and regulates traffic in alcohol beverages through the Office of Alcoholic Beverage Control ("KYABC"). Operating pursuant to the authority of the *Kentucky Revised Statutes Chapters 241-244,* the KYABC issues retail package liquor licenses (selling alcohol "by the package" for off premises consumption) to private business, with a restriction that the number of retail package liquor licenses in any county shall not exceed one for every 2,300 residents (however in Louisville, licenses are restricted to one license per 1,500 people).

As of October 2016, (which, to the best of Liquor Stores' knowledge is the date of the most recent public information) the KYABC reports that of the 120 counties in Kentucky, 20 are completely dry, 55 are considered partially dry or "moist" and 45 are entirely wet. A dry county has no alcohol sales of any kind. The rest are either "moist" (allowing some form of alcohol sales in some part of the county) or "wet" (allowing full alcohol sales throughout the county). "Moist" can be as small as an historical site serving wine with lunch in an otherwise "dry" county, or as expansive full package and by-the-drink alcohol sales in cities within an otherwise "dry" county. "Moist" can involve golf courses, small farm wineries, restaurant sales only (50-seat limit or 100-seat limit), and package stores in a myriad of combinations. For example; Liquor Barn operates large, full-selection stores in Bowling Green and Danville. Both of those cities are located in counties (Boyle and Warren, respectively) that are otherwise "dry".

Although beer is sold in grocery stores and in gas stations in Kentucky, current liquor licensing legislation effectively prohibits the sale of wine and spirits in these businesses. Specifically, Kentucky statute *KRS 243.230(5)* expressly provides that "no retail package or drink license for the sale of distilled spirits or wine" shall be issued for any premises used as or in the connection with the operation of any business "in which a substantial part of the commercial transaction consists of selling at retail staple groceries or gasoline and lubricating oil." Applicable regulations define "substantial part of the commercial transaction" to mean "10 percent or greater of the gross sales receipts as determined on a monthly basis" and staple groceries are defined as "any food or food related product intended for human consumption, except alcoholic beverages, tobacco, soft drinks, candy, hot foods, and food products prepared for immediate consumption." Many drug stores in the state have obtained retail package liquor licenses and offer liquor, wine, and beer for sale because their staple grocery sales fall under the statutory threshold. On a similar note, certain Liquor Barn locations carry fine cheeses, deli items, and other non-alcoholic products for sale, with its sales of these limited items falling under the statutory threshold.

"Distance rules" are a consideration in the placement of liquor stores in Kentucky. Although prior state statutes and local ordinances regulating how close liquor stores could be from churches and schools have generally been repealed, current state statutes and local ordinances still limit how close a retail package store may be located to another retail package store in certain "combination business and residential areas" (700 feet in Louisville and Lexington), which generally are areas of the county outside of the downtown business district. In the metro Louisville area, the City of St Matthews also has a similar 700 foot limitation.

As the date hereof, Liquor Stores owns and operates 15 stores in Kentucky. Management estimates that on a store count basis Liquor Stores' stores represents about 1.5% of the approximately 1,005[7] licensed package

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[7] Alcoholic Beverage Control Public Protection Cabine; Licensing Reports: https://dppweb.ky.gov/ABCStar/portal/abconline/page/View_Reports/portal.aspx

liquor stores in Kentucky; however, Management also believes that these stores represent approximately 10% of overall state alcohol sales (excluding sales of alcohol in restaurants and bars).

As of July 15, 2016, certain new regulatory changes came into effect in the Kentucky market, but such changes are not expected to materially affect Liquor Stores' business.

**Kentucky Store Operations**

The minimum age to purchase alcohol in Kentucky is 21 years, and persons under the age of 21 may not enter or remain in premises licensed for package liquor sales unless accompanied by a parent or legal guardian over the age of 21 years. Liquor stores may exclude underage persons from licensed premises at any time.

Hours of operation for alcohol sellers vary widely by type of license and location. Municipalities are permitted to limit hours of operation by ordinance. The municipalities of Louisville, Danville, Bowling Green and Lexington have elected to restrict liquor store operating hours. Liquor Barn stores open at 9 a.m. Monday through Saturday, and 1 p.m. on Sunday. They close at 10 p.m. Monday through Thursday, 12 p.m. Friday and Saturday and 9 p.m. Sunday. Liquor Barn's operating hours can vary occasionally by location depending on holiday considerations – especially Kentucky Derby week. Liquor Barn's smaller-format Express stores are often open for extended hours (as compared to the larger-format Liquor Barn locations).

Kentucky has a number of administrative regulations relative to the advertising of alcoholic beverages for liquor stores, including prohibitions on advertising which contains false, misleading or disparaging statements, and prohibitions on the usage of certain words (e.g. "bonded" or "pure"), statements of age, statements of curative or therapeutic effects, or pictorial representations of flags, seals, coats of arms, crests or other insignia. Except for certain limited exceptions, federal laws prohibit co-operative advertising between a liquor store and a manufacturer or wholesaler of liquor, wine, or beer.

**Kentucky Supply**

Kentucky utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers may only purchase alcohol products from distributors. Retailers are not allowed to purchase alcohol directly from manufacturers. This includes products from small Kentucky wineries – they must be purchased through a distributor.

**Kentucky Wholesale and Delivery**

Similar to Alaska, in Kentucky retailers are offered RIPS for large volume purchases. Liquor Barn's large-scale operations, ordering and warehousing system is designed to achieve full benefit of RIPS.

**Kentucky Industry and Lobbying Activities**

Liquor Stores participates in ongoing state-wide lobbying activities to advocate on behalf of retail package stores and the retail liquor industry in general. In Kentucky we are one of the two primary members of the Kentucky Retailers' Coalition and we are also currently active in the reconstitution of the Kentucky Association of Beverage Retailers, being the state wide lobbying voice for the retail/package store industry in Kentucky.

### *The New Jersey Competitive and Regulatory Environment*

On January 4, 2016, Liquor Stores acquired 51% of Birchfield, which is the owner and operator of 2 large format stores in New Jersey.

The *New Jersey Alcoholic Beverage Control Act and Alcoholic Beverage control Regulations* provide for an issuing authority in each municipality to issue, renew and transfer retail licenses and provides for enforcing that law, A.B.C. rules and regulations and local ordinances pertaining to the control of alcoholic beverages. The issuing authority is the governing body of the municipality unless the municipality establishes a municipal board, which is commonly known as an "Alcoholic Beverage Control Board" or "A.B.C. Board." An A.B.C. Board may be established in any municipality that has a population of at least 15,000. The A.B.C. Board consists of three members appointed on a bipartisan basis for 3-year terms.

As at November 2015, according to the Office Of The Attorney General Division Of Alcoholic Beverage Control, there were 20 municipalities with A.B.C. Boards: Atlantic City, Camden, Clifton, East Orange, Elizabeth, Galloway, Garfield, Hillside, Hoboken, Jersey City, Linden, Newark, North Bergen, Orange, Passaic, Paterson, Rahway, Secaucus, West New York and West Orange. Once a municipal A.B.C. Board has been created, it has all of the powers, duties and obligations that the governing body of the municipality would ordinarily exercise relative to the issuance, transfer, enforcement and discipline of retail licenses within the municipality.

Currently in New Jersey, a single person/company can only hold two off premise licenses. Increasing the number of licenses that can be held may impact current stores in New Jersey but will also provide Liquor Stores with the opportunity to open and/or consider additional opportunities and stores in New Jersey.

### New Jersey Store Operations

A person must be 21 years of age or older to legally purchase or consume any alcoholic beverage on a licensed premise.

Since 1948, new retail consumption and distribution licenses can only be issued by a municipality if its population, by last federal census, exceeds certain limits. With certain limited exceptions, for every 3,000 persons a town can issue one consumption license, and it can issue one distribution license for every 7,500 persons. Licenses issued in excess of that population cap under previous laws were allowed to continue in existence under a grandfather clause. Every town is entitled to issue one consumption license and one distribution license even if the population is less than one thousand.

Because of the population caps, new licenses generally are only issuable in growing municipalities. Those municipalities often auction off their new licenses to the highest bidder, although they can also set certain conditions (operate a restaurant, public accommodation or other facility) and accept applications meeting those conditions.

Generally, a municipality, by ordinance, establishes the lawful hours during which alcoholic beverages may be sold. In some municipalities, referenda have been held to establish or limit the hours or days of sale. By A.B.C. regulation, no retail licensee may sell spirituous liquors in original containers (package goods) before 9:00 a.m. and after 10:00 p.m. on any day of the week. Municipalities can further limit these hours by ordinance or referendum and frequently do so as far as Sunday mornings are concerned.

**New Jersey Advertising and Promotion**

Retail licensees may individually run advertisements in newspapers, circulars, coupon packages, radio, television or any other media that regularly promote business to potential customers. The contents of the advertising can be anything that is not prohibited or which would cause a violation of law or regulation. Prices can be advertised provided they are not below cost (sales below cost are generally prohibited in New Jersey). An advertisement may also indicate that a manufacturer's rebate is available. Where sale prices are advertised, a retailer will generally not be able to compare the sale price to a "regular price." The Alcoholic Beverage Control Law prohibits a manufacturer, supplier or importer from having an interest, directly or indirectly, in a retail license in New Jersey or in the retailing of alcoholic beverages. Therefore, advertising support or inclusions of a retailer's name in a supplier's advertisement could be considered a violation of applicable laws, including those of the state and federal "tied house" provisions.

**New Jersey Supply**

New Jersey utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers may only purchase alcohol products from distributors. Retailers are not allowed to purchase alcohol directly from manufacturers.

**New Jersey Wholesale and Delivery**

Generally, alcoholic beverages can only be stored in an area that is included in the licensed premises or in a licensed public warehouse. In case of a temporary need to store alcoholic beverages elsewhere, a licensee may apply to the Division of A.B.C. for a special permit to store off the licensed premises.

**New Jersey Industry and Lobbying Activities**

Liquor Stores, through its interest in Birchfield, participates in ongoing state-wide lobbying activities to advocate on behalf of retail package stores and the retail liquor industry in general. Joe Canals is a member of the New Jersey Liquor Store Alliance.

***The Connecticut Competitive and Regulatory Environment***

On October 20, 2016, Liquor Stores opened its latest beverage store brand, LQR MKT, in Norwalk, Connecticut. This is Liquor Stores' first store under the LQR MKT brand.

The approximately 20,000 square foot store features a selection of over 1000 beers, 200 spirits and 4000 wines along with the largest walk-in cooler in Norwalk. The store employs approximately 40 to 45 team members.

**The Connecticut Competitive and Regulatory Environment**

The Connecticut Department of Consumer Protection regulates all persons and firms involved in distributing, selling, and dispensing alcoholic beverages or liquor in order to prevent sales to, amongst others, minors and intoxicated persons, maintain product integrity, and ensure that licensed premises are safe and sanitary.

Through the Liquor Control Division, the aforementioned Department of Consumer Protection enforces the Connecticut Liquor Control Act and its corresponding regulations. The Liquor Control Division is the primary investigative arm of the Connecticut Liquor Control Commission.

The Connecticut Liquor Control Commission oversees permitting and holds formal administrative hearings and informal hearings (compliance meetings) regarding, among other things, suitability of permit applicants and permit premises; obtaining liquor permits; and allegations regarding sales to minors, sales to intoxicated persons, and unlawful activity occurring on licensed premises.

The Connecticut Liquor Control Commission also acts on matters delegated by its commissioner, which include, but are not limited to: review and approval of final liquor permits; substitute permittee applications; and patio requests; and other matters that come before the Commission for consideration and adjudication.

**Connecticut Store Operations**

In Connecticut, a person must be 21 years of age or older to legally purchase or consume any alcoholic beverage on a licensed premise. Minors are not permitted on the premises of a package store without being accompanied by his or her parent or guardian.

Connecticut allows liquor stores and other off-premises sales locations to operate:

- Monday through Saturday: 8:00 a.m. to 10:00 p.m.
- Sunday 10:00 a.m. to 6:00 p.m.

Any town may, by vote of a town meeting or by ordinance, reduce the number of hours during which sales are allowed. The sale of alcoholic liquor (as that term is used in the Connecticut regulatory regime to include alcohol, beer, spirits and wine) in places operating under a package store permit is not allowed on Thanksgiving, New Year's Day, or Christmas Day.

In Connecticut, package stores may offer free samples of alcoholic liquor for tasting on the premises, conduct fee-based wine education and tasting classes and demonstrations, and conduct tastings or demonstrations provided by a permittee. Any offering, tasting, wine education and tasting class or demonstration held on permit premises shall be conducted only during the hours a package store is permitted to sell alcoholic liquor. Wine tastings, on the premises, may not be offered for more than ten uncorked bottles at any one time.

Tasting size limits (per person) are:

- Beer - 2 ounces
- Wine - 1 ounce
- Spirits - ½ ounce

**Connecticut Advertising and Promotion**

Several restrictions apply to advertising of alcohol in Connecticut. Advertisement of alcoholic liquor shall not contain: (1) Any statement that is false or misleading in any material particular or is otherwise in violation of the Connecticut Unfair Trade Practices Act, Sec. 42-110b et seq., of the Connecticut General Statutes; (2) any statement that is disparaging of a competitor's products; (3) any statement, design, device or representation which is obscene or indecent; (4) any statement, picture or illustration referring to Easter, Holy Week, Mother's Day or "Santa Claus," including names synonymous with "Santa Claus," or the name of or any reference to or depiction of any biblical character, provided nothing herein shall operate to prohibit references to the Christmas holiday season if such references do not include statements, pictures or illustrations on strictly religious themes; (5) any statement, picture or illustration implying that the consumption of alcoholic liquor enhances athletic prowess, or any statement, picture or illustration referring to any known athlete, if such statement, picture or illustration implies, or if the reader may reasonably infer, that the use of alcoholic liquor contributed to such known athlete's athletic achievements; (6) any scene in which is portrayed a child or objects, such as toys, suggestive of the presence of a child or which in any manner portrays the likeness of a child or contains the use of figures or symbols which are customarily associated with children; (7) any offer of a prize or award to a consumer upon the completion of any contest in which there is a requirement to purchase the advertised product; provided no advertisement for alcoholic liquor shall promote a game of chance or a lottery; or (8) with regard to any advertisement for wine, any statement, design, device or representation which relates to alcoholic content or which tends to create the impression that a wine is either "unfortified" or "fortified," or has intoxicating qualities, or contains spirits.

Cooperative advertising between a producer, manufacturer, bottler, importer or wholesaler and a retailer of alcoholic liquor is also prohibited.

Package stores in Connecticut may not use any electric or neon sign to advertise the sale of any registered brand of alcoholic liquor. Advertisements may not be attached to the outside of any premises and there shall be no advertising, labeling, bottling or canning of alcoholic liquor which, in any way, deceives or tends to deceive a purchaser or consumer of such alcoholic liquor as to the nature, quality or quantity of such liquor.

Pursuant to the Connecticut Liquor Control Act, no package store shall directly or indirectly offer, furnish or receive any free goods, gratuities, gifts, prizes, coupons, premiums, combination items, quantity prices, cash returns, loans, discounts, guarantees, special prices or other inducements in connection with the sale of alcoholic beverages or liquors.

A holder of a manufacturer permit or out-of-state shipper's permit shall clearly and conspicuously state their liquor permit number in its advertising when soliciting or offering wine for direct shipment to a consumer in Connecticut (via the Internet) or any other on-line computer network.

**Connecticut Supply**

Connecticut utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers may only purchase alcohol products from distributors. Retailers are not allowed to purchase alcohol directly from manufacturers.

**Connecticut Wholesale, Pricing and Delivery**

A package store permit holder may store sufficient quantities of alcoholic liquor as may be necessary for their business operations, on the premises and at one (1) other secure location registered with and approved by permit.In Connecticut, package stores are prohibited from selling below "cost". The consequence is retailers cannot sell alcohol for prices lower than the price set by the Connecticut Liquor Control Division. However, there is currently a Senate bill in Connecticut to consider abolishing "minimum pricing" legislation.

**Connecticut Industry and Lobbying Activities**

Liquor Stores participates in ongoing state-wide lobbying activities to advocate on behalf of retail package stores and the retail liquor industry in general with our state industry association. Liquor Stores is a member of the Connecticut Package Stores Association (CPSA).

***Store Leases***

In Canada and the United States Liquor Stores leases all but one of its store premises (and it also leases its head office and all warehouse premises). Liquor Stores' store leases typically have a 10 year initial term with numerous five (5) year options to renew, which, depending on the lease, may extend the lease a further 10 to 20 years. The average time to expiration of our leases, including renewals, is approximately 12.75 years. The leases are held by various landlords.

***Maintenance and Capital Expenditures***

Liquor Stores' expenditures on facilities and equipment fall into three categories: repairs and maintenance; renovations and replacements; and growth. Repairs and maintenance expenditures are budgeted in operations and expensed in the year incurred. Renovation and replacement expenditures are made to refurbish stores and replace equipment and are capitalized. Growth expenditures, which include the costs of building new stores, acquiring and renovating existing stores, and the purchase of new equipment, are also capitalized. Liquor Stores renovated approximately 3.9% of its then existing stores in 2016; please see “Company Strategy” above for a further discussion of renovations.

***Management Information Systems***

Liquor Stores presently utilizes a centralized point of sale system in all of its stores called Retail Management System (“RMS”). This Microsoft-designed system is specifically designed for multi-store retail businesses and it provides Liquor Stores with access to real-time and accurate inventory reporting and cash control. Following a recently-completed in-depth review of RMS, Management believes it has the ability to further build on its competitive position by replacing RMS with a new enterprise resource planning (“ERP”) information technology system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide us with a scalable growth platform that will allow us to grow organically and smoothly integrate newly-acquired businesses. Implementation of the ERP has currently been deferred; please see “Company Strategy” above.

***Seasonality***

The liquor retailing industry is subject to seasonal variations. Based on Liquor Stores’ same store sales for the year ended December 31, 2016, approximately 46% of Liquor Stores’ sales occurred in the first half of the year and 54% occurred in the second half of the year.

***Employees***

Liquor Stores had approximately 2,277 full and part time employees as of December 31, 2016, comprised of approximately 1,721 employees with respect to its Canadian operations and 556 employees with respect to its U.S. operations. Liquor Stores has no unionized employees. Liquor Stores’ Canadian and U.S. management teams, certain head-office employees, store managers and assistant managers are salaried. Birchfield has approximately 95 employees not included in the foregoing.

***Dependence on Foreign Operations***

Approximately 35% of Liquor Stores’ annual sales for the year ended December 31, 2016 were attributable to Liquor Stores’ operations in the United States. Based upon Liquor Stores’ current store-numbers in the United States, Management anticipates that its U.S. operations will contribute a similar percentage of Liquor Stores’ annual sales for the year ended December 31, 2017. United States sales are expected to increase as a result of a full year of operations of the new large format store we opened in Norwalk, Connecticut in October of 2016 but those sales are anticpated to be offset by an increase in Canadian same store sales including anticipated uninterrupted operation in Fort McMurray (where we experienced interruption to our business from large scale fires in that region).

## 10. DEVELOPMENT OF OUR BUSINESS

***Corporate Conversion***

On December 31, 2010, Liquor Stores completed a corporate conversion which resulted in the reorganization of Liquor Stores Fund (an income trust) into Liquor Stores (a corporation) and the unitholders of Liquor Stores Fund becoming shareholders of Liquor Stores. Liquor Stores and its Subsidiaries now carry on the business formerly carried on by Liquor Stores Fund and its Subsidiaries. On January 7, 2011, our Common Shares commenced trading on the TSX.

The following is a description of the general development of our business over the last three completed financial years.

***Business Growth***

In the last three financial years Liquor Stores has grown through a combination of greenfield opportunities and acquisitions. In 2016, Liquor stores opened one store in Alberta, one large format store in Connecticut (our first in that state), and acquired a 51% interest in Birchfield (with an option to acquire the remaining 49%) which owns two large format liquor stores in New Jersey (our first interest in this state as well). Liquor Stores also closed 3 stores in 2016. In 2015 Liquor Stores opened nine new stores in Alberta, one in British Columbia and three in Kentucky and closed 4 stores in total. In 2014 Liquor Stores opened five new stores in Alberta, one in Alaska, and acquired one store in Kentucky; and closed a total of 10 stores.

Management believes that in light of the increased competitive landscape in the Alberta retail liquor market, creating a successful large-format destination store (as opposed to a more convenience-focused store) is a true market differentiator. Management anticipates measured growth with this large-format store concept.

***Ongoing Acquisition and Financing Activities***

*Potential Acquisitions*

Liquor Stores is frequently engaged in the process of evaluating several potential liquor store acquisitions at any one time which individually or in the aggregate could be material. As of the date hereof, Liquor Stores has not reached agreement on the price and terms of any potential material acquisitions. Liquor Stores cannot predict whether any current or future opportunities will result in one or more acquisitions for Liquor Stores.

*Completed Financings*

The Company issued 3,927,250 Common Shares on December 19, 2014 (the "2014 Financing") for aggregate gross proceeds of $57.5 million. Liquor Stores also issued the 2016 Debentures in September 2016.

*Potential Financings*

Liquor Stores continuously evaluates its capital structure, liquidity and capital resources, and financing opportunities that arise from time to time. Liquor Stores may in the future complete financings of Common Shares or debt (which may be convertible into Common Shares) for purposes that may include the financing of acquisitions, the financing of Liquor Stores' operations and capital expenditures (including new store developments), and the repayment of indebtedness. Liquor Stores cannot predict whether any current or future financing opportunity will result in one or more material financings being completed.

***Significant Acquisitions***

Liquor Stores did not complete an acquisition during its most recently completed financial year that constituted a significant acquisition for the purposes of Part 8 of National Instrument 51-102.

## 11. RISK FACTORS

The following is a summary of certain risk factors relating to the affairs and business of Liquor Stores. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Shareholders and potential Shareholders (and other security holders) should consider carefully the information contained herein and, in particular, the following risk factors. These risks and uncertainties are not the only ones facing Liquor Stores. Additional risks and uncertainties not currently known to Liquor Stores, or that Liquor Stores currently considers immaterial, may also impair 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, with a resulting decrease in or elimination of the dividends paid on, and the market price of, the Common Shares.

**Risks Related to Liquor Stores' Business**

***Government Regulation***

Liquor Stores operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the States of Alaska, Connecticut, Kentucky and New Jersey. Decisions by the Alberta Gaming and Liquor Commission ("AGLC"), British Columbia Liquor Control and Licensing Branch ("BCLCLB"), Alaska Alcoholic Beverage Control Board ("ABCB"), Connecticut Liquor Control Commission ("CLCC") ,the New Jersey Division of Alcoholic Beverage Control (the "NJABC") and Kentucky Department of Alcoholic Beverage Control ("KYABC") and rules enacted by them or by other governmental authorities (including state, provincial, county, municipal or other local governments), new legislation, regulations, rules, or bylaws, or changes to existing legislation, regulations, rules, or bylaws, can materially impact the operations of Liquor Stores, both favourably and unfavourably. Changes in legislation, regulations, rules or bylaws may arise as a result of a multitude of factors, including but not limited to citizen referenda.

There is no assurance that the operations or licensing of Liquor Stores (or the amount of cash available to Liquor Stores for the payment of dividends) 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; iii) new interpretations of existing legislation, regulations, rules or bylaws; or iv) decisions of the AGLC, the BCLCLB, the ABCB, the CLCC, the KYABC, the NJABC or other governmental entities (including state, provincial, county, municipal, or other local governments) or applicable courts.

Of particular note:

### Alberta

*City of Edmonton*

The pre-existing bylaw regulations required liquor stores to be located at least 500 metres (the "500m Zoning Bylaw") away from each other (subject to grandfathering).

On December 12, 2016, Edmonton City Council approved changes to the way its planning Bylaw regulates the separation distance between liquor stores on and around larger commercial sites within certain areas in Edmonton (suburban). This change, in effect, creates an exemption area to the existing bylaw, if certain conditions are met, that required liquor stores be 500 metres apart. The changes to the Bylaw allow liquor stores to be within 500 metres each other if:

1. the liquor stores are located on separate "sites" (as that term is defined in the bylaw);
2. the liquor stores are located outside the boundary of the non-exemption area prescribed in the bylaw; and
3. at least one of the liquor stores is located on a site greater than 2.5 hectares in size and on a "Direct Control" (a zoning category) or commercially zoned Site.

The exemption to the separation distance requirement will provide some opportunity to establish additional liquor stores to Liquor Stores and its competitors on and around large commercial sites in suburban areas, while maintaining the general requirement to have 500 metres between new liquor stores in identified central non-exempted neighbourhoods.

The 100 meter separation distance requirement remains unchanged for sensitive locations such as parks, schools, community league buildings and recreation centres.

## British Columbia

As noted above, approximately 90% of the 73 recommendations from the Liquor Policy Review Report have been implemented, with the remaining 10% requiring legislative changes that are anticipated to come into effect in the coming months. Management believes these changes will assist in creating greater business efficiencies including: new rules permitting the warehousing of inventory, the ability to transfer inventory between stores, the retention of the existing "1 km rule" that requires that no new liquor retailer be located within 1 km of an existing liquor retailer, and the elimination of the existing "5 km rule" that currently limits liquor retailers from relocating their license outside of a 5 km radius of their current location. The Report also included recommendations that could lead to, over the long-term, increased competition for liquor retail sales in that province, including a recommendation to introduce liquor sales into grocery stores. While grocery stores have been permitted to sell liquor since April 1st, 2015, as noted above, as of the date hereof Liquor Stores is not aware of any currently doing so with a full service "store-within-store" concept. The impact thus far on Liquor Stores has not been significant. While this policy change is expected to add to competition in the marketplace, Liquor Stores will also be in a position to participate in that limited expansion. In the near term, we continue to anticipate competition will not increase significantly as no new retail liquor licenses are expected to be issued by the province and therefore should grocery stores want to sell beer, wine and spirits, they will need to acquire licenses from existing operators and comply with the 1 km rule.

In early 2017, the U.S. Trade Representative's office announced it was taking Canada and the BC government to the World Trade Organization, for what it alleges is a discriminatory system in which only BC wine is allowed for sale alongside food in grocery stores. The result of this trade action could be that there is a greater selection of alcohol products at BC grocery stores.

## Connecticut

In early 2017, Connecticut's Governor announced a legislative proposal to repeal the current law that requires package stores (retailers) to sell alcohol at minimum set pricing.

## Kentucky

Last year we anticipated that a "Wine in Grocery Bill" (a law to allow wine sales in grocery stores) would be introduced that year (2016). To date, it has yet to be introduced and it is unclear if such a bill will be introduced in the State Legislature during the 2017 legislative session due to it being a short legislative sitting (30 days). Given the uncertainties surrounding the actual timing of introduction of the legislation and the details of the regulatory model, it is difficult to quantify the potential impacts that this may have on our Kentucky stores at this time.

## New Jersey

*Pennsylvania Privatization*

Relevant to New Jersey liquor retailers is the possibility of the privatization of the Liquor retail system in Pennsylvania. Considering Liquor Stores acquisition of 51% of Birchfield, and the close proximity of its two Joe Canal's Discount Liquor Outlet stores to Pennsylvania and the Pennsylvania retail liquor market, we believe that privatization in Pennsylvania may negatively impact our sales in New Jersey. However, this could also provide Liquor Stores with the opportunity to expand into a new market.

***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 B.C. 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, and its Kentucky stores are operated pursuant to licenses issued by the KYABC, which are due for renewal on an annual basis. New Jersey licenses are issued by the NJABC in conjunction with municipalities and must be renewed 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. See "Description of our Business".

***State of Economy***

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 adversely affect the availability of cash for the payment of dividends.

Deteriorating economic conditions in Alberta and Alaska resulting from a sharp and rapid decline in the price of oil and increase in unemployment levels in the province (unemployment rate per Statistics Canada at January 2017: 8.8%; January 2016: 7.6%; January 2015: 4.6%), have had, and may continue to have, an impact on Liquor Stores' operating results. Please see MD&A Disclosure for a discussion of impacts the Alberta and Alaskan economy had on Liquor Stores' business in 2016.

***Competition***

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia and the States of Alaska, Connecticut, New Jersey and Kentucky 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 in turn could materially adversely affect Liquor Stores' business and the results of our operations.

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.

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 kilometre 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 entrants who are able to enter into the market. As noted above, although Liquor Stores has not yet experienced any significant impact from new British Columbia laws and regulations, changes to the British Columbia regulatory regime may in the future have significant changes on competition and value of licenses in that province.

In each of Alaska, Connecticut, Kentucky and New Jersey, Liquor Stores competes with local single store operators, other local and regional chain operators (in so far as license caps permit in New Jersey) 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, Connecticut, Kentucky and New Jersey regulatory environments, stores purchase product 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.

***Restrictions on Potential Growth***

The payout by Liquor Stores of a substantial amount of its operating cash flow pursuant to the payment of dividends on our Common Shares makes the incurring and payment of additional capital and operating expenditures 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.

***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 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*

Acquisitions have been a significant part of Liquor Stores' growth strategy. Liquor Stores expects to continue to selectively seek strategic acquisitions in both Canada and the U.S. 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.

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 is based on management's projections of future store performance (which may prove to be incorrect).

### *Potential Acquisition, Investment and Disposition Opportunities*

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, and in connection therewith it may at any time have outstanding non-binding letters of intent or conditional agreements which may or may not be material. There can be no assurance that any of these discussions, non-binding letters of intent or conditional agreements will result in a definitive agreement with respect to an acquisition, investment or disposition, and, if they do, what the terms or timing of such would be or that such acquisition, investment or disposition will be completed by Liquor Stores. If Liquor Stores does complete any such transaction, it cannot assure investors 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, securities analysts or investors. Such transactions may also involve significant commitments of Liquor Stores' financial and other resources. 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.

### *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 counts in our stores and consequently may have a material effect on Liquor Stores' operating results.

***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.

***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 have an adverse effect on Liquor Stores' results of operations.

On October 1, 2016 Alberta's minimum wage was raised to $12.20 per hour (up from $11.20) for most employees in Alberta and is anticipated to increase to $13.60 per hour in October 2017 and to $15.00 per hour by October 2018. These increases could have a material effect on store level labour costs.

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 thereby have an adverse effect on Liquor Stores' results of operations.

***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 may have a material adverse effect on liquor stores operations, including the operations of Liquor Stores and its subsidiaries.

***Importance of Information and Control Systems***

Information and control systems play an important role in the support of Liquor Stores' core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. Liquor Stores' ability to maintain and regularly upgrade its information systems capabilities is important to its future performance. Please see "Management Information Systems" in this AIF for further information regarding Liquor Stores' anticipated information technology initiatives

***Changes in Income Tax Legislation and Other Laws***

Income tax laws, such as 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 appropriate jurisdiction over Liquor Stores or our Shareholders may disagree with how we calculate our income for tax purposes or could change administrative practises to our detriment or the detriment of our Shareholders (including, without limitation, the interpretation of certain cross-border tax rules).

***Leverage and Restrictive Covenants***

The Company has a credit facility with a syndicate of Canadian and US banks, which is effective until September 30, 2019, and consists of a $165 million CAD plus $15 million USD extendible revolving operating loan (the "Credit Facility"). At the date hereof, there was approximately $18 million drawn on the Credit Facility. Pursuant to the terms of the Credit Facility, the Company has the ability to request an additional $50 million CAD (to be provided by the lenders on a best-effort basis).

The Company's Credit Facility is subject to a number of financial covenants, all of which are met by Liquor Stores. 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 Company has $67.5 million aggregate principal amount of 2012 Debentures due April 30, 2018 and $77,625,000 aggregate principal amount of 2016 Debentures due January 31, 2022. The 2012 Debentures bear interest at a rate of 5.85% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, and are convertible at any time at the option of the holder into Common Shares at a conversion price of $24.90 per share. The 2016 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 Convertible Debentures.

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

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.

Our 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 this 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 Corporation 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. Historically, bad debts from these accounts have been insignificant. 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 are insignificant in relation to total sales.

***Cybersecurity***

Cybersecurity has become an increasingly problematic issue many industries in Canada and around the globe are facing. Cyber-attacks are increasing in sophistication and are often focused on compromising sensitive data for inappropriate use or disrupting business operations. Such an attack could compromise our confidential information as well as that of our customers and third parties with whom we interact and may result in negative 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 we maintain high privacy and security standards. Liquor Stores leverages and invests in advancements in cyber defense technologies to support our business model, protect our systems and enhance the experience of our customers on a global basis by employing industry best practices, considering where data and information is stored and considering whether and where to collect data and information. Our investments continue to manage the risks we face today. Particular sources and types of cyber security threats we have 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***

Certain directors of Liquor Stores are associated with other companies or entities, including entities engaged in the commercial real estate development, leasing and services businesses, and during 2016 information technology, which may give rise to 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. See "Conflicts of Interest".

## Risks Related to the Common Shares

### *Unpredictability and Volatility of Share Price*

A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Share will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of Common Shares in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Common Shares.

In addition, the securities markets have experienced significant market wide and sector price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the 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) our 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 of Directors, 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, our 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 our operations and financial performance. The market value of the Common Shares may deteriorate if we are 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 of Directors without the approval of any Shareholders. In the normal course of making capital investments to maintain and expand our business operations, additional Common Shares may be issued. Additionally, from time to time, we may issue Common Shares from treasury in order to reduce debt and maintain a more optimal capital structure. As well, additional new Common Shares are issued on a monthly basis pursuant to the Company's dividend reinvestment plan. Conversely, to the extent that external sources of capital, including the issuance of additional Common Shares, becomes limited or unavailable, our ability to make the necessary capital investments to maintain or expand our business operations will be impaired. To the extent that we are 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 have no pre-emptive rights in connection with such future issuances.

The Corporation may determine to redeem outstanding Convertible Debentures for Common Shares or repay outstanding principal amounts of the Convertible Debentures at maturity by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution.

***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 Convertible Debentures**

***Active Trading Market for the Convertible Debentures***

Although the Convertible Debentures trade on the Toronto Stock Exchange, there is not currently an active trading market for either series of Convertible Debentures, and we cannot guarantee that an active trading market will develop. If an active trading market in the Convertible Debentures does not develop, the trading liquidity of the Convertible Debentures will remain limited and the market value of the Convertible Debentures may be adversely affected.

The market price of the Convertible 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 Corporation; (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 Corporation; (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 Corporation operates and competition affecting the Corporation; 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 Convertible Debentures.

***Prior Ranking Indebtedness***

The Convertible Debentures are subordinate to all Senior Indebtedness (as defined in the Debenture Indenture) of the Corporation and to any indebtedness of trade creditors of the Corporation. The Convertible Debentures are also effectively subordinate to claims of creditors of the Corporation's subsidiaries for payment of which the Corporation is responsible or liable, whether absolutely or contingently. Therefore, if the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Corporation's assets will be available to pay its obligations with respect to the Convertible Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Convertible Debentures then outstanding.

***Absence of Covenant Protection***

The Debenture Indenture does not restrict the Corporation from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness. Nor does the Debenture Indenture prohibit or limit the ability of the Corporation 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 Convertible Debentures in the event of a future leveraged transaction involving the Corporation.

***Prevailing Yields on Similar Securities***

Prevailing yields on similar securities will affect the market value of the Convertible Debentures. Assuming all other factors remain unchanged, the market value of the Convertible 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 Convertible Debentures will receive payments owing to them under the terms of the Convertible Debentures will depend on the financial health of the Corporation and its creditworthiness.

***Redemption Prior to Maturity***

The 2012 Debentures may be redeemed, at the option of the Corporation, in whole or in part at any time, subject to certain conditions in the case of redemptions prior to April 30, 2017, at a price equal to the principal amount thereof plus accrued and unpaid interest. Holders of 2012 Debentures should understand that this redemption option may be exercised if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interests of the Corporation to redeem the 2012 Debentures. Currently the Corporation intends to redeem the 2012 Debentures on or shortly after April 30, 2017.

The 2016 Debentures may be redeemed, at the option of the Corporation, 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. Holders of 2016 Debentures should understand that this redemption option may be exercised at such time if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interests of the Corporation to redeem the 2016 Debentures.

***Change of Control***

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

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

***Conversion Following Certain Transactions***

Pursuant to the Debenture Indenture, in the event of certain transactions each Convertible 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 Convertible Debentures. For example, if the Corporation were acquired in a cash merger, each Convertible Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Corporation's future prospects and other factors.

***Volatility of Market Price of Common Shares***

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders of Convertible Debentures to sell the Convertible Debentures at an advantageous price and may result in greater volatility in the market price of the Convertible Debentures than would otherwise be expected for non-convertible securities. Market price fluctuations in the Common Shares may be due to actual or anticipated fluctuations in the financial condition, results of operations and prospects of the Corporation, the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors. In addition, the market price for securities in the stock markets has recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Convertible Debentures and the Common Shares.

***Change in Tax Laws***

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

## 12. Dividends and Dividend Policy

**Dividend Policy**

The Corporation's current dividend policy is to pay a cash dividend of $0.03 per Common Share on or about the 15th of each month to Shareholders of record on the last business day of the previous month.

The amount of future cash dividends, if any, will be subject to the discretion of the Board of Directors 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 growth strategy, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, the satisfaction of solvency tests imposed by 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 Liquor Stores' management team, the Board may change our 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 "*Risk Factors*".

Although it is expected that dividends declared and paid by us 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 (the **"Notes"**) to Liquor Stores' audited consolidated financial statements for the year ended December 31, 2016, and "Liquidity and Capital Resources" in the related management's discussion and analysis (collectively, the **"MD&A Disclosure"**), both of which are available on SEDAR at www.sedar.com. The Notes and the MD&A Disclosure are both incorporated by reference into this Annual Information Form.

### Dividends Paid to Shareholders of the Company

Since its initial inception as an income trust in 2004 through to its current corporate form, Liquor Stores has paid a monthly distribution or dividend, as the case may be, each and every month. The table below describes the dividends paid to shareholders of Liquor Stores for the past three (3) years. Liquor Stores practice is to pay the cash dividend during the month following the declaration of the dividend.

| Month | 2016 ($) | 2015 ($) | 2014 ($) |
|---|---|---|---|
| January | 0.09 | 0.09 | 0.09 |
| February | 0.09 | 0.09 | 0.09 |
| March | 0.09 | 0.09 | 0.09 |
| April | 0.03 | 0.09 | 0.09 |
| May | 0.03 | 0.09 | 0.09 |
| June | 0.03 | 0.09 | 0.09 |
| July | 0.03 | 0.09 | 0.09 |
| August | 0.03 | 0.09 | 0.09 |
| September | 0.03 | 0.09 | 0.09 |
| October | 0.03 | 0.09 | 0.09 |
| November | 0.03 | 0.09 | 0.09 |
| December | 0.03 | 0.09 | 0.09 |
| **Total** | 0.54 | 1.08 | 1.08 |

## 13. DESCRIPTION OF CAPITAL STRUCTURE

### Description of Capital Structure

The authorized capital of Liquor Stores consists of an unlimited number of Common Shares and 4,500,000 preferred shares, issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the share capital of Liquor Stores.

### *i. Common Shares*

Each Common Share entitles the holder to receive notice of, to attend, and to one vote at, all meetings of the Shareholders of Liquor Stores, except meetings of holders of another class of shares. The holders of Common Shares will be, at the discretion of the Board and subject to the preferences accorded to any shares of Liquor Stores ranking senior to the Common Shares from time to time with respect to the payment of dividends, entitled to receive any dividends declared by the Board on the Common Shares. The holders of Common Shares will also be entitled, subject to the preferences accorded to holders of any shares of Liquor Stores ranking senior to the Common Shares from time to time, to share equally, share for share, in any distribution of the assets of Liquor Stores upon the liquidation, dissolution, bankruptcy or winding-up of Liquor Stores or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

### *ii. Preferred Shares of Liquor Stores*

Each series of preferred shares of Liquor Stores shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board prior to the issuance thereof. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Liquor Stores, whether voluntary or involuntary, each series of preferred shares are entitled to preference over the Common Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over Common Shares and any other shares ranking junior to the preferred shares as may be determined by the Board at the time of creation of such series.

The preferred shares of Liquor Stores are intended to provide future financing flexibility. There are currently no preferred shares issued and outstanding.

### *iii. Other Provisions Affecting the Rights of Shareholders*

Pursuant to the articles of incorporation of Liquor Stores but subject to applicable laws, Liquor Stores may take such actions as it, in its sole discretion, determines necessary or advisable if, in the opinion of the Board, a person (including a Shareholder), or group of persons acting in concert, fails to comply with any requirement of any regulatory authority having jurisdiction over the liquor store licenses of Liquor Stores and its Subsidiaries, including failing to provide the information required in connection with the conduct of background checks, or if the holding of Common Shares by a person, or group of persons acting in concert could result in the revocation or non-renewal of any of the aforementioned liquor store licenses. In such circumstances, and without limitation of any other power or authority of Liquor Stores, it shall be entitled to take any of the following actions (i) place a stop transfer on all or any of the Common Shares of the person, or group of persons, (ii) suspend or terminate all voting and dividend rights on all or any of the Common Shares of the person, or group of persons, (iii) apply to a court of competent jurisdiction seeking an injunction to prevent a breach or continuing breach, or (iv) make application to the relevant securities commission, its successors, assigns or such other governmental regulatory agency having jurisdiction over the affairs of Liquor Stores, to effect a cease trading order or such similar restriction against such person, or group of persons, until such time as such person or group of persons complies with such constraints.

## Debt Capital

Liquor Stores has issued the Convertible Debentures. In addition, Liquor Stores has a $165 million credit facility in Canada and a $15 million US operating facility. A description of the debt capital of Liquor Stores is set forth below. This description is a summary only. Shareholders are encouraged to read the full text of the agreements governing Liquor Stores' Convertible Debentures and Credit Facility, which are available on SEDAR at www.sedar.com

***2012 Debentures***

Liquor Stores completed the 2012 Debenture offering in April 2012. There is $67.5 million aggregate principal amount of 2012 Debentures outstanding. The 2012 Debentures bear interest at a rate of 5.85% per annum payable semi-annually in arrears on April 30 and October 31 in each year. The 2012 Debentures mature on April 30, 2018 and are convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on April 30, 2017 and the business day immediately prior to a date specified by Liquor Stores for redemption of the 2012 Debentures at a conversion price of $24.90.

The 2012 Debentures were not redeemable prior to April 30, 2015, except upon the satisfaction of certain conditions after a Change of Control has occurred. On or after April 30, 2015 and prior to April 30, 2017, the 2012 Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days' notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the Debenture Indenture, of the Common Shares on the date of the notice of redemption is not less than 125% of the conversion price. On or after April, 30, 2017 and prior to maturity, the 2012 Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days' notice at the principal amount thereof and plus accrued and unpaid interest. Liquor Stores currently intends to redeem the 2012 Debentures on or shortly after April 30, 2017.

Liquor Stores has the option, subject to regulatory approval and provided that no event of default has occurred and is continuing, to satisfy all or part of its obligation to repay the principal amount of the 2012 Debentures which are to be redeemed or have matured by issuing and delivering that number of Common Shares obtained by dividing the aggregate principal amount to be redeemed or which have matured by 95% of the current market price of the Common Shares on the date fixed for redemption or maturity, as the case may be.

Liquor Stores may elect, subject to regulatory approval and provided that no event of default has occurred and is continuing, from time to time to satisfy its obligation to pay interest on the 2012 Debentures by delivering Common Shares to the Debenture Trustee for sale with the proceeds of such sales being delivered to holders of 2012 Debentures in satisfaction of the interest obligation.

The payment of the principal of, and interest on, the 2012 Debentures is subordinated and postponed in right of payment, as set forth in the Debenture Indenture, to the prior payment in full of all Senior Indebtedness of Liquor Stores including indebtedness to trade and other creditors of Liquor Stores. "Senior Indebtedness" of Liquor Stores is defined in the Debenture Indenture to mean, in effect, the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of Liquor Stores (whether outstanding as at the date of the Debenture Indenture or thereafter created, incurred, assumed or guaranteed), other than indebtedness evidenced by the Convertable Debentures and all other existing and future debentures or other instruments of Liquor Stores which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the 2012 Debentures.

The Debenture Indenture provides that an event of default in respect of the 2012 Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to such 2012 Debentures: (i) failure for 30 days to pay interest on such Debentures when due; (ii) failure to pay the principal of such Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise, (iii) default in the observance or performance of any material covenant or condition of the Debenture Indenture by Liquor Stores which remains unremedied for a period of 30 days after notice in writing has been given by the Debenture Trustee to Liquor Stores specifying such default and requiring Liquor Stores to remedy such default; or (iv) certain events of bankruptcy, insolvency or reorganization of Liquor Stores under bankruptcy or insolvency laws. If an event of default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of the 2012 Debentures then outstanding, declare the principal of and interest on all outstanding 2012 Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of such 2012 Debentures then outstanding may, on behalf of the holders of all such 2012 Debentures, waive any event of default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Within 30 days following the occurrence of a Change of Control of Liquor Stores, Liquor Stores will be required to make an offer in writing to purchase, in whole or in part, the 2012 Debentures then outstanding, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest.If 90% or more of the aggregate principal amount of the 2012 Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to Liquor Stores pursuant to the Debenture Offer, Liquor Stores will have the right to redeem all the remaining 2012 Debentures at the Debenture Offer Price. Notice of such redemption must be given by Liquor Stores to the Debenture Trustee within 10 days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the 2012 Debentures not tendered pursuant to the Debenture Offer.

If 90% or more of the aggregate principal amount of the 2012 Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to Liquor Stores pursuant to such offer, Liquor Stores will have the right to redeem all the remaining 2012 Debentures at the offer price. Notice of such redemption must be given by Liquor Stores to the Debenture Trustee within 10 days following the expiry of the offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the 2012 Debentures not tendered pursuant thereto.

***2016 Debentures***

Liquor Stores issued the 2016 Debenture in September of 2016. There is $77,625,000 aggregate principal amount of 2016 Debentures outstanding. The 2016 Debentures bear interest at a rate of 4.70% per annum payable semi-annually in arrears on January 31 and July 31 in each year. The 2016 Debentures mature on January 31, 2022 and are convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on the earlier of the business day immediately prior to the maturity date and the date, if any, specified by Liquor Stores for redemption of the 2016 Debentures at a conversion price of $14.60.

The 2016 Debentures are not redeemable prior to January 31, 2020, except upon the satisfaction of certain conditions after a Change of Control has occurred. On or after January 31, 2020 and prior to January 31, 2021, the 2016 Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days' notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the Debenture Indenture, of the Common Shares on the date of the notice of redemption is not less than 125% of the conversion price. On and after January 31, 2021 and prior to maturity, the 2016 Debentures are redeemable in whole or part from time to time at the option of Liquor Stores on not more than 60 days and less than 30 days' notice at the principal amount thereof and plus accrued and unpaid interest.

Liquor Stores has the option, subject to regulatory approval and provided that no event of default has occurred and is continuing, to satisfy all or part of its obligation to repay the principal amount of the 2016 Debentures which are to be redeemed or have matured by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the aggregate principal amount to be redeemed or which have matured by 95% of the current market price of the Common Shares on the date fixed for redemption or maturity, as the case may be.

Liquor Stores may elect, subject to regulatory approval and provided that no event of default has occurred and is continuing, from time to time to satisfy its obligation to pay interest on the 2016 Debentures by delivering Common Shares to the Debenture Trustee for sale with the proceeds of such sales being delivered to holders of 2016 Debentures in satisfaction of the interest obligation.

The payment of the principal of, and interest on, the 2016 Debentures is subordinated and postponed in right of payment, as set forth in the Debenture Indenture, to the prior payment in full of all Senior Indebtedness of Liquor Stores including indebtedness to trade and other creditors of Liquor Stores. "Senior Indebtedness" of Liquor Stores is defined in the Debenture Indenture to mean, in effect, the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of Liquor Stores (whether outstanding as at the date of the Debenture Indenture or thereafter created, incurred, assumed or guaranteed), other than indebtedness evidenced by the Convertible Debentures and all other existing and future debentures or other instruments of Liquor Stores which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the 2016 Debentures.

The Debenture Indenture provides that an event of default in respect of the 2016 Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to such 2016 Debentures: (i) failure for 30 days to pay interest on such 2016 Debentures when due; (ii) failure to pay the principal of such Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise; (iii) default in the delivery, when due, of any Common Shares or other consideration, including any make whole premium, payable upon conversion of a 2016 Debenture, which default continues for 15 days; (iv) default in the observance or performance of any material covenant or condition of the Debenture Indenture by Liquor Stores which remains unremedied for a period of 30 days after notice in writing has been given by the Debenture Trustee, or from Debentureholders holding not less than 25% of the aggregate principal amount of 2016 Debentures outstanding, to Liquor Stores specifying such default and requiring Liquor Stores to remedy such default; or (v) certain events of bankruptcy, insolvency or reorganization of Liquor Stores under bankruptcy or insolvency laws. If an event of default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of the 2016 Debentures then outstanding, declare the principal of and interest on all outstanding 2016 Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of such 2016 Debentures then outstanding may, on behalf of the holders of all such 2016 Debentures, waive any event of default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Within 30 days following the occurrence of a Change of Control, Liquor Stores will be required to make an offer in writing to purchase, in whole or in part, the 2016 Debentures then outstanding, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest. If 90% or more of the aggregate principal amount of the 2016 Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to Liquor Stores pursuant to such offer, Liquor Stores will have the right to redeem all the remaining 2016 Debentures at the offer price. Notice of such redemption must be given by Liquor Stores to the Debenture Trustee within 10 days following the expiry of the offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the 2016 Debentures not tendered pursuant thereto.

***Credit Facility***

In Canada, Liquor Stores has a secured revolving credit facility with a term ending on September 30, 2019. 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, approximately $18 million is outstanding under this Credit Facility.

For additional information regarding the Credit Facility, see Note 10 to Liquor Stores' audited consolidated financial statements for the year ended December 31, 2016, and the MD&A Disclosure, both of which are available on SEDAR at www.sedar.com and are incorporated by reference into this Annual Information Form.

**Ratings**

Liquor Stores has neither asked for nor received a credit rating, and it is not aware of having received any other kind of rating, including a stability or a provisional rating, from one or more approved rating organizations for outstanding securities of Liquor Stores, which rating or ratings continue in effect.

**Securities Held in Escrow**

To Liquor Stores' knowledge, no securities of Liquor Stores are held in escrow or are subject to a contractual restriction on transfer (except in respect of pledges made to lenders and except in respect of incentive securities issued pursuant to Liquor Stores' equity compensation plans).

## 14. MARKET FOR SECURITIES

**Common Shares**

Following the completion of the Corporate Conversion, the Common Shares were listed on the TSX under the symbol LIQ on January 7, 2011. The following tables set forth certain trading information for the Common Shares in 2016 as reported by the TSX.

| Period | High ($) | Low ($) | Volume |
|---|---|---|---|
| **2016** | | | |
| January | 8.40 | 6.40 | 3,127,196 |
| February | 8.43 | 7.04 | 2,027,277 |
| March | 9.06 | 7.15 | 5,398,397 |
| April | 9.00 | 7.88 | 2,542,572 |
| May | 8.99 | 8.08 | 1,943,155 |
| June | 9.58 | 8.52 | 2,249,557 |
| July | 9.65 | 9.00 | 1,362,583 |
| August | 10.00 | 9.10 | 1,831,032 |
| September | 10.90 | 9.86 | 2,472,095 |

| | | | |
|---|---|---|---|
| October | 10.80 | 10.35 | 1,395,684 |
| November | 10.89 | 9.31 | 2,388,494 |
| December | 11.48 | 10.39 | 2,052,407 |

**2012 Debentures**

The 2012 Debentures are listed and posted for trading on the TSX under the trading symbol "LIQ.DB.A". They commenced trading on April 23, 2012. The following table sets forth certain trading information for the 2012 Debentures in 2016 as reported by the TSX.

| Month | High ($) | Low ($) | Volume |
|---|---|---|---|
| **2016** | | | |
| January | 100.50 | 95.04 | 8,060 |
| February | 99.75 | 97.25 | 11,200 |
| March | 100.50 | 98.50 | 11,185 |
| April | 102.50 | 100.04 | 9,260 |
| May | 103.50 | 101.25 | 5,050 |
| June | 103.88 | 101.50 | 9,070 |
| July | 103.50 | 102.02 | 2,040 |
| August | 102.75 | 101.75 | 3,030 |
| September | 103.71 | 100.94 | 1,410,000 |
| October | 103.50 | 101.00 | 692,000 |
| November | 103.50 | 102.00 | 169,000 |
| December | 102.01 | 100.06 | 401,000 |

**2016 Debentures**

The 2016 Debentures are listed and posted for trading on the TSX under the trading symbol "LIQ.DB.B". They commenced trading on September 29, 2016. The following table sets forth certain trading information for the 2016 Debentures in 2016 as reported by the TSX.

| Month | High ($) | Low ($) | Volume |
|---|---|---|---|
| **2016** | | | |
| September (29 and 30) | 100.50 | 99.75 | 8,287,000 |
| October | 101.48 | 99.24 | 6,656,000 |
| November | 101.75 | 100.50 | 2,149,000 |
| December | 101.50 | 99.49 | 3,764,000 |

Other than incentive securities issued pursuant to Liquor Stores' equity compensation plans, Liquor Stores does not have any classes of securities that are outstanding but that are not listed or quoted on a market place.

**Prior Sales**

The following describes the outstanding securities of Liquor Stores that are not listed or quoted on a marketplace that were issued during the last completed financial year:

1. In January 2016, Liquor Stores granted an aggregate of 10,000 deferred Common Shares pursuant to its deferred share plan based on a 5-day volume weighted average trading price of $8.31.

2. In March 2016, Liquor Stores granted an aggregate of 5,138 deferred Common Shares pursuant to its deferred share plan based on a 5-day volume weighted average trading price of $7.59.

3. In March 2016, Liquor Stores granted an aggregate of 100,301 restricted awards and 100,301 performance awards pursuant to its incentive award plan based on a 5-day volume weighted average trading price of $7.65.

4. In June 2016, Liquor Stores granted an aggregate of 2,861 deferred Common Shares pursuant to its deferred share plan based on a 5-day volume weighted average trading price of $9.13.

5. In August 2016, Liquor Stores granted an aggregate of 72,603 restricted awards and 10,047 performance awards pursuant to its incentive award plan based on a 5-day volume weighted average trading price of $9.59.

6. In September 2016, Liquor Stores granted an aggregate of 2,552 deferred Common Shares pursuant to its deferred share plan based on a 5-day volume weighted average trading price of $10.53.

7. In December 2016, Liquor Stores granted an aggregate of 2,405 deferred Common Shares pursuant to its deferred share plan based on a 5-day volume weighted average trading price of $10.55.

## 15. DIRECTORS AND EXECUTIVE OFFICERS OF LIQUOR STORES

**Directors of Liquor Stores**

The following table sets forth the name, province/state and country of residence and positions and offices held for each of the directors of Liquor Stores as at the date hereof, together with their principal occupations. Biographies for each of the directors follow the table below. The term of office of the directors expires at the next annual meeting of Shareholders.

| Name and Jurisdiction of Residence | Position with Liquor Stores | Date Appointed as a Director(1) | Principal Occupation |
|---|---|---|---|
| Henry Bereznicki (2)(4)<br>Alberta, Canada | Director | August 10, 2004 | Managing Partner, North American Development Group (a private real estate developer) |
| Gary Collins (2)(4)<br>British Columbia, Canada | Director | September 5, 2006 | Senior Advisor at Lazard Ltd. (a financial advisory and asset management firm); Corporate Director |
| Jim Dinning(5)<br>Alberta, Canada | Chairman & Director | August 10, 2004 | Corporate Director |
| Susan Doniz (3)(4)<br>Ontario, Canada | Director | January 1, 2015 | Chief Information Officer, Qantas Airways Limited. |

| Name and Jurisdiction of Residence | Position with Liquor Stores | Date Appointed as a Director(1) | Principal Occupation |
|---|---|---|---|
| Robert S. Green(2)(3)<br>Ontario, Canada | Director | August 10, 2004 | President of, and partner in, North American Development Group (a private real estate developer) |
| Peter Lynch (2)(4)<br>Florida, USA | Director | May 13, 2014 | Corporate Director |
| David B. Margolus, Q.C.(3)(4)<br>Alberta, Canada | Director | August 10, 2004 | Counsel to Witten LLP (law firm) |
| Harry Taylor (2)(4)<br>Alberta, Canada | Director | January 1, 2015 | Executive Vice President, Finance, and Chief Financial Officer, WestJet Airlines Ltd. (a publically traded airline) |
| Stephen Bebis<br>Massachusetts, USA | President and Chief Executive Officer & Director | May 8, 2013 | President and Chief Executive Officer of Liquor Stores |

*Notes:*

*(1) With the exception of Mr. Bebis, Ms. Doniz, Mr. Lynch and Mr. Taylor, the date represents the date the respective directors were originally appointed or elected as trustees of Liquor Stores Income Fund (predecessor of Liquor Stores). All directors, except for Mr. Bebis, Ms. Doniz, Mr. Lynch and Mr. Taylor, were appointed as directors of Liquor Stores N.A. Ltd. in December 2010 in connection with the Corporate Conversion.*
*(2) Audit Committee member (Robert Green, Chair)*
*(3) Governance Committee member (David Margolus, Chair)*
*(4) Compensation Committee member (Gary Collins, Chair)*
*(5) Mr. Dinning is his capacity as Chairman, serves as an ex officio member of all Committees of the Board of Directors.*

The following are brief profiles of the directors and executive officers of Liquor Stores.

***Henry Bereznicki, BSc, MBA, Director.*** Mr. Bereznicki has been a partner in North American Development Group ("NADG"), an Ontario based private real estate developer, and its predecessors since 1987. He has held the position of Managing Partner, Western Region (based in Edmonton) for the past twenty five years. He is responsible for NADG's activities across the four western Canadian provinces as well as Arizona and Colorado. Mr Bereznicki was a co-founder of one of the predecessor companies of Liquor Stores N.A. Ltd., and he initiated and completed the merger with Liquor Depot eight months before he took the company public in 2004. He previously served as Board Chairman of Liquor Stores for a period of seven years. Mr. Bereznicki founded Liquor World (one of the original companies involved in the formation of Liquor Stores Income Fund) in 1993, and served as its President and Chief Executive Officer throughout its eleven year history. Mr. Bereznicki was a co-founder of the Alberta Liquor Store Association, and served as first Vice President of the organization. Mr. Bereznicki is involved as a member and former executive in the Alberta Chapter of the Young Presidents Organization (YPO and WPO). Mr. Bereznicki holds a Bachelor of Science Degree in Civil Engineering from the University of Alberta, as well as a Masters Degree in Business Administration from Harvard University.

***Gary Collins, Director***. Mr. Collins has been a Senior Advisor at Lazard Ltd., a New York-based, publicly-traded, global financial advisory and asset management firm, since September, 2016. Previously, from February 2015 to September 2016, Mr. Collins was a Senior Advisor at Verus Partners & Co., a closely-held, Toronto-based strategic financial advisory firm. Before that, from August 2012 until May 2014, he was President of Vancouver-based Coastal Contacts Inc., a TSX-listed, leading online direct-to-customer retailer of replacement contact lenses and eye glasses. In May 2014, Coastal was purchased by Essilor International of France for $435 million. From April 2007 to July 2012 Mr. Collins was Senior Vice President of Belkorp Industries Inc. of Vancouver, a private holding company. Prior to that, Mr. Collins was the President and Chief Executive Officer of Vancouver-based airline Harmony Airways from 2004 until 2006. From 1991 to 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from 2001 to 2004. Mr. Collins is also a director of TSX-listed companies Chorus Aviation Inc. of Dartmouth, Nova Scotia, D-Box Technologies Inc. of Montreal, and Rogers Sugar Inc. From 2005 to 2010, Mr. Collins was a member of the board of Vancouver-based Catalyst Paper Corp. From 2007 until 2012 Mr. Collins was a member of the board of Lantic Sugar Limited (a division of Rogers Sugar Inc.).

***Jim Dinning CM, ICD.D, F.ICD, LL.D, BCom, MPA, Chairman, Director.*** Mr. Dinning is board chair at TSX-listed Russel Metals Inc., of Mississauga, Ontario, TSX-Venture listed Western Investment Co. of Canada Ltd., of High River, Alberta, and Western Financial Group Inc. In February 2017 Winnipeg-based Wawanesa Mutual Insurance Co. agreed to aquire Western Financial and another company for $775 million from Desjardins Financial Corp. The transaction is expected to close in the third quarter of 2017. Mr. Dinning previously served as chair of TSX-listed Bronco Energy Ltd. of Calgary and and Export Development Canada of Ottawa, a Canadian government-owned export credit agency. He has previously served as a director of four TSX-listed companies, Oncolytics Biotech Inc. of Calgary, Parkland Fuel Corporation of Red Deer, Alberta, Finning International Inc. of Vancouver and Shaw Communications Inc. of Calgary. Mr. Dinning was Executive Vice President of Calgary-based TransAlta Corporation, a power generation and wholesale marketing company, from 1997 to 2004. Mr. Dinning served as Member of the Alberta Legislative Assembly from 1986 to 1997 and held several key positions including Provincial Treasurer. In 2015, Mr. Dinning was named a Member of the Order of Canada and a Fellow of the Institute of Corporate Directors. He is the recipient of the Distinguished Service Award from the Institute of Chartered Accountants of Alberta (in 1997) and was awarded an Honorary LLD from the University of Calgary in 2002. He is Chancellor Emeritus of the University of Calgary. Mr. Dinning is a graduate of Queen's University holding both a Bachelor of Commerce Degree (in 1974) as well as a Masters Degree in Public Administration (in 1977).

***Susan Doniz, BSc, ICD.D, Director.*** Ms. Doniz is the Chief Information Officer for Australian Stock Exchange-listed Qantas Airways Limited, Australia's national airline. Prior to joining Qantas on February 1, 2017, from January 2016 to January 15, 2017, Ms. Doniz was Chief Expert in Digital Transformation with Frankfurt Stock Exchange and NYSE-listed SAP SE, a German multinational software and programing company. Before that, from 2011 to 2015 she was the Global Chief Information Officer for TSX-listed Aimia Inc., a Toronto-based world leader in loyalty rewards management (and the owner/operator of Aeroplan). Previously, Ms. Doniz held a variety of senior leadership roles with NYSE-listed Proctor & Gamble Co. of Cincinnati, Ohio, including time spent with the company's subsidiaries in both Europe and Latin America. Ms. Doniz serves as a director on the board of TSX-listed goeasy Ltd. of Mississauga, Ontario and on the board of the not for profit organization, Payments Canada of Ottawa, Ontario. Ms. Doniz previously served on the boards of TSX Venture-listed Snipp Interactive Inc. of Bethesda, MD, TSX-listed Cymax Stores Inc. of Burnaby, BC, the Salvation Army's National Advisory Board and on the board of the Woman's College Hospital Foundation in Toronto, Ontario. Ms. Doniz is the Chair of Development at the Ontario Science Centre, and the Center for Digital Transformation at the University of California at Irvine . Ms. Doniz graduated from the University of Toronto with a Bachelor of

Science Degree in Engineering (in 1993), and studied graduate courses in Europe (Netherlands) and Executive Learning at Harvard.

***Robert S. Green, Bsc, LLB, Director.*** Mr. Green is the President of North American Development Group, a private real estate development company which he joined in 1985, after specializing in the practice of commercial real estate law with a major Canadian law firm. Mr. Green has over 30 years of experience in managing, leasing, developing and acquiring retail properties throughout North America. Mr. Green is also a founding partner and President of Centrecorp Management Services Limited, a retail/commercial real estate service provider with operations in both Canada and the United States. Mr. Green was formerly a member of the board of directors and investment committee of Centrefund Realty Corporation and Sterling Centrecorp Inc., both TSX-listed real estate companies. Mr. Green resides in Toronto, Ontario and is a graduate of the University of Toronto, where be obtained both a Bachelor of Science Degree (in 1974) as well as a Bachelor of Laws Degree (in 1977).

***Peter Lynch, BSc, Director***. Mr. Lynch is a director of NYSE-listed Retail Properties of America, Inc. of Oak Brook Illinois, a real estate investment trust; he is also Chair of its Nominating and Corporate Governance Committee. Mr. Lynch also serves on the Board of Advisors of Sid Wainer & Son, a private produce and specialty foods company based in New Bedford, Mass. and is a Trustee for Nichols College in Dudley, Mass. From 2004 until 2012 he was Chairman, President and Chief Executive Officer of Winn-Dixie Stores Inc., a private, Florida-based retailer with 500 grocery stores, 150 liquor stores and 280 in-store pharmacies throughout the five southeastern states of Alabama, Florida, Georgia, Louisiana and Mississippi. Before that he was President and Chief Operating Officer and Executive Vice President-Operations with Boise, Idaho-based Albertson's, Inc., a one of the largest national U.S. retail food and drug chains, comprised of 2,500 stores. Mr. Lynch graduated from Nichols College in Dudley, Mass. in 1974 with a Bachelor of Science Degree in Finance.

***David B. Margolus, Q.C., BA, LLB, ICD.D, Director***. Mr. Margolus is Counsel to, and former Managing Partner (for 13 years) of the Edmonton-based law firm Witten LLP. His legal practice focused primarily in the areas of corporate, commercial and real estate. Mr. Margolus was one of the founding shareholders of The Liquor Depot Corporation (a predecessor to Liquor Stores Income Fund). Mr. Margolus previously served on the boards of various public and private companies including TSX-listed PowerComm Inc. of Edmonton, TSX Venture-listed XS Cargo Income Fund of Edmonton, and the the Edmonton Regional Airports Authority. In addition, Mr. Margolus has acted as legal counsel to Alberta Liquor Store Association. In 2009, he completed the Directors Education Program of the Institute of Corporate Directors. Mr. Margolus is a graduate of the University of Alberta where he obtained both a Bachelor of Arts Degree (in 1971) as well as a Bachelor of Law Degree (in 1974).

***Harry Taylor, BCom, C.A., MBA, Director***. Mr. Taylor is Executive Vice President, Finance, and Chief Financial Officer, of TSX-listed WestJet Airlines Ltd of Calgary. Prior to joining WestJet in October 2015, Mr. Taylor served in the United States and Canada in executive level positions with three of North America's pre-eminent retailers. From 2010 to 2015 he Senior Vice President, Finance of TSX-listed Canadian Tire Corporation, Limited and Chief Operating Officer with Mark’s (formerly Mark’s Work Warehouse, a subsidiary of Canadian Tire). Canadian Tire has 500 stores across Canada. From 2008 to 2010 he was Chief Financial Officer of closely-held Holt Renfrew of Toronto. From 2002 to 2007 he held various positions at NYSE-listed The Home Depot Corporation of Atlanta, including Senior Vice President, Operations and Senior Vice President, Finance. Home Depot has more than 2,000 stores in the U.S., Canada and Mexico. Mr. Taylor holds a Bachelor of Commerce degree from Trinity College, University of Toronto (in 1983), a Chartered Accountant designation from the Institute of Chartered Accountants of Ontario (in 1985) and a Masters of Business Administration Degree from the University of Western Ontario (in 1988).

***Stephen Bebis, President and Chief Executive Officer and Director.*** Mr. Bebis has more than [insert number] of years of experience in the retail sector in North America. Prior to joining Liquor Stores, he was President and Chief Executive Officer of closely-held Brookstone Inc. of Merrimack, New Hampshire from 2012 to 2013. Brookstone is a specialty lifestyle retail company with nearly 300 stores. From 1998 to 2011, Mr. Bebis served as the founder, President and CEO of TSX-listed Golf Town of Toronto, the largest specialty golf retailer in Canada and one of the largest in the world. From 1996 to 1998, Mr. Bebis was Chairman, President, and CEO of NYSE-listed Sports and Recreation, Inc., Tampa, Florida, the tenth largest sporting goods chain in the U.S. Prior thereto, Mr. Bebis held various executive-level positions, including (among others) President of Home Depot Canada, and founder and CEO of Toronto-based Aikenhead's Home Improvement Warehouse.

**Officers of Liquor Stores**

The following table sets forth, for each of the executive officers of Liquor Stores, the person's name, province/state and country of residence, principal occupation as at the date hereof, and date of first appointment as an executive officer, together with their principal occupations during the last five years. Biographies for each of the executive officers are available on Liquor Stores' website at www.liquorstoresna.ca.

| Name and Jurisdiction of Residence | Position with Liquor Stores and Principal Occupation | Executive Since | Principal Occupations in the Last 5 Years |
|---|---|---|---|
| Stephen Bebis<br>Massachusetts, USA | President and Chief Executive Officer & Director | May 8, 2013 | President and CEO of Brookstone Inc. (2012 to 2013); Founder, President and CEO of Golf Town (1998 to 2011) |
| David Gordey<br>Alberta, Canada | Executive Vice President and Chief Operating Officer, Canada | April 8, 2014 | Chief Financial Officer of Liquor Stores (April 2014 to July 2016); Vice President, Finance of Liquor Stores (March 2012 to April 2014); Senior Manager at KPMG LLP (January 2001 to March 2012) |
| Matthew Hewson<br>Alberta, Canada | Vice President & General Counsel | April 2016 | Director, Legal Affairs of Liquor Stores (April 2013 to April 2016); Associate, Miller Thomson LLP (July 2010 to April 2013) |
| Steve Rop<br>Virginia, USA | Executive Vice President, Chief Operating Officer, USA | March 31, 2014 | Senior Vice President, Operations and Logistics of Liquor Stores (March 2014 to July 2016); Vice President, Client Services and Business Development at Liquidity Services Inc., a supply chain solutions company (November 2007 to March 2014) |
| Lieske Renz<br>Kentucky, USA | Senior Vice President, Shared Services (Talent, Technology & Org Excellence) | March 3, 2014 | Senior Vice President, Human Resources (March 2014 to October 2016); Senior Director, Human Resources at YUM Restaurants International, the operator of KFC, Pizza Hut and Taco Bell brands (January 2012 - February 2014); Director, Human Resources Strategy & Training Design - KFC US (November 2009 - December 2011); Director, Human Resources Great Lakes Territory – KFC US (January 2009 – November 2009) |
| Matthew Rudd<br>Alberta, Canada | Senior Vice President, Chief Financial Officer | July 7, 2016 | Vice President, Finance, Liquor Stores (October 2014 to July 2016); Senior Manager at KPMG LLP (Sept 2012 to October 2014; Manager at KPMG LLP (Sept 2010 to Sept 2012) |
| Jim Yaworski<br>Alberta, Canada | Senior Vice President, Construction and Design | July 14, 2014 | Director of Construction, Liquor Stores (2008 to July 2014) |

**Common Share Ownership** As at the date hereof, the directors and executive officers of Liquor Stores, as a group, own beneficially, or control or direct, directly or indirectly, an aggregate of 873,249 Common Shares, representing approximately 3.1% of the issued and outstanding Common Shares.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of Liquor Stores, except as otherwise disclosed herein, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, Chief Executive Officer or Chief Financial Officer of any company (including Liquor Stores), that:

(a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of Liquor Stores, except as disclosed below with respect to Mr. Bebis, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons), or a shareholder holding a sufficient number of securities of Liquor Stores to affect materially the control of Liquor Stores:

(a) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including Liquor Stores) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

From May 2012 until April 2013, Mr. Bebis was President and Chief Executive Officer of Brookstone Inc., a private New Hampshire-based specialty goods retail company. In connection with an intended sale of the company, in April 2014 the company declared Chapter 11 bankruptcy and commenced a restructuring process pursuant to Title 11 of the U.S. Bankruptcy Code.

To the knowledge of Liquor Stores, no director or executive officer of Liquor Stores (nor any personal holding company of any of such persons), or a shareholder holding a sufficient number of securities of Liquor Stores to affect materially the control of Liquor Stores, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## 16. CONFLICTS OF INTEREST

Certain directors of Liquor Stores are associated with other companies or entities, including entities engaged in the commercial real estate development, leasing and services businesses, as well as information technology, which may give rise to conflicts of interest. In particular, Ms. Doniz acted as a contractor for SAP SE (SAP Global). Ms. Doniz's role with SAP SE was Chief Expert in Digital Transformation with respect to Consumer Package Goods Industries accounts located solely in Europe and the United States. As at the date hereof, Ms. Doniz is no longer a contractor with SAP SE or affiliated entities. In Ms. Doniz's role with SAP SE she had no involvement with, or influence on, relations with Liquor Stores. Liquor Stores' procurement of SAP for management information systems solutions predated Ms. Doniz's appointment to the Board of Directors.

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. Other than as described above and elsewhere in this Annual Information Form, there are no existing material conflicts of interest between Liquor Stores or its Subsidiaries and any director or officer of Liquor Stores or its Subsidiaries.

## 17. INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of any director or executive officer of Liquor Stores, or, to our knowledge, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of the foregoing persons, in any transaction during Liquor Stores' three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Liquor Stores, other than as disclosed elsewhere in this Annual Information Form.

## 18. PROMOTERS

No person or company has been, within the two most recently completed financial years or during the current financial year, a "promoter" (within the meaning of applicable securities laws) of Liquor Stores or of a Subsidiary of Liquor Stores.

## 19. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings that Liquor Stores is or was a party to, or that any of Liquor Stores' property is or was the subject of, during the most recently completed financial year, that were or are material to Liquor Stores, and there are no such material legal proceedings that Liquor Stores knows to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be "material" if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10 percent of Liquor Stores' current assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, Liquor Stores' has included the amount involved in the other proceedings in computing the percentage.

There were no: (i) penalties or sanctions imposed against Liquor Stores by a court relating to securities legislation or by a security regulatory authority during our most recently completed financial year; (ii) other penalties or sanctions imposed by a court or regulatory body against Liquor Stores that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements Liquor Stores entered into before a court relating to securities legislation or with a securities regulatory authority during Liquor Stores' most recently completed financial year.

## 20. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares and the Convertible Debentures is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta.

## 21. MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts that are material to Liquor Stores and that were entered into by Liquor Stores or one of its Subsidiaries within the most recently completed financial year or before the most recently completed financial year but which are still material and are still in effect, are the following:

a. the credit facility described under "Description of Capital Structure"; and

b. the Debenture Indenture described under "Description of Capital Structure".

## 22. INTERESTS OF EXPERTS

Other than as set forth below, there is no person or company who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Liquor Stores during, or related to, its most recently completed financial year and whose profession or business gives authority to such report, valuation, statement or opinion made by such person or company.

PricewaterhouseCoopers LLP is the auditor of Liquor Stores and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants, Alberta.

## 23. AUDIT COMMITTEE

**Audit Committee Charter**

The Charter of Liquor Stores' Audit Committee is attached as **Schedule B hereto**.

**Composition of the Audit Committee**

Members of the Audit Committee are Robert Green (Chair), Henry Bereznicki, Gary Collins, Peter Lynch, Harry Taylor and Jim Dinning (ex-officio). As Chairman of Liquor Stores, Mr. Dinning is an ex-officio voting member of each Committee of the Board of Directors of Liquor Stores. Each current member of the Audit Committee is independent and financially literate.

**Relevant Education and Experience**

**Robert S. Green – Director since August 10, 2004**

President, North American Development Group & President, Centrecorp Management Services Limited.

Mr. Green obtained an LLB from the University of Toronto Law School, and his current position as President of, and partner in, a large-scale private retail real estate development company combined with his past experience on the boards of both public and private companies have provided him with a strong background in business, finance and mergers & acquisition matters, as well as expertise relative to reviewing, analyzing and interpreting financial statements and business records.

**Henry Bereznicki – Director since August 10, 2004**

Mr. Bereznicki was the founder of Liquor World (one of the original companies involved in the formation of Liquor Stores Income Fund), and its President and CEO from 1994 through 2004. Mr. Bereznicki served as Chairman of Liquor Stores from 2004 to 2012. He is currently a Managing Partner of North American Development Group, and is actively involved in the development and acquisition of numerous real assets and active companies. Mr. Bereznicki holds an MBA from Harvard University, specializing in real estate and finance.

**Gary Collins –Director since September 5, 2006**

Senior Advisor, Lazard Ltd.

| | |
|---|---|
| Other Public Company Directorships | Rogers Sugar Inc.<br>Chorus Aviation Inc.<br>D-Box Technologies Inc. |
| Previous Employment | |
| From 2015 to 2016 | Senior Advisory Partner, Verus Partners Co. |
| From 2012 to 2014 | President, Coastal Contacts Inc. |
| From 2006 to 2012 | Senior Vice President, Belkorp Industries |
| From 2004 to 2006 | President & Chief Executive Officer, Harmony Airways |
| From 1991 to 2004 | Member of the Legislative Assembly of the Province of British Columbia |
| 2001 to 2004 | Minister of Finance British Columbia |

Mr. Collins is on the Audit Committee of Rogers Sugar Inc. and previously served on the Audit Committees of D-Box Technologies Inc., Catalyst Paper Corp., and Chorus Aviation Inc.

**Jim Dinning –Director since August 10, 2004**

Chair, Western Investment Co., Russel Metals Inc. and Western Financial Group.

| | |
|---|---|
| From 1999 to 2001 | Chair, Calgary Health Region |
| From 1992 to 1997 | Provincial Treasurer (Alberta) |

Mr. Dinning has a BCom and a Masters in Public Administration from Queen's University. He has previously served as a member of the Audit Committees of The Western Investment Company of Canada Ltd., Oncolytics Biotech Inc. Parkland Fuel Corp, Finning International Inc. and Shaw Communications Inc.

**Peter Lynch –Director since May 13, 2014**

Mr. Lynch is the former President and Chief Executive Officer of Winn-Dixie Stores Inc., a Florida-based national grocery retailer. He was appointed to this position in 2004 and held it until 2012. He also served as Chair of the Board. Mr. Lynch holds a Bachelor of Science degree in Finance from Nichols College in Dudley Mass. Mr. Lynch currently serves on the Board of Directors of Retail Properties of America, Inc. where he is Chair of the Nominating and Corporate Governance committee and a member of the Compensation committee. Mr. Lynch is also currently on the Board of Advisors of Sid Wainer & Son, a produce and specialty foods company based out of New Bedford, Mass. and is a Trustee for Nichols College in Dudley Mass.

**Harry Taylor –Director since January 1, 2015**

Mr. Taylor is currently the Executive Vice President, Finance, and Chief Financial Officer of WestJet Airlines Ltd. In addition to Mr. Taylor's previous role of Senior Vice President, Finance at Canadian Tire Corporation, Limited, Mr. Taylor has also served as Chief Operating Officer with Mark's (formerly Mark's Work Warehouse, a subsidiary of Canadian Tire Corporation, Limited). Mr. Taylor holds a Bachelor of Commerce degree from Trinity College, University of Toronto and a Master of Business Administration degree from the University of Western Ontario. Mr. Taylor also holds both Chartered Accountant (Institute of Chartered Accountants of Ontario) and Chartered Professional Accountant (Professional Accountants Canada) designations.

**Pre-approval Policies and Procedures**

The Audit Committee Charter provides that the Audit Committee approves in advance all permitted non-audit services to be provided to Liquor Stores or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law. The Audit Committee is permitted to but has not delegated any of its authority to grant pre-approvals.

**External Auditor Service Fees**

The following table summarizes the fees paid by Liquor Stores to PricewaterhouseCoopers LLP for external audit and other services during the periods indicated.

| Fee Description | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Audit services | 413,500 | 371,500 |
| Audit related services | - | - |
| Tax (1) | 106,428 | 129,395 |
| Other (2) | 109,929 | - |
| Total | 629,857 | 500,895 |

(1) Tax services comprising tax compliance, tax advice and tax planning, including the preparation of corporate tax returns for Canadian and US reporting entities.

(2) The other services performed related to our offering of 2016 Debentures.

**Reliance on Exemptions**

At no time since the commencement of Liquor Stores' most recently completed financial year has Liquor Stores relied on any of the exemptions contained in Sections 2.4, 3.2, 3.3(2), 3.4, 3.5, 3.6 or 3.8 of National Instrument 52-110 ("**NI 52-110**"), or an exemption from NI 52-110, in whole or in part, granted under Part 8 thereof.

**Audit Committee Oversight**

At no time since the commencement of Liquor Stores' most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Board of Directors of Liquor Stores.

## 24. ADDITIONAL INFORMATION

Additional information relating to Liquor Stores may be found on SEDAR at www.sedar.com and on Liquor Stores' website at www.liquorstoresna.ca

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Liquor Stores' securities and securities authorized for issuance under equity compensation plans, is contained in Liquor Stores' Information Circular for its most recent annual meeting which may be found on SEDAR at www.sedar.com.

Additional financial information is provided in Liquor Stores' financial statements and management's discussion and analysis for the year ended December 31, 2016, which documents may be found on SEDAR at www.sedar.com.

## SCHEDULE "A"

**GLOSSARY OF TERMS**

In this Annual Information Form, the following terms have the meanings set forth below, unless otherwise indicated:

"**2012 Debentures**" means the $67.5 million aggregate principal amount of 5.85% convertible unsecured subordinated debentures of Liquor Stores issued pursuant to the Debenture Indenture in April 2012;

"**2016 Debentures**" means the $77.625 million aggregate principal amount of 4.70% convertible unsecured subordinated debentures of Liquor Stores issued pursuant to the Debenture Indenture in the fall of 2016;

"**ABCB**" means the Alcoholic Beverage Control Board (Alaska);

"**Affiliate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

"**AGLC**" means the Alberta Gaming and Liquor Commission (formerly the Alberta Liquor Control Board), established pursuant to the GLA, which, among other things, administers the GLA and controls, in accordance with the GLA, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor in Alberta, and which, through the board of the AGLC, establishes policies, conducts hearings and makes decisions respecting licenses and registrations under the GLA;

"**Associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

"**BCLCLB**" means the Liquor Control and Licensing Branch of the Province of British Columbia;

"**BCLDA**" means the *Liquor Distribution Act* (British Columbia);

"**Birchfield**" means Birchfield Ventures, LLC;

"**Board**" or "**Board of Directors**" means the board of directors of Liquor Stores;

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, including the regulations promulgated thereunder;

"**Change of Control**" means, for the purposes of the Convertible Debentures, the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over 66 2/3% or more of the aggregate votes attaching to the outstanding Common Shares;

"**CLCC**" means the Connecticut Liquor Control Commission.

**"CLS"** means Connect Logistics Services, Inc.;

"**Common Share**" means a common share in the capital of Liquor Stores;

"**Convertible Debentures**" means, collectively, the 2012 Debentures and the 2016 Debentures.

"**Corporate Conversion**" means the reorganization of Liquor Stores Fund from an income trust structure to a publicly traded corporation, being Liquor Stores, pursuant to a plan of arrangement completed under the CBCA effective December 31, 2010;

"**DRIP**" means Liquor Stores' dividend reinvestment plan;

"**Debenture Indenture**" means the trust indenture dated as of December 21, 2007 between Liquor Stores Fund (the predecessor to Liquor Stores) and the Debenture Trustee (as successor to Valiant Trust Company, which was the successor to BNY Trust Company of Canada, which was the successor to CIBC Mellon Trust Company), as supplemented by a first supplemental trust indenture dated as of December 31, 2010, a second supplemental indenture dated April 23, 2012, creating and setting forth the terms of the 2012 Debentures, and a third supplemental indenture dated September 29, 2016, creating and setting forth the terms of the 2016 Debentures;

"**Debenture Trustee**" means Computershare Trust Company of Canada;

"**GLA**" means the *Gaming and Liquor Act* (Alberta), as amended, including the regulations promulgated thereunder;

**"NJABC"** means the New Jersey Division of Alcoholic Beverage Control;

"**KYABC**" means the Department of Alcoholic Beverage Control (Kentucky);

"**Liquor Stores**", "**Company**", "**Corporation**", "**we**", "**us**" or "**our**" means: (i) subsequent to the completion of the Corporate Conversion, Liquor Stores N.A. Ltd., a corporation incorporated under the CBCA and the successor to Liquor Stores Fund; and (ii) prior to the completion of the Corporate Conversion, Liquor Stores Fund. Where the context requires, these terms also include all of Liquor Stores' Subsidiaries on a consolidated basis;

"**Liquor Stores Fund**" means Liquor Stores Income Fund, which income trust was reorganized into Liquor Stores pursuant to the Corporate Conversion;

**"RIPS"** means retailer incentive programs, typically for large volume discounts;

"**Shareholders**" mean the holders of Common Shares from time to time;

"**Subsidiaries**" has the meaning ascribed thereto in the *Securities Act* (Alberta) and, for greater certainty, includes all corporations and partnerships owned, controlled or directed, directly or indirectly, by Liquor Stores;

"**TSX**" means the Toronto Stock Exchange; and

"**United States**" or "**U.S.**" means the United States of America.

# SCHEDULE "B"

**LIQUOR STORES N.A. LTD. - AUDIT COMMITTEE CHARTER**

The term "**Corporation**" refers to Liquor Stores N.A. Ltd., the term "**Board**" refers to the board of directors of the Corporation, the term "**GP**" refers to Liquor Stores GP Inc., and the term "**LP**" refers to Liquor Stores Limited Partnership.

**PURPOSE**

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Corporation's financial reporting, including responsibility to:

- identify and monitor the management of significant risks that could affect the reliability of financial reporting;
- oversee the integrity of the Corporation's consolidated financial statements and financial reporting process, including the audit process and the Corporation's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Corporation's external auditors;
- oversee the work of the Corporation's financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board and the officers of the Corporation (collectively, "**Management**") of the Corporation.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

**COMPOSITION AND PROCEDURES**

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

**1. Composition**

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Corporation, the LP or the GP or any of their respective subsidiaries and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading).

**2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected and qualified.

**3. Financial literacy**

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

**4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of the Corporation and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

**5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Corporation's expense.

**6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation, the GP, and the LP from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management (or their subordinates) and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Corporation and its subsidiaries.

**7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Corporation.

**8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

**9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

**SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

**In Respect of the Corporation's External Auditors**

(a) review the performance of the external auditors of the Corporation who are accountable to the Committee and the Board as the representatives of the shareholders of the Corporation, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors;

(b) review the reasons for any proposed change in the external auditors of the Corporation which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;

(c) approve the terms of engagement and the compensation to be paid by the Corporation to the Corporation's external auditors;

(d) review the independence of the Corporation's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;

(e) approve in advance all permitted non-audit services to be provided to the Corporation or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;

(f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Corporation's external auditors;

(g) approve any hiring by the Corporation or its subsidiaries of employees or former employees of the Corporation's external auditors;

(h) review a written or oral report describing:

(i) critical accounting policies and practices to be used in the Corporation's annual audit,

(ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management and that are significant to the Corporation's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and

(iii) other material written communication between the Corporation's external auditors and Management, such as any management letter or schedule of unadjusted differences;

(i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Corporation, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;

(j) if a review engagement report is requested of the external auditors, review such report before the release of the Corporation's interim consolidated financial statements; and

(k) discuss with the external auditors any difficulties or disputes that arose with Management or other personnel of the Corporation during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies.

**In Respect of the Corporation's Financial Disclosure**

(a) review with the external auditors and Management:

(i) the Corporation's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Corporation contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Corporation, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

(ii) the Corporation's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;

(iii) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

(iv) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;

(v) the effect of regulatory and accounting initiatives on the Corporation's consolidated financial statements and other financial disclosures;

(vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Corporation;

(vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation;

(viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's consolidated financial statements;

(ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Corporation’s operations; and

(x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.

(b) review and resolve disagreements between Management and the Corporation's external auditors regarding financial reporting or the application of any accounting principles or practices;

(c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Corporation gives earning guidance;

(d) establish and monitor procedures for the receipt and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;

(e) receive from the Chief Executive Officer and the Chief Financial Officer of the Corporation a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and

(f) review and discuss the Corporation's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

**In Respect of Insurance**

(a) review periodically insurance programs relating to the Corporation and its investments.

**In Respect of Internal Controls**

(a) review the adequacy and effectiveness of the Corporation’s internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls; and

(b) oversee compliance with internal controls and the Code of Business Conduct.

**V. In respect of Other Items**

(a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;

(b) on a quarterly basis review the prior quarter dividends;

(c) on an annual basis review the dividend reinvestment plan;

(d) on an annual basis review the performance of the Board under the Board's mandate; and

(e) on a quarterly basis review compliance with the Disclosure Policy of the Corporation.

**OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's consolidated financial statements are complete and accurate or are in accordance with International Financial Reporting Standards (IFRS) and applicable rules and regulations. These are the responsibilities of Management and the Corporation's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Corporation, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Corporation's financial information or public disclosure.