LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2016

Dated as at May 9, 2016

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1. Basis of Presentation

Management's Discussion and Analysis ("MD&A") provides a comparison of Liquor Stores N.A. Ltd.'s performance for the three months ended March 31, 2016 with the three months ended March 31, 2015. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto (the "interim financial statements") for the three months ended March 31, 2016 and 2015, the audited consolidated financial statements for the years ended December 31, 2015 and 2014, the annual MD&A for the year ended December 31, 2015, and the Annual Information Form dated March 9, 2016. The information in this MD&A is current to May 9, 2016, unless otherwise noted.

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

Unless otherwise stated, financial information is expressed in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Chartered Professional Accountants – Part I ("CPA Handbook"), for financial statements. Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars.

Throughout this MD&A references are made to non-IFRS financial measures, including same-store sales, operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusting items, adjusted net earnings (loss), adjusted basic and diluted earnings (loss) per share, cash provided by (used in) operating activities before changes in non-cash working capital, cash provided by (used in) operating activities before changes in non-cash working capital on a per share basis, cash provided by (used in) operating activities before changes in non-cash working capital and adjusted items, and cash provided by (used in) operating activities before changes in non-cash working capital and adjusted items on a per share basis. A description of these measures and their limitations are discussed under *"Non-IFRS Financial Measures",* along with a reconciliation to the nearest IFRS financial measure.

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

2. Forward Looking Statements

This MD&A contains forward looking statements or information (collectively "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements. In particular, this MD&A contains forward-looking statements, including, without limitation, statements regarding the future financial position, cash dividends, business strategy, proposed acquisitions, budgets, litigation, government regulation and laws, projected costs and plans and objectives of or involving Liquor Stores N.A. Ltd. Prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words and the negative thereof.

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include, but are not limited to: risks relating to government regulation and changes thereto (whether by court decisions, citizen referenda, or otherwise); competition; the state of the economy including general economic conditions in Canada (including Alberta) and the U.S.; the unpredictability and volatility of Liquor Store's 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; availability of sufficient financial resources to fund the Company's capital expenditures; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; the ability of management to execute the Company's business and strategic plans; Liquor Stores' ability to locate and secure acceptable store sites and to adapt to changing market conditions; the current state of our stores in the Fort McMurray area and the financial impact that the closure of these stores in the short and long term will have on the Company; 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 convertible debentures. These factors should not be construed as exhaustive. The information contained in this MD&A, including the information set forth under "Risk Factors", and as disclosed in other filings made by the Company with Canadian securities regulatory authorities and available on SEDAR at www.sedar.com, identifies additional factors that could affect the operating results and performance of Liquor Stores. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

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

3. Business Highlights

The following summarizes key business highlights of the Company for the first quarter of 2016:

Acquisition of Birchfield Ventures LLC

Effective January 4, 2016, the Company acquired a 51% ownership interest in Birchfield Ventures LLC ("Birchfield") for USD $15 million and obtained the right to acquire the remaining 49% interest at pre-negotiated terms. The acquisition was funded using the Company's existing credit facilities through USD borrowings to manage its exposure to foreign currency fluctuations associated with the net assets of the acquired business.

Birchfield operates two high-volume stores in New Jersey under the banner "Joe Canal's Discount Liquor Outlet". Both stores are well located, and serve large, high-density populations whose household incomes significantly exceed the U.S. average. The first store comprises nearly 17,000 square feet in Lawrence Township, New Jersey and is located within a retail plaza that is situated in close proximity to two major highways. The second store comprises approximately 25,000 square feet in Woodbridge Township, New Jersey and is located within a single tenant building that is situated in close proximity to both a major highway and two major shopping centres.

Under the terms of the acquisition, Birchfield's existing management will remain responsible for the business's day-to-day operations, under the oversight of Liquor Stores' executive team. This arrangement will enable Liquor Stores to fully leverage the knowledge of Birchfield's management team as the Company pursues further expansion into the northeastern United States. Liquor Stores' management will work with Birchfield's management on implementing the Company's proven store level retailing strategies to derive further sales and margin improvements.

The following table summarizes the preliminary purchase consideration and estimated preliminary purchase price allocation for the acquisition, subject to completion of a closing working capital audit and finalization of a third party valuation report to assist with the estimation of the fair values of assets acquired and liabilities assumed are as follows as at January 4, 2016, the date of acquisition:

(expressed in thousands)	**Preliminary Fair Value**
Fair value of consideration transferred ($15,000 USD)	20,912
Fair value of purchase option	(2,782)
Non-controlling interest	4,854
	22,984
Net identifiable asset or liability:	
Current assets net of current liabilities	774
Property and equipment	1,177
Intangible asset – non compete agreement	971
Intangible asset – liquor licenses	6,986
Fair value of net identifiable assets acquired and liabilities assumed	9,908
Goodwill	13,076

Since the Company has acquired control of Birchfield through the acquisition, the Company will consolidate 100% of Birchfield's assets, liabilities, revenues, and expenses in the Consolidated Statement of Financial Position and Consolidated Statement of Earnings. The Company has recognized non-controlling interest at the acquisition date of $4,854, which has been recognized on the basis of a 49% interest in the fair value of the net identifiable assets acquired and liabilities assumed.

The Company has provided the non-controlling interest shareholders a put option whereby if the Company has not exercised its call option in the first 36 months subsequent to the acquisition date, the non-controlling interest can, at their option, require the Company to purchase the remaining 49% interest in Birchfield at a price of 4.5 times average annual store level EBITDA for the trailing 36 months. This put option has been presented as a liability related to non-controlling interest put option in the Statement of Financial Position and will be re-measured each period with any changes recognized in finance costs in the Consolidated Statement of Earnings.

Reduction to dividend to fund strategic growth initiatives

On March 9, 2016 the Company announced a reduction in its monthly dividend from $0.09 to $0.03 per Common Share effective for the dividend paid on April 15, 2016. Refer to further discussion in the 'Outlook' section of how the Company intends to deploy our capital in the current year.

Right-sizing the organization

To save costs and drive efficiencies in light of the economic conditions faced by the Company in its key markets as discussed further throughout this MD&A, the Company has substantially completed its plan to streamline operations and eliminate or restructure approximately 20% of the positions at its Edmonton and Louisville Store Support Centres. We have incurred a one-time charge of approximately $0.7 million related to this restructuring in our financial results for the three months ended March 31, 2016. We have also reviewed the expected profitability of our store network and closed one underperforming store in a resource market impacted by the decline in oil prices thus far in 2016. In addition, we exited the lease of a store that was previously planned to be opened later in 2016 in a rural market impacted by the economic slowdown in Alberta.

4. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,					
	2016		2015		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[3]	97,881	56.9%	96,809	65.7%	1,072	1.1%
Other Canadian stores [1]	5,950	3.5%	2,311	1.6%	3,639	157.5%
Canadian wholesale	6,597	3.8%	5,670	3.8%	927	16.3%
Total Canadian store sales	110,428	64.2%	104,790	71.1%	5,638	5.4%
U.S. same-stores (US$)[3]	30,322	17.7%	30,038	20.4%	284	0.9%
Other U.S. stores (US$)[2]	14,512	8.4%	4,315	2.9%	10,197	236.3%
Foreign exchange on U.S. store sales	16,772	9.7%	8,283	5.6%	8,489	102.5%
Total U.S. store sales	61,606	35.8%	42,636	28.9%	18,970	44.5%
Total sales	172,034	100.0%	147,426	100.0%	24,608	16.7%
Gross margin	43,614	25.4%	38,023	25.8%	5,591	14.7%
Operating and administrative expense	41,528	24.1%	36,542	24.8%	4,986	13.6%
Operating margin	2,086	1.2%	1,481	1.0%	605	40.9%
Adjusted operating margin[3]	3,331	1.9%	2,611	1.8%	720	27.6%
Net loss	(1,472)	(0.9)%	(2,313)	(1.6)%	841	36.4%
Adjusted net loss [3]	(573)	(0.3)%	(1,477)	(1.0)%	904	61.2%
Cash used in operating activities	(17,808)		(12,069)		(5,739)	(47.6)%
Cash provided by operating activities before changes in non-cash working capital and adjusting items [3]	(2,966)		(2,665)		(301)	(11.3)%
Dividends paid in cash	6,617		6,794		(177)	(2.6)%
Total assets	483,696		545,810		(62,114)	(11.4)%
Total equity	231,732		363,344		(131,612)	(36.2)%
Basic and diluted loss per share	(0.06)		(0.09)		0.03	33.3%
Basic and diluted adjusted loss per share [3]	(0.03)		(0.05)		0.02	40.0%

Notes:

(1) *Sales for Other Canadian stores for the three months ended March 31, 2016 and 2015 include those of ten stores opened, two stores closed subsequent to December 31, 2014, and three stores in close proximity to the closed stores.*

(2) *Sales for Other U.S. stores for the three months ended March 31, 2016 and 2015 include the following changes subsequent to December 31, 2014: (i) Kentucky: three new stores opened, one store closed and two stores within close proximity to the opened stores; (ii) Alaska: one store closed and one store within close proximity to the closed store; and (iii) New Jersey: two new stores acquired.*

(3) *Same-store sales, operating margin, adjusting items, adjusted operating margin, adjusted net loss, cash provided by operating activities before changes in non-cash working capital and adjusting items, and adjusted loss per share are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information and a reconciliation of non-IFRS measures to the closest IFRS measure see the 'Non-IFRS Financial Measures' section of this MD&A.*

First Quarter 2016 Operating Results Compared to First Quarter 2015 Operating Results

Sales

Total sales increased by $24.6 million or 16.7% to $172.0 million in the first quarter of 2016 (Q1 2015 - $147.4 million). The increase is primarily the result of the sales contribution from the Birchfield acquisition, increase in same-store sales, new store expansion in the United States and Canada offsetting store closures (three new stores opened in the United States, ten new stores opened in Canada, and four stores closed since December 31, 2014), and a $8.5 million positive change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales[1]

- Canadian same-store sales increased by $1.1 million, or 1.1%.
    - Same-store sales in British Columbia, Edmonton and Calgary (which account for approx. 75% of our Canadian same-stores) were up in the first quarter of 2016 compared to the same period in 2015. In particular, we had strong growth in stores that were renovated during the previous two years.
    - Our stores located in the resource and rural markets of Alberta continued to face pressure in Q1 2016 from the economic slowdown that persisted in these regions compared to Q1 2015, with regional same-store sales declines of between 5% and 15% depending on the market.
    - We benefitted from the leap year in 2016 adding an extra sales day in Q1 2016 vs. 2015. Management has estimated that the impact of the extra sales day increased same-store sales in Canada by approximately 1.0%. We also benefitted in Q1 2016 from a shift in the timing of Easter, which occurred in Q2 2015. Management has estimated the impact of the Easter shift to have increased our Canadian same-store sales by approximately 1.5%.
- U.S. same-store sales increased by $0.3 million or 0.9%.
    - Same-store sales in Alaska increased compared to Q1 2015 as the new management team in this region continues to make improvements to customer service and overall execution in our stores. These gains were offset by a decline in same-store sales in Kentucky as a result of unfavorable weather in the quarter.

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

- Management has estimated that the impact of the extra sales day in 2016 vs. 2015 due to the leap year increased same-store sales in the U.S. by approximately 1.0%. The impact of the Easter shift in the U.S. is less significant than in Canada. Management has estimated that the impact of the Easter shift on our U.S. same store sales was less than 0.2%.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $6.6 million for the three months ended March 31, 2016, representing an increase of $0.9 million or 16.3% from the prior year (Q1 2015 - $5.7 million). Our sales increased due to the addition of new licensee customer accounts over the past year, which were partly offset by a decline in sales to existing customers in rural and resource markets.
- Sales for the Other Canadian stores have increased $3.6 million compared to the prior year, primarily as a result of the sales from the ten new stores opened contributing more than the lost contribution from the two stores closed since December 31, 2014, also taking into account the sales increases from the two stores in close proximity to the closed stores.
- Sales for Other U.S. stores have increased by $10.2 million compared to 2015, primarily as a result of the Birchfield acquisition (discussed further under the *Business Highlights* section). The remainder was as a result of the three stores opened in Kentucky more than offsetting the sales decline in the two stores in close proximity to the closed stores since December 31, 2014.

Gross Margin

For the three months ended March 31, 2016, gross margin was $43.6 million, up 5.6 million or 14.7% from $38.0 million for the same period last year. The increase in our gross margin was primarily attributable to the margin contribution from the newly acquired Birchfield stores and the margin increase from new stores net of store closures ($2.9 million), margin growth from our same-stores sales increases ($0.2 million) and the Canadian wholesale business ($0.2 million), and a positive change in foreign exchange on translation of the U.S dollar denominated gross margin to Canadian dollars ($2.0 million). The increases in gross margin were offset by the impact of the decline in our gross margin rate ($0.1 million).

Gross margin as a percentage of sales for the period has decreased to 25.4% (Q1 2015 – 25.8%), which was primarily attributable to the addition of the newly acquired Birchfield stores, which operate a high volume model with slightly lower gross margins. The impact of including Birchfield in our Q1 2016 gross margin was a decline of 0.2% in our gross margin rate. The remaining decline in our gross margin rate was due to the pricing and promotional strategies applied to the new stores opened in late 2015 to drive a more rapid increase to customer count in these new locations and growth in our Canadian wholesale sales, which attracts a lower gross margin percentage than our retail sales. We have also been mindful of our pricing strategy to ensure our products remained priced appropriately considering the economic slowdown being experienced in Alberta and Alaska, and the competitive pressures being faced in British Columbia.

Operating and Administrative Expenses

Operating and administrative expenses for the three months ended March 31, 2016 were $41.5 million, up $5.0 million or 13.6% from $36.5 million a year earlier. Our adjusting items impacting operating and administrative expenses in the current period increased to $1.2 million, up $0.1 million from $1.1 million in the first quarter a year earlier (see the '*Non-IFRS Financial Measures*' section for further information).

- The increase primarily related to the addition of operating and administrative costs of Birchfield in the quarter, an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars ($2.1 million), rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.5 million), and the increased costs associated with running our fifteen new stores opened since December 31, 2014 net of four store closures ($2.0 million).
- These increases were partially offset by decreases in operating costs associated with running our same stores ($0.7 million) and a decrease in head office administrative expenses ($0.2 million) compared to the prior year as a result of management implementing our plan to adjust overhead to reflect the economic conditions being experienced in Alberta as discussed in our analysis of same-store sales above.

Operating Margin

Operating margin for the three months ended March 31, 2016 increased by $0.6 million to $2.1 million or 1.2% as a percentage of sales (Q1 2015 - 1.0%). Adjusted operating margin for the three months ended March 31, 2016 increased by $0.7 million to $3.3 million. This increase was primarily due to the acquisition of Birchfield in Q1 and higher gross margin compared to the previous year as discussed above. The remainder of the increase was due to management tightly controlling store operating and administrative and head office administrative expenses in the quarter.

Amortization

Amortization expense of $3.2 million for the first quarter of 2016 was up $0.9 million from the prior year (Q1 2015 - $2.3 million). Additional amortization in the current year related to the new stores opened subsequent to March 31, 2015 and accelerated amortization recorded for store closures. The Company also recorded a gain of $0.2 million relating to a sale-leaseback transaction that occurred in Q1 2015, which was netted against amortization expense.

Finance Costs

Finance costs have increased by $0.6 million to $2.5 million (Q1 2015 - $1.9 million). In the prior year, we had completed a $55.6 million issuance of common shares in late 2014 which was applied to reduce long-term debt. In the current quarter, we completed the acquisition of Birchfield for total cash consideration of $20.9 million which was funded through our credit facilities. The combination of these two factors resulted in a significant increase in long-term debt compared to the prior year, which drove the increase in cash interest compared to the same quarter last year.

Net loss (gain) on foreign exchange from financing activities

The $2.0 million gain on foreign exchange from financing activities (Q1 2015 - $0.1 loss) relates to a decrease in foreign exchange rates on an increased level of borrowings in USD in the quarter to fund the working capital requirements of our U.S. operations.

Fair value adjustments

Fair value adjustments are comprised of an unrealized loss on the mark-to-market adjustments related to an interest rate swap of $0.3 million (Q1 2015 - $0.2 million) and a fair value adjustment to the non-controlling interest put option liability of $0.1 million (Q1 2015 – nil).

Income Taxes

In the first quarter of 2016, we recorded an income tax recovery of $0.6 million for an effective rate of 27.8% (Q1 2015 - $0.8 million recovery, or an effective rate of 25.5%). Our estimated effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2016 compared to 2015, and also will fluctuate in the current year due to the acquisition of Birchfield.

Net Loss

For the three months ended March 31, 2016, a net loss of $1.5 million was recorded (Q1 2015 –$2.3 million loss). Excluding after-tax adjusting items of $0.9 million (summarized under the 'Non-IFRS Financial Measures' section of this MD&A), adjusted net loss[2] was $0.6 million, a decrease of $0.9 million or 61.2% compared to Q1 2015.

The decrease in adjusted net loss is due the increase in adjusted operating margin and gain on foreign exchange from financing activities, partially offset by the increase in amortization expense as discussed above.

5. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

	Three months ended March 31,	
(expressed in thousands)	**2016**	**2015**
Changes in non-cash working capital	(13,597)	(8,274)
Cash used in operating activities	(17,808)	(12,069)
Cash used in investing activities	(25,626)	(8,337)
Cash provided by financing activities	44,434	28,556
Effect of exchange rate on changes in cash	(514)	207
Net increase in cash	486	8,357

Operating activities

In reviewing the Company's financial statements, users should consider that the Consolidated Statement of Earnings and Comprehensive Income includes amortization of property and equipment and for intangible assets resulting from store acquisitions, deferred taxes and non-cash interest. Amortization and other non-cash transactions have a major impact on the basic and diluted earnings per share calculation.

Cash provided by (used in) operating activities before changes in non-cash working capital is a non-IFRS financial measure which the Company believes provides useful information to investors and Management by providing an indication of cash flow available for sustaining its current annual dividend, investment in working capital, the replacement of existing fixed assets or the purchase of new fixed assets, acquisitions and debt repayment. Users of the Company's financial statements often compare basic and diluted earnings per share amounts to the Company's annual dividend. The basic and diluted loss per share for the three months ended March 31, 2016 was $0.06 (2015 – $0.09 per share). The Company believes that cash provided by

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

(used in) operating activities before changes in non-cash working capital, excluding one-time adjusting items, provides a better indicator of the Company's ability to sustain its current annual dividend than basic and diluted earnings per share.

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

	Three months ended March 31,	
(expressed in thousands, except per share amounts)	**2016**	**2015**
Cash used in operating activities	$ (17,808)	$ (12,069)
Changes in non-cash working capital (2)	(13,597)	(8,274)
Cash used in operating activities before changes in non-cash working capital (1)	(4,211)	(3,795)
Adjusting items(1) (3)	1,245	1,130
Cash used in operating activities before changes in non-cash working capital and adjusting items (1)	$ (2,966)	$ (2,665)
Weighted average number of common shares outstanding – basic	27,464,008	27,260,508
Per share amount	(0.15)	(0.14)
Per share amount before adjusting items	(0.11)	(0.10)
Cash dividends per share paid in the quarter	0.27	0.27

Notes:

(1) *Cash provided by (used in) operating activities before changes in non-cash working capital, and cash provided by (used in) operating activities before changes in non-cash working capital and adjusting items are non-IFRS measures that do not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Measures' section of this MD&A.*

(2) *Changes in non-cash working capital are excluded in the calculation of cash provided by (used in) operating activities before changes in non-cash working capital as Management believes that it would introduce significant cash flow variability that can be caused by such factors as timing of disbursements (such as the payment for large inventory purchases, income taxes, etc.) and foreign exchange on translation of U.S. dollar denominated working capital to Canadian dollars. As well, significant increases in working capital are generally required when new stores are developed or acquired.*

(3) *Adjusting items are summarized under the 'Non-IFRS Financial Measures' section of this MD&A.*

Cash used in operating activities before changes in non-cash working capital for the three months ended March 31, 2016 has increased by $0.4 million. This increase is primarily due to the increase in cash interest costs incurred in the current quarter (see further discussion earlier in the MD&A in the *'Performance Overview'* section).

Investing activities

For the three months ended March 31, 2016, cash used in investing activities was $25.6 million, a $17.3 million increase from $8.3 million used for the same period in the prior year.

- Cash used for the purchase of property and equipment for the three months ended March 31, 2016 of $4.2 million (Q1 2015 - $7.0 million) primarily related to the settlement in Q1 2016 of accounts payable and accrued liabilities at December 31, 2015 related to property and equipment additions in 2015.

- Cash used for the purchase of intangible assets during the first quarter of $0.5 million (Q1 2015 - $1.4 million) primarily related to capitalized software development costs to drive efficiencies in the Company's administrative processes.
- Total cash consideration to acquire the 51% interest in Birchfield was $15.0 million USD, or $20.9 million CAD.

Financing activities

For the three months ended March 31, 2016, cash provided by financing activities was $44.4 million, compared to $28.6 million from the same period in 2015. This change primarily relates to:

- Higher total proceeds from long term debt compared to the prior year, which was due to the acquisition of Birchfield for cash consideration of $20.9 million in the current period.
- In Q1 2015, we generated proceeds of $5.7 million as a result of a sale-leaseback transaction.

Foreign currency translation gain on cash

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

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; and
- Revenue and expense items (including amortization) are translated at the average rate of exchange for the period.

The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in accumulated other comprehensive income. The effect of exchange rate changes on cash balances held in foreign currencies is separately reported as part of the reconciliation of the change in cash balances for the period. The U.S. dollar experienced increases and decreases against the Canadian dollar at times during the three months ended March 31, 2016, and based on the timing and level of cash held in U.S. dollars, the Company has recorded a $0.5 million loss on cash held in foreign currency in the three months ended March 31, 2016.

Credit Facilities and Subordinated Debentures

The Company has a credit facility with a syndicate of Canadian banks, which is effective until September 30, 2017 and consists of a $175 million extendible revolving operating loan. At May 9, 2016, there was approximately $116 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 of loan availability (to be provided by the lenders on a best-effort basis).

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

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

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

EBITDA is defined under the amended and restated credit facility as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $4.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions. We are also permitted to include a trailing twelve months of estimated EBITDA for any new acquisitions.

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at March 31, 2016, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**As at March 31, 2016**
Funded debt to EBITDA	< 3.50:1.00	2.63
Adjusted debt to EBITDAR	< 5.00:1.00	4.45
Fixed charge coverage	> or = 1.00:1.00	1.08

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

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

On and after April 30, 2015 and prior to April 30, 2017, the Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after April 30, 2017 and prior to the maturity date, the Company may, at its option, redeem the Debentures by way of cash payment or through the issuance of common shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at May 9, 2016, the Company has undrawn credit of approximately $39 million under its credit facility available to finance operating requirements, growth opportunities and for general corporate purposes.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company is party to an interest rate swap with a Canadian Schedule I bank that expires December 14, 2019 with a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At May 9, 2016, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.98% per annum after taking into account the applicable credit spread determined with reference to the credit facility. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming an outstanding long-term debt of $116 million, of which $60.0 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at May 9, 2016:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	560	(560)
Decrease (increase) in net loss	(415)	415

An increase/decrease of 1.00% in market interest rates would result in a nominal decrease/increase in the Company's net loss per share.

Credit Risk

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

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. This exposure primarily relates to U.S. intercompany management fees and interest payments which totalled $1.0 million USD for the period ended March 31, 2016.

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

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; and
- Revenue and expense items (including amortization) are translated at the average rate of exchange for the period.

The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in accumulated other comprehensive income. The Company manages this exposure by funding significant investments in these subsidiaries in USD borrowings where possible.

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

Contractual Obligations

The table below sets forth, as of March 31, 2016, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, finance leases for a portion of our vehicles, software licenses and maintenance, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and thereafter**
Operating leases	24,760	29,824	26,375	22,331	18,987	67,753
Finance leases	98	138	148	150		
5.85% Debentures	-	-	67,500	-	-	-
Long-term bank indebtedness	-	116,718	-	-	-	-
Software licenses and maintenance	214	290	293	297	99	-
Total	25,072	146,970	94,316	22,778	19,086	67,753

6. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	As at March 31, 2016	As at December 31, 2015
Cash	4,276	3,790
Accounts receivable	3,574	6,020
Inventory	171,058	157,102
Total current assets	189,425	178,000
Property and equipment	62,560	64,781
Intangible assets	48,918	43,312
Goodwill	170,351	158,987
Total assets	483,696	455,554
Accounts payable and accrued liabilities	53,526	61,628
Dividends payable	986	2,470
Total current liabilities	56,410	64,795
Long-term debt	181,361	129,566
Total liabilities	251,964	199,818

The Company has a significant investment in working capital that is primarily due to the Company being required, consistent with other liquor retailers, to pay for inventory prior to receiving it in Alberta and British Columbia. As we do not have traditional payment terms on our inventory, our working capital is higher in these regions compared to that in Kentucky and Alaska where we generally have 30 day trade payment terms. At March 31, 2016, net working capital (current assets, excluding cash, less current liabilities) was $128.7 million, a $19.3 million increase from the prior year end (December 31, 2015 - $109.4 million). This increase is primarily attributable to an increase in our inventory levels, as discussed further below.

During the quarter, the Company acquired Birchfield Ventures LLC (as discussed further the *Business Highlights* section above). This increased our assets and liabilities as discussed further below in analyzing the changes in the consolidated financial position.

- Accounts receivable decreased $2.4 million to $3.6 million as at March 31, 2016 primarily due to a decrease in income taxes recoverable.

- Inventory increased by $14.0 million to $171.1 million as at March 31, 2016. This increase related primarily to the addition of Birchfield in the quarter, which added $9.7 million to the Company's inventory. The remaining increase is related to increased inventory purchases towards period end to increase the SKU count of our preferred label products (needs to be procured in large quantities up front) and bulk purchases to take advantage of limited time offer purchases sold at a discount.

- Accounts payable and accrued liabilities decreased by $8.1 million to $53.5 million as at March 31, 2016, primarily as a result of the timing of a large amount of accounts payable and accruals recorded as at December 31, 2015 being paid in Q1 2016. This included accounts payable and accruals for new stores constructed in Q4 2015 and inventory buys in the U.S. to replenish our stock subsequent to the holiday selling season. These decreases were offset by the addition of Birchfield in the quarter, which added $6.2 million of accounts payable and accrued liabilities.

- The carrying value of property and equipment was $62.6 million, a $2.2 million decrease from the prior year end (December 31, 2015 - $64.8 million). Additions during the period of $1.1 million

(2015 - $5.8 million) were related to maintenance capital expenditures. The acquisition of Birchfield in the current period added $1.2 million of property and equipment. These additions were offset by amortization of $3.1 million (2015 - $2.3 million). Foreign exchange differences on property and equipment assets held in the U.S. resulted in a decrease in the carrying value of $1.4 million (2015 - $1.3 million increase).

- Long-term debt was $181.3 million at March 31, 2016, a $51.7 million increase from the prior year end (December 31, 2015 - $129.6 million). During the period, there were net draws on our long-term debt facilities of $51.3 million (2015 - $29.8 million), and $0.4 million in accretion of the subordinated convertible debentures and amortization of deferred financing charges (2015 - $0.4 million). The increase in long-term debt from year end primarily relates to the additional debt required to finance the Birchfield, as well as to fund the increase in working capital from year end.

As at March 31, 2016 and May 9, 2016, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

7. Shareholders' Equity

At March 31, 2016, the Company had 27,573,976 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2016 was 27,464,008 and 27,484,662, respectively (compared to 27,260,508 and 27,268,410 for the comparative period). As at May 9, 2016, 27,590,527 common shares of the Company were issued and outstanding.

8. Dividends

Dividend Policy

Up to and including the dividend declared on February 15, 2016, which was paid on March 15, 2016 to shareholders on record on February 29, 2016, the Company paid a monthly dividend of $0.09 per Common Share. On March 9, 2016 the Company announced a reduction in its dividend to $0.03 per Common Share. Dividends are paid, if declared, on or about the 15th day of each month to Shareholders of record at the end of the previous month.

Although it is expected that dividends declared and paid by us will qualify as "eligible dividends" for the purposes of the Tax Act, 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".

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provides shareholders with a cost-effective and convenient method of reinvesting their monthly cash dividends into additional common shares of the Company. Presently, shares issued pursuant to the DRIP are issued at a discount of 3% from the market price (as such term is defined in the Plan) and no brokerage or administration fees are charged by the Company for participating in the Plan.

As at April 30, 2016, shareholders enrolled in the DRIP held approximately 3.0 million shares.

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

9. Related Party Transactions

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

During the three months ended March 31, 2016, the Company incurred expenses in the normal course of business for professional fees of $10 thousand (Q1 2015 - $29 thousand) paid to a law firm of which a director of the Company is a partner. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

10. Financial Instruments

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

11. Business Overview

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

The Company 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; and "Liquor Barn, The Ultimate Party Source", "Liquor Barn Express" in Kentucky, and "Joe Canal's Discount Liquor Outlet" in New Jersey.

As of May 9, 2016, the Company operated 253 stores in Alberta, British Columbia, Alaska, Kentucky and New Jersey, comprised of 16 destination/large-format stores, 235 full liquor stores, and two wine only stores. Product selection is tailored to each location. Stores in Canada generally range in size from 2,000 to 5,000 square feet. Our U.S. stores are larger in size. The Company's stores in Alaska range in size from 1,400 to 14,000 square feet and we have one combined store and warehouse in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 30,000 square feet along with a flagship store of 44,000 square feet. Our New Jersey stores are large destination/large format stores with areas of approximately 17,000 and 25,000 square feet, respectively. Our two large Wine & Beyond stores, our destination/large-format stores in Alberta, with areas of approximately 17,000 and 20,000 square feet, respectively, are the largest liquor retail stores in western Canada. We added a third Wine & Beyond store in Q4 2015, with a slightly smaller footprint than our existing Wine & Beyond stores.

The following provides a summary of the Company's locations as at March 31, 2016. Subsequent to March 31, 2016, the Company closed an underperforming store in Grande Prairie, Alberta, reducing our total store count to 253.

	January 1/16 to March 31/16				
	1-Jan-16	**Opened**	**Acquired[5]**	**Closed**	**31-Mar-16**
Alberta					
Edmonton[1]	83	-	-	-	83
Calgary[1]	45	-	-	-	45
Other[2]	52	-	-	-	52
	180	-	-	-	180
British Columbia					
Interior	11	-	-	-	11
Lower Mainland	13	-	-	-	13
Vancouver Island	11	-	-	-	11
	35	-	-	-	35
Alaska					
Anchorage	18	-	-	-	18
Other[3]	4	-	-	-	4
	22	-	-	-	22
Kentucky					
Lexington	6	-	-	-	6
Louisville	6	-	-	-	6
Other[4]	3	-	-	-	3
	15	-	-	-	15
New Jersey					
Lawrenceville	-	-	1	-	1
Woodbridge	-	-	1	-	1
	-	-	2	-	2
Total	**252**	**-**	**2**	**-**	**254**

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 (26), Southern (nine), Central (15) and resort communities (two).

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

(4) Other communities served in Kentucky include Danville, Bowling Green and Elizabethtown.

(5) The two stores in New Jersey were acquired through the business combination with Birchfield effective January 4, 2016.

Competitive Differentiation

Management focuses on differentiating the Company's stores from the competition by promoting a broad selection of products, by emphasizing our in-store customer experience, and through continued marketing and development of well-known industry-leading brands. Management believes that its emphasis on offering a range of stores from large-format/destination-type stores (with a strong focus on product selection and customer experience) to convenience-focused stores (convenient and high-traffic locations) assists the Company in differentiating itself from its competitors.

Seasonality

The retail liquor industry is subject to seasonal variations. The Company's sales are typically lowest early in the year and increase in the latter half. In 2015, 20% (2014 - 20%) of annual same store sales occurred in the first quarter, 26% (2014 - 26%) in the second quarter, 26% (2014 - 26%) in the third quarter, and 28% (2014 - 28%) in the fourth quarter. Our working capital requirements are greatest in the second and third quarters as we ramp up inventory for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

Comparable same-store sales, a measure that is generally used by retailers, includes sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers, (ii) stores where same-store sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores we've opened in the last 12 full months, and (iii) stores where same-store sales have increased due to the closure of closely-located stores in the last 12 full months.

12. Company Strategy

As previously communicated in our 2015 MD&A, we are focused on the following Seven Point Plan (the "Plan") to build on our competitive position, invest in opportunities to support long-term profitability and drive growth across our business:

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

Liquor Stores intends to adopt a measured approach to growth that will be scaled up or down depending on market conditions. The goal is to advance the seven point plan initiatives to invest in the store network and pursue expansion, while ensuring that the Company can withstand a prolonged period of economic pressure in Alberta as discussed further in the Outlook section later in this document.

The following is a summary of the 2016 goals as included in our 2015 MD&A and progress made to date in 2016.

Business Strategy	Goals for 2016	2016 Progress
1. Enhance the Senior Leadership Team We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives with deep retail experience in both Canada and the United States.	N/A – completed in 2015	N/A – completed in 2015
2. Invest in our People We have an opportunity to attract more customers to existing locations and increase sales per customer by improving our customer service. Our investments will include enhancing our hiring and retention strategies, the introduction of industry leading training programs, implementing competitive store level compensation and benefit programs, and a focus on providing our employees with career and performance management.	Program Expansion Deliver our sales, workforce management and store operational training programs to at least 90% of our store managers by the end of 2016. Enhance our current store level incentive program to continue to further align our store teams with our strategy related to preferred label products by adding further stretch goals to increase our preferred label penetration even further.	**Status: On target** We continue to deliver our sales, workforce management, and store operational programs to our store managers, and are on target to achieve our goal of having 90% of our store managers complete this program by end of 2016. We are also currently implementing an enhanced store level incentive program effective for Q2 2016 which will add further stretch goals to continue to increase the penetration of our preferred label program.
3. Implement an Industry Leading Information Technology Platform We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business.	Deferred - Dependent on Market Conditions Continue to evaluate economic conditions throughout the year, and if they show a sustained improvement, develop a revised implementation schedule.	**Status: Delayed** In Q4 2015, we completed the blue-printing and design phase of the project, on-schedule and on-budget. To adjust to current economic conditions, the Company is revising its expectation to introduce a new enterprise resource planning system, which was previously expected to be implemented by the end of 2017. The implementation will be delayed and a revised schedule has not yet been set.
4. Invest in our Store Network We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers.	Measured Growth - Dependent on Market Conditions Invest approximately $2.5 million on store refurbishments. This spend could adjust higher or lower depending on volatility of economic conditions in our key markets Continue to evaluate economic conditions throughout the year, and if they show a sustained improvement, develop a revised store renovation schedule.	**Status: On target** The Company is currently planning to deploy the $2.5 million committed to store refurbishments. Management is evaluating several options to determine the most effective and efficient use of this capital. We continue to carefully monitor economic conditions in Alberta, and will be able to quickly adjust this spend higher or lower depending on current and forecasted economic conditions for the remainder of the year.

Business Strategy	Goals for 2016	2016 Progress
5. Increase Brand Awareness and Loyalty We will continue to increase our brand awareness and customer loyalty through investment in our store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts.	Expansion Continue to enhance our customer relationship management strategy, and grow the number of customers enrolled in this program in 2016. Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.	**Status:** **On target** 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. Our merchants have remained focused on sourcing exclusive and control brands from our suppliers. We continue to introduce a selection of new items and have provided all of our store managers with training on how to merchandise and sell these items.
6. Increase Operating Margins We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.	Expansion Continue to implement product assortment plans (i.e. planograms) into our store locations in 2016. Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.	**Status:** **On target** We are currently implementing product assortment plans into all new and renovated stores, and into a selection of our existing stores. 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.
7. Pursue Expansion We plan to strategically expand our business in existing markets in Canada and the United States, and into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal.	Measured Growth – Dependent on Market Conditions 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. Management will continue to evaluate and assess potential store acquisitions for their ability to add accretive cash flow and create shareholder value.	**Status:** **On target** We completed the acquisition of Birchfield, operating two large format stores in New Jersey, a new region for the Company. We also have commitments currently to open three new stores (Calgary, AB: Large format, Norwalk, CT: Large format, Lethbridge, AB: convenience format) and relocate an existing convenience format store in British Columbia to a more attractive location in 2016. We continue to evaluate plans for 2017 new store construction, and are currently committed to opening a large format store in Berlin, MA in 2017.

13. Critical Accounting Estimates and Accounting Policies

The following are updates to the Company's critical accounting estimates made in the current interim period:

i) Liability related to non-controlling interest put option

Estimates and assumptions used to calculate the value of the liability related to the non-controlling put option include the discount rate used to measure the present value of the exercise price of the option, the expected timing of exercise of the put option, and the forecasted gross settlement amount of the put option, which will vary depending on the trailing earnings of Birchfield Ventures LLC ("Birchfield") at the time of exercise.

The put option is classified as a financial liability .Non-controlling interest continues to be recognized because the non-controlling shareholders have access to the returns associated with their underlying ownership interests. As such, the impact of recognizing the financial liability has been included in the Deficit of the Company at the acquisition date and had no impact on the measurement of non-controlling interest. The liability will be remeasured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

ii) Purchase option asset

Estimates and assumptions were used to calculate the value of the asset related to the Company's purchase option to acquire the remaining 49% of Birchfield for a fixed price in the first 18 months subsequent to January 4, 2016. Fair value was determined using a Black-Scholes option pricing model, and estimates and assumptions were made with respect to the strike price compared to current price of the option, and expected volatility of Birchfield's earnings.

iii) Consolidation of Birchfield (note 3)

Based on current degree of ownership and voting rights, and considering substantive potential voting rights available through exercise of the purchase option, the Company has determined that it controls Birchfield and as such, has consolidated Birchfield in the Consolidated Financial Statements..

14. Non-IFRS Financial Measures

Same-store sales, operating margin, operating margin as a percentage of sales, adjusted operating margin, adjusting items, adjusted net earnings (loss), adjusted basic and diluted earnings per share, cash provided by (used in) operating activities before changes in non-cash working capital, cash provided by (used in) operating activities before changes in non-cash working capital on a per share basis, cash provided by (used in) operating activities before changes in non-cash working capital and adjusted items, and cash provided by (used in) operating activities before changes in non-cash working capital and adjusted items on a per share basis are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that these measures should not replace net earnings or loss (as determined in accordance with IFRS) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's method of calculating the aforementioned non-IFRS measures may differ from the methods used by other issuers. Therefore, these measures may not be comparable to similar measures presented by other issuers.

- Same-store sales include sales for stores that have been open 12 full months at the beginning of the reporting period. This is one of the key metrics that we use to assess our performance and provides a useful comparison between periods. Same-store sales exclude: (i) all sales to wholesale customers, (ii) stores where same-store sales have been negatively impacted due to sales being shifted to closely-located convenience-focused stores we've opened in the last 12 full months, and (iii) stores where same-store sales have increased due to the closure of closely-located stores in the last 12 full months.

- Operating margin for purposes of disclosure under "Operating Results" has been derived by subtracting Operating and Administrative expenses from Gross Margin. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.
- Adjusted operating margin represents operating margin adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the *'Performance Overview'* section.
- Adjusted net earnings (loss) is calculated as net earnings or loss less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Adjusted basic and diluted earnings per share is calculated as adjusted net earnings divided by basic or diluted weighted average number of common shares outstanding.

Management believes the presentation of adjusted operating margin, adjusted net earnings, and adjusted basic and diluted earnings per share provides for useful information to investors and shareholders as it provides increased transparency and predictive value. Management uses adjusted operating margin to set targets and assess performance of the Company.

Cash provided by operating activities before changes in non-cash working capital and adjusting items is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Investors are cautioned that this should not be construed as an alternative measure of profitability.

EBITDA and EBITDAR, which are used by Management only with reference to the calculation of covenants under the Company's credit facility, have been defined in the Liquidity and Capital Resources section of this MD&A.

Refer below for a reconciliation of operating margin and net earnings (loss) to adjusted operating margin and adjusted net earnings (loss):

	Three months ended March 31,	
(expressed in thousands)	**2016** (unaudited)	**2015** (unaudited)
Operating margin	$2,086	$1,481
Adjusting items:		
Restructuring costs in right-sizing operating and administrative spend	696	-
Early termination of leases in conjunction with a store closure and the exit of a lease for a planned new store	354	-
Legal, professional and travel fees incurred in evaluating potential acquisitions	195	-
Costs associated with implementing a new enterprise resource system	-	235
Payments to former members of the senior management team upon departure	-	675
Payments made to members of a regional operations team upon termination	-	220
Total adjusting items	1,245	1,130
Adjusted operating margin	3,331	2,611

(expressed in thousands)	Three months ended March 31, 2016 (unaudited)	2015 (unaudited)
Net loss	$(1,472)	$(2,313)
Total adjusting items per above	1,245	1,130
Tax effect of adjusting items	(346)	(294)
Total adjusting items, after tax	899	836
Adjusted net loss	(573)	(1,477)

15. Risk Factors

There are no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 9, 2016 and the Company's annual MD&A for the year ended December 31, 2015.

16. Disclosure Controls and Procedures

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

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

The Chief Executive and Chief Financial Officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the three months ended March 31, 2016. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

17. Outlook

Economic Conditions

Notwithstanding the current increase in the price of oil, Liquor Stores anticipates further downward pressure on same-store sales in all Alberta markets in 2016 until the volatility in commodity prices impacting the province stabilizes, and drilling and oilfield services/infrastructure construction activities demonstrate a sustained improvement. Management has therefore adjusted the overhead of the organization to reflect current economic condition to save costs and drive efficiencies. This included streamlining operations and eliminating 20% of the positions at its Edmonton and Louisville Store Support Centres, which was completed in Q1 2016. These changes result in $2.5 million in annualized savings in operating and administrative expenses. We recorded a one-time charge of $0.7 million related to executing this restructuring plan in our financial results for the three months ended March 31, 2016.

Future Growth

Liquor Stores is taking a measured approach to growth that will be scaled up or down dependent on market conditions. The goal is to advance the seven point plan initiatives to invest in the store network and pursue expansion, while ensuring that the Company has taken the appropriate measures if faced with a prolonged period of economic pressure in Alberta.

As discussed earlier in this document, Liquor Stores has taken steps to ensure that it has sufficient capital to fund its strategic growth initiatives, including the dividend revision, organizational restructuring and the decision to delay the implementation of the new enterprise resource planning system.

Liquor Stores expects to drive increased levels of profitability of the business over both near and long-term through store remodelling and measured growth in select Canadian markets as well as opening strategically placed greenfield stores in the U.S.:

- Liquor Stores currently expects to open four to seven new stores over the next 24 months, at an estimated aggregate cost of between approximately $5 million to $10 million, depending on format (destination vs. convenience sized). Currently, we have commitments to open three new stores by the end of 2016, which include destination sized stores in Calgary, AB and Norwalk, CT, and a convenience format store in Lethbridge, AB. We will also relocate an existing store in British Columbia to a superior, grocery-anchored site. The Company will continue to monitor economic conditions and evaluate plans for 2017 new store constructions in due course.

- Throughout 2016, Liquor Stores still intends to invest approximately $2.5 million on store refurbishments, but could adjust this spend higher or lower depending on the volatility of economic conditions in key markets.

Furthermore, we believe we may have the opportunity to augment this growth by executing upon selective strategic acquisitions. These acquisitions would provide us with access to new and growing markets while diversifying our revenue base. Liquor Stores will continue to evaluate and assess potential store acquisitions for their ability to add accretive cash flow and create shareholder value.

Management believes that this approach contemplates the most efficient and effective use of our capital to continue to realize our strategic growth objectives in light of the economic conditions we currently face, as discussed above. With these adjustments to our capital allocation strategy, Management believes that its cash flow from existing operations, its current available credit and access to new capital are sufficient to finance the execution of the Company's business strategies.

Fort McMurray Wildfire

Starting on May 1, 2016, the city of Fort McMurray, Alberta began issuing evacuation orders culminating in a mass evacuation on May 3, 2016 due to an out of control wildfire that has since impacted several areas within the city. The Company has seven convenience format stores in Fort McMurray that have been closed since May 2, 2016 and have not yet re-opened. While we have limited information, we do not believe that our stores have sustained any significant damage from the fire at this point. It is uncertain as to when the stores will re-open, how long it will take to ramp back up to optimal levels when they do re-open, and what impact this will have on our sales and operating margin in this region. Government officials have been cautioning the public to be prepared for 'a long wait' before residents can return to Fort McMurray and businesses can re-open.

18. Condensed Quarterly Information

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

	2016	2015				2014		
	Mar 31	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**
Statement of Financial Position								
Cash	4,276	$ 3,790	$ 2,790	$4,057	$ 11,360	$ 3,003	$ 4,331	$ 4,391
Total assets	483,696	455,554	562,400	546,351	545,810	525,865	520,426	517,128
Current bank indebtedness	-	-	-	-	-	-	987	932
Total current liabilities	56,410	64,795	52,522	44,458	45,872	51,124	40,974	43,514
Long-term debt	181,361	129,566	127,017	124,670	122,244	92,037	157,685	157,907
Total liabilities	251,694	199,818	198,145	186,244	182,466	161,107	214,947	215,258
Shareholders' equity	231,732	255,736	364,255	360,127	363,344	364,758	305,479	301,809
Non-controlling interest	3,969	77	15	60	(2)	106	46	61
Statement of Earnings								
# stores, end of period	254	252	247	247	246	243	246	245
Sales	172,034	214,166	194,186	190,606	147,426	196,722	181,921	178,168
Adjusted operating margin [(1)]	3,331	13,971	11,507	12,805	2,611	13,742	12,536	10,642
Net earnings (loss) attributable to owners of the parent	(1,743)	(105,897)	4,142	4,490	(2,322)	6,612	5,271	3,355
Net earnings (loss)	(1,472)	(105,808)	4,169	4,560	(2,313)	6,714	5,316	3,417
Basic earnings (loss) per share	($0.06)	($3.86)	$0.15	$0.16	($ 0.09)	$ 0.28	$ 0.23	$ 0.14
Dividends declared per share	$0.21	$0.27	$0.27	$0.27	$ 0.27	$0.27	$0.27	$0.27

[(1)] Adjusted operating margin is a non-IFRS measure that does not have any standardized meaning prescribed by IFRS. For more information on non-IFRS measures see the 'Non-IFRS Financial Measures' section of this MD&A.