LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2017

Dated as at May 8, 2017

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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, 2017 with the three months ended March 31, 2016. 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, 2017 and 2016, the audited consolidated financial statements for the years ended December 31, 2016 and 2015, the annual MD&A for the year ended December 31, 2016, and the Annual Information Form dated March 29, 2017, each of which is available on SEDAR at www.sedar.com. The information in this MD&A is current to May 8, 2017, unless otherwise noted.

In this MD&A, unless the context otherwise requires, all references to "we", "us", "our", "Liquor Stores", and "the Company" refer to Liquor Stores N.A. Ltd. and its subsidiaries, and all references to "Management" refer to the directors and 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 profit before amortization, operating profit before amortization as a percentage of sales, adjusted operating profit before amortization, adjusting items, adjusted net earnings, and adjusted basic and diluted earnings per share. 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. Executive Summary

The following section describes our key business highlights and overall financial performance of the Company over the past quarter. During Q1 2017, oil prices recovered over the same period a year earlier but Alberta unemployment unfortunately continued to rise significantly over the year before. We have also seen an increase in the amount of discount competitors in Alberta, who have responded to these market conditions by offering aggressive pricing to capture market share in the recessionary conditions in Alberta.

Rather than purely compete on pricing with our discount competitors, which would significantly reduce our gross margin percentage and overall profitability, our strategy to maximize our profitability through economic and competitive pressures has focused on:

- Developing a branding message of being "Always on Sale", where we have shifted from offering infrequent but deep discounting in our stores to now offering continuous discounting for a much larger number of items in store.
- Shifting our marketing away from traditional methods used by much of our competition such as flyers, direct mail and newspaper ads and into higher reach mediums like television, digital, and social media where we focus on our core strengths of convenient locations, great selection, and being always on sale for a large number of items.
- Promoting a price match guarantee, where we will match any competitor's price for any item.
- Promoting and driving an increase in our e-commerce business, which is a line of business that our competitors have not yet launched and Management therefore believes that this is a competitive advantage that can be leveraged to increase our market share while maintaining our gross margin percentages.
- Continuing to strengthen our in-store labor and training to offer a higher level of customer service to our customers and increase sales of our private label products (which increases our gross margin percentage).
- Promoting and building the brand profile of our private label products. Many of these products have become top selling products in their categories, are highly rated by third party reviews, and can only be purchased in our stores, which drives loyalty to our stores.
- Renovating between 15 to 20 stores in 2017. Our renovated stores drive more customers away from competitors and into our stores, increase our sales, and improve our overall brand image.

Management has estimated that by running the strategy above in Canada, we have held our gross margin dollars flat compared to Q1 2017 in Canada after adjusting for the impact of the shift in timing or Easter and the leap year in 2016, as discussed further below.

Our sales in Q1 2017 compared to Q1 2016 were negatively impacted by timing factors.

Management has estimated that our sales were reduced by approximately 2.6%, or $2.6 million, in Canada due to timing factors. The main timing factor was the shift in Easter to Q2 2017 from Q1 2016. We estimate that this shift reduced our Canadian same store sales by approximately 1.9%, or $1.9 million, in Q1 2017 compared to Q1 2016. In addition, 2016 included an extra day of sales (February 29). We estimate that this reduced our same store sales in both Canada and the U.S. by 0.7% in Q1 2017 compared to Q1 2016.

Canadian Sales

We have seen a slowing in the decline rate for Canadian same-store sales, after normalizing for the impact of Easter shift and the extra sales day in Q1 2016. Normalized Canadian same store sales were down 2.0% in Q1 2017 compared to Q1 2016, an improvement from a decline of 3.8% in Q4 2016 compared with Q4 2015. E-commerce sales, while still a relatively small piece of our overall business, have been particularly strong, with an increase of 191% in Q1 2017 compared to Q1 2016.

Our same-store sales in British Columbia remain strong, with an increase in Q1 2017 compared to Q1 2016 after adjusting for the shift in timing of Easter and the leap year in 2016.

U.S. Sales

In Kentucky, we face stiff competition, where new entrants and expansion of the stand-alone liquor stores operated by grocers have put pressure on our same-store sales in that market. Our stores in New Jersey are facing similar challenges, with a significant expansion of the square footage and product selection offered by a nearby grocer and the entrance of a discount competitor to that market. Alaska continues to be negatively impacted by a challenging economy, where there has been a significant decline in oil extraction activity and oilfield services. We have been taking action to address these matters and will continue to do so as a priority.

How declines in same store sales impact our operating profits

Since the cost of operating our stores is relatively fixed and does not fluctuate with sales volume (base level of labor to operate a store, rent, property tax, utilities, maintenance and janitorial costs remain relatively unchanged regardless of the level of sales), a decline in same store sales reduces our operating profit and operating profit as percentage of sales, and increases our selling and distribution expenses as a percentage of sales. As such, we have seen a decline in our operating profit before amortization[1] in Q1 2017 compared to Q1 2016.

We have highlighted the actions above that we anticipate will improve both our same-store sales and gross margin performance, and drive an improvement in the operating profits of the Company as these initiatives continue to gain traction in each market.

We continue to solidify our balance sheet and reduce our administrative costs

Given we are still facing a recessionary and increasingly competitive market in many of our operating regions, we took action to improve our overall financial position as follows:

- Reduction of our consolidated inventory levels by over $15.8 million compared to as at March 31, 2016 through continued improvements to our store ordering and procurement process.
- Continued to carefully manage our debt levels and improve our leverage ratios. As a result, our long-term debt levels were $24.3 million lower than as at March 31, 2016.
- Prudently applying cost containment measures – we found efficiencies to automate or streamline several business processes to reduce our total administrative expenses by $1.6 million or 24.1% in Q1 2017 compared with a year earlier. Our administrative expenses represented 3.1% of sales in Q1 2017, compared to 3.9% in Q1 2016.

Through these actions as well as others taken by management to navigate the significant economic challenges we continue to face in several of our key operating regions, we believe the Company is now well positioned to maximize the increase in our profitability in the future as we emerge from these headwinds.

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

3. Outlook

Canadian Economic Conditions show signs of recovery

Liquor Stores anticipates improved economic conditions in Alberta as the year progresses which we believe should alleviate the pressure on same-store sales in Alberta along with gains from our enhanced marketing tactics and store renovations. We expect our gross margin percentage to continue to improve over 2016 due to the price and marketing tactics discussed in the 'Executive Summary' section and increasing the sales of our private label products. Our strategy for Alberta is to maximize profitability while protecting our market share and position the Company to be stronger and ready for growth when employment levels increase, core industries improve and consumer confidence rebounds.

We anticipate that our strong performance in British Columbia, where we have had consistent growth in same-store sales from increased customer traffic, will continue throughout the current year. We will work to complete renovations in select stores in 2017. We believe that enhancements to our pricing and promotional strategies will increase basket size and gross margin percentage in this region.

Our U.S. operations are facing headwinds, but we are taking action

As discussed in the 'Executive Summary' section above, our U.S. operating performance is being significantly impacted by increased competition in Kentucky and New Jersey, as well as poor economic conditions in Alaska due to depressed oil prices. Like Alberta, improved economic conditions in Alaska should reduce the downward pressure on same-store sales in this market as the year progresses.

To accelerate the improvement in the financial performance in the U.S. and regain market share lost to new competitors, we implemented several of the counter-measures we have put in place for Alberta into our US operations. We are shifting away from traditional marketing channels like flyers and direct mail in this market and into higher reach mediums. We began producing and running television advertisements in these markets during live sporting events, to promote our strategy of being "Always on Sale". We have also made adjustments to our pricing that will allow us to generate a higher gross margin percentage while also appearing more promotional in-store. Through these strategies, we believe that we can win back market share lost to competitors while also increasing our gross margin rate in the U.S. by following a similar pricing and promotion model as Alberta, where we have already started to see improvements. We also plan to renovate stores in these regions throughout 2017 to enhance the customer experience and drive more customer traffic to these locations.

Positioned for Future Growth

Liquor Stores takes a measured approach to growth that will scale up or down depending on market conditions. We will invest in our store network and expand to counteract economic and competitive pressures. We will complete store renovations in our core markets of Alberta and British Columbia measured new store growth in select Canadian markets, and modest levels of expansion in the U.S. primarily through the acquisition of existing stores.

More specifically:

- Liquor Stores currently expects to open and/or acquire three to six new stores over the next 24 months, at an estimated aggregate cost of $5 million to $10 million, depending on format (convenience vs. destination sized).
- In the first quarter, we have incurred $0.8 million of new store construction costs, primarily to relocate an existing BC store to better retail location, along with preliminary work on our new Wine and Beyond

location in Calgary (expected to open in fall 2017). As the year progresses and into next year, we will evaluate opportunities to open new locations in Alberta to protect our competitive position and grow market share, and relocate one additional store in British Columbia to a superior retail location. We plan to complete construction and open a new large format Wine and Beyond store in Calgary in fall 2017. The Company will monitor economic conditions and evaluate potential new stores for 2018.

- In the fall of 2016 we were awarded a liquor license to open our first Saskatchewan store, in the city of Saskatoon. As part of our planning we have determined that further evaluation is necessary to ensure that we will generate sufficient return on capital invested in that province before we enter that new market.
- We anticipate investing $4 to $6 million on store refurbishments in 2017. In the first quarter of 2017, we have deployed $0.8 million on renovations, fully completing one and partially completing the renovation of two stores at the quarter end date. Results from the renovations completed in the last twelve months have been strong, with sales increases ranging between 10% and 25%, notwithstanding the economic headwinds.
- We plan to implement a new enterprise resource planning ("ERP") system that will improve business operations, drive down costs, be instrumental in improving our inventory turnover, and provide a scalable growth platform. We will phase in implementation and test the system in a select number of stores in late 2017 or early 2018 before proceeding with a roll out across the business.

Management believes that this approach reflects the best use of our capital to achieve our strategic growth objectives. Management will carefully manage our allocation of capital and 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 growth objectives as outlined above.

4. Performance Overview

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

	Three months ended March 31,					
	2017		2016		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[5]	93,788	57.8%	98,298	57.2%	(4,510)	(4.6)%
Other Canadian stores [1]	4,276	2.6%	5,051	2.9%	(775)	(15.3)%
Canadian wholesale	7,474	4.6%	7,079	4.1%	395	5.6%
Total Canadian store sales	105,538	65.0%	110,428	64.2%	(4,890)	(4.4)%
U.S. same-stores (US$)[5]	34,172	21.0%	36,251	21.1%	(2,079)	(5.7)%
Other U.S. stores (US$)[3]	8,826	5.4%	8,583	5.0%	243	2.8%
Foreign exchange on U.S. store sales	13,883	8.6%	16,772	9.7%	(2,889)	(17.2)%
Total U.S. store sales	56,881	35.0%	61,606	35.8%	(4,725)	(7.7)%
Total sales	162,419	100.0%	172,034	100.0%	(9,615)	(5.6)%
Gross margin	41,634	25.6%	43,614	25.4%	(1,980)	(4.5)%
Selling and distribution expenses	35,848	22.0%	34,900	20.3%	948	2.7%
Administrative expenses	5,032	3.1%	6,628	3.9%	(1,596)	(24.1)%
Operating profit before amortization [5]	754	0.5%	2,086	1.2%	(1,332)	(63.9)%
Adjusted operating profit before amortization [5]	754	0.5%	3,331	1.9%	(2,577)	(77.4)%
Net loss	(4,786)	(2.9)%	(1,472)	(0.9)%	(3,314)	(225.1)%
Adjusted net loss [5]	(4,786)	(2.9)%	(573)	(0.3)%	(4,213)	(735.3)%
Cash used in operating activities	(18,719)	(11.5)%	(17,808)	(10.4)%	(911)	(5.1)%
Dividends paid in cash to shareholders	2,275	1.4%	6,617	3.8%	(4,342)	(65.6)%
Total assets	459,894		483,696		(23,802)	(4.9)%
Total equity	227,472		231,732		(4,260)	(1.8)%
Basic and diluted loss per share	(0.18)		(0.06)		(0.12)	(200.0)%
Basic and diluted adjusted earnings per share [5]	(0.18)		(0.03)		(0.15)	(500.0)%

Notes:

(1) *Sales for Other Canadian stores for the three months ended March 31, 2017 and 2016 include those of one store opened and four stores closed subsequent to January 1, 2016, and seven stores that were closed for approximately one month in Q2 2016 resulting from the evacuation of the Fort McMurray area due to a fire.*

(2) *Sales for Other U.S. stores for the three months ended March 31, 2017 and 2016 include the following changes subsequent to January 1, 2016: (i) New Jersey: two new stores acquired, and (ii) Connecticut: one new store opened.*

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

First Quarter 2017 Operating Results Compared to First Quarter 2016 Operating Results

Sales

Total sales decreased by $9.6 million or 5.6% to $162.4 million in the first quarter of 2017 (Q1 2016 - $172.0 million). As noted further below, the decrease related primarily to a shift in the timing of Easter (which occurred in Q1 2016, but shifted to Q2 2017), which is a key sales period for the Company and significantly impacted our sales. Q1 2016 also contained an extra day of sales (February 29, 2016) compared to Q1 2017 due to 2016 being a leap year. In addition, our sales were impacted by a $2.9 million negative change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars, and the sales recorded in the same period in the prior year from stores that have been closed in the previous twelve months.

<u>Same-Store Sales</u>[2]

- Canadian same-store sales decreased by $4.5 million, or 4.6%.
    - We experienced a decline in sales for the three months ended March 31, 2017 primarily due to a shift in the timing of Easter, which occurred in Q1 2016 but will not occur in 2017 until Q2. Management has estimated the impact of the Easter shift as a decrease to our Canadian same-store sales of approximately 1.9% in Q1 2017.
    - In addition, Management has estimated the impact of having one less day of sales in Q1 2017 compared to Q1 2016 was a decrease to our Canadian same-store sales of approximately 0.7% in Q1 2017.
    - Normalizing for the negative impact of the Easter shift and the leap year in 2016 discussed above, Management estimates that our Canadian same-store sales decreased by approximately $1.9 million or 2.0% compared to Q1 2016.
    - Our normalized Canadian sales trend shows a decelerating decline, in that Canadian same store sales were down 3.8% in Q4 2016 vs. Q4 2015, compared to down 2.0% in Q1 2017 vs. Q1 2016.
    - While we continue to be impacted by unemployment levels in Alberta at 20 year highs (8.4%[3] in the month of March 2017), Management believes we are decelerating the decline of same store sales in Alberta through:
        - Increasing impact of changes made in our pricing and promotion strategies as 2016 progressed, where we moved to an "Always on Sale" messaging in our marketing and

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

[3] Source: Statistics Canada

promoted our price match guarantee to counter-balance tactics used by competitors using a discount pricing model in Alberta.

        - Taking an omni-channel approach to delivering our marketing, where we have decreased some of our focus away from mediums like print and newspaper and into higher-reach and customer targeted media like digital, web, social media, and television.
        - Investing in improving and promoting our e-commerce platform over the last two years, where in Alberta we now offer 'click and pick' capability. While still not a significant proportion of our overall business, our e-commerce sales have increased by 191% in Q1 2017 compared to Q1 2016. In Edmonton and Calgary, we offer customers free delivery to their door within an hour through orders made either through a mobile app or our website. Customers elsewhere in Alberta can also order on line.
    - Our same-store sales in British Columbia remain strong, with an increase in Q1 2017 compared to Q1 2016 after adjusting for the shift in timing of Easter and the leap year in 2016.

- U.S. same-store sales decreased by $2.1 million or 5.7%.
    - Management has estimated the impact of having one fewer day of sales in Q1 2017 compared to Q1 2016 as a decrease to our U.S. same-store sales of approximately 0.7% in Q1 2017. Management believes the shift in Easter had a negligible impact on our Alaska and Kentucky markets.
    - Our U.S. same-store sales decline is decelerating compared to where we exited 2016. Normalized for the 2016 leap year, same U.S. same store sales in Q1 2017 were down 5.0% from Q1 2016 and without normalization U.S. same store sales were down 5.7% in the same period. In both cases the decline slowed from 5.9% in Q4 2016 vs. Q4 2015.
    - Same-store sales in Alaska continue to be negatively impacted by a continued slowdown in the Alaska economy as a result of a decline in oil and gas exploration activity coupled with a 50% reduction in the permanent fund dividend (from $2,200 in the prior year to $1,100 in the current year for each Alaska resident) paid by the state of Alaska during Q4 2016, which Management believes has significantly reduced consumer confidence in that market.
    - Same-store sales in Kentucky declined compared to the same quarter in the prior year. In the third quarter of 2016, Harrodsburg County moved from dry (no retail sales of alcohol) to wet (retail sale of alcohol permitted) which continued to significantly impact one of our large format stores in Kentucky due to close proximity to the affected county. We also continue to observe a higher level of competitive pressure in the Lexington and Louisville markets. In response, we have been adjusting our pricing and promotional strategies to compete more effectively in these markets, and have completed the renovation of one of our key store locations. We will continue to evaluate the need for further renovations in this market.

<u>Other Sales</u>

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $7.5 million for the three months ended March 31, 2017, which increased by $0.4 million or 5.6% compared to Q1 2016 (Q1 2016 - $7.1 million). We experienced sales growth resulting from the addition of new wholesale customer accounts over the past year, which was offset by declines in sales to existing customers due to the economic slowdown in Alberta.

- Sales for the Other Canadian stores have declined by $0.8 million compared to Q1 2016, primarily as a result of the decline in sales from the seven stores in Fort McMurray due to a fire that occurred in Q2 2016. The fire damage caused the migration of segments of the population out of that region, and the region has been slow to recover (with limited construction/restoration activity occurring in Q1 2017). In addition, the sales decline from the four stores that were closed since January 1, 2016 outweighed the sales contribution of the one new store opened over that same period.
- Sales for Other U.S. stores have increased by $0.2 million compared to Q1 2016, primarily as a result of the sales contribution of the new large format store in Norwalk, Connecticut opened in October 2016. This was offset by the negative sales impact of the shift in timing of Easter on the two high volume stores in New Jersey that we acquired a 51% interest in during January 2016.

Gross Margin

Gross margin as a percentage of sales for the period has increased to 25.6% (Q1 2016 – 25.4%). While we have been mindful of our pricing strategy to ensure our products remained priced appropriately considering the economic slowdown being experienced in Alberta and Alaska. This has put negative pressure on our gross margin percentage, but we have more than offset this impact with increased penetration of our private label products and optimizing our everyday pricing and promotional discounts.

However gross margin for the period was $41.6 million, down $2.0 million or 4.5% from $43.6 million for the same period last year. The decline in gross margin is attributable to the decline in same store sales in the current quarter ($1.7 million), a negative change in foreign exchange on translation of the U.S dollar denominated gross margin to Canadian dollars ($0.8 million), and the gross margin decrease from store closures net of new openings and sales declines from the seven stores located in Fort McMurray ($0.3 million) all of which more than offset a $0.8 million gain from the higher gross margin as a percentage of sales.

Selling and distribution expenses

Selling and distribution expenses for the three months ended March 31, 2017 were $35.8 million, up $0.9 million from $34.9 million a year earlier. The increase in selling and distribution expenses related primarily to an increase in marketing and promotion costs compared to the same period in the prior year as a result of the incremental marketing costs of our new large format store in Norwalk, Connecticut as we continue to drive additional traffic to this location. We also incurred production costs in the current quarter for a series of television ads that will run next quarter and will result in sales benefits as the year progresses.

The increased promotional costs were offset slightly by reductions of the variable component of our in-store operating costs (a small proportion of our in-store labor, merchant processing, operating supplies), however the majority of our in-store operating costs are fixed, and therefore were relatively consistent compared to Q1 2016.

Administrative expenses

Administrative expenses for the three months ended March 31, 2017 were $5.0 million, down $1.6 million from $6.6 million a year earlier. A proportion of this decrease from the prior year related to incurring one-time restructuring costs of $0.7 million in Q1 2016 to right-size our administrative headcount. We have held this reduced headcount and found further efficiencies through 2016 that we carried into 2017. We have also reduced the extent of our information technology and 3rd party consulting costs – many of these costs were incurred to enhance our existing business processes and systems over the last two years, which are now in a position where these costs can be scaled back.

Operating profit before amortization

Operating profit before amortization[4] for the three months ended March 31, 2017 decreased by $1.3 million to $0.8 million or 0.5% as a percentage of sales (Q1 2016 – $2.1 million or 1.2% of sales). The decrease in our operating profit was due to the decrease in gross margin and increase in selling and distribution expenses not being fully offset by the efficiencies and cost reductions we achieved in our administrative expenses as explained above.

Amortization

Amortization expense of $3.1 million for the first quarter of 2017 was roughly consistent with the same period in the prior year (Q1 2016 - $3.2 million), with slight reductions as the prior year contained the impact of accelerated for store closures in the prior year.

Finance Costs

Finance costs have increased by $0.7 million to $3.2 million in Q1 2017 (Q1 2016 - $2.5 million). The increase related to additional interest costs incurred from the issuance of a new series of convertible subordinated debentures in the aggregate amount of $77.6 million in Q4 2016, which temporarily increased finance costs until the redemption of our existing 5.85% convertible subordinated debentures on May 3, 2017. This increase was partially offset through the reduction in our inventory levels and overall debt levels compared to the same period in the prior year.

Fair value adjustments

Fair value adjustments are comprised of unrealized losses recorded on the non-controlling interest put option liability of $0.1 million (Q1 2016 - $0.1 million) and a purchase option of $0.4 million (Q1 2016 $nil), both of which relate to the remaining 49% of Birchfield Ventures not currently owned by the Company. In addition, the Company incurred an unrealized loss of $0.1 million (Q1 2016 - $0.3 million) recorded for an interest rate swap.

Income Taxes

In the first quarter of 2016, we recorded an income tax recovery of $1.4 million for an effective tax rate of 22.1% (Q1 2016 - $0.6 million recovery or effective tax rate of 27.8%).

Our annual effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2017 compared to 2016.

Net Loss

For the three months ended March 31, 2017, a net loss of $4.8 million was recorded (Q1 2016 – loss of $1.5 million). On a per share basis, loss per share was $0.18 for Q1 2017 (Q1 2016 – loss of $0.06 per share).

The increase in net loss is due to the decrease in operating profit before amortization[4] and increase in finance costs as discussed above. In addition, the Company recorded a $2.0 million gain on foreign exchange from financing activities in the same period in the prior year, whereas recorded a $0.1 million loss in Q1 2017.

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

5. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

(expressed in thousands)	Three months ended March 31, 2017 (unaudited)	2016 (unaudited)
Cash used in operating activities	$(18,719)	$(17,808)
Cash used in investing activities	(2,977)	(25,626)
Cash provided by financing activities	17,696	44,434
Effect of exchange rate on changes in cash	(38)	(514)
Net (decrease) increase in cash	(4,038)	486

Operating activities

For the three months ended March 31, 2017, cash used in operating activities was $18.7 million, a $0.9 million increase from $17.8 million used in the same period in the prior year. The increase related to a decline in operating profit before amortization[5] compared to Q1 2016, as discussed previously in this MD&A, and the settlement of accounts payable and accrued liabilities at December 31, 2016 during Q1 2017.

Investing activities

For the three months ended March 31, 2017, cash used in investing activities was $3.0 million, a $22.6 million decrease from $25.6 million used for the same period in the prior year. Cash used for investing activities primarily related to assets acquired for the construction of new stores and renovations. In the prior year however, we acquired 51% of Birchfield Ventures LLC for $20.9 million. The remaining decrease compared to the prior year related to lower cash costs of construction compared to the prior year, as we had settled the accounts payable of several construction invoices from the new stores opened in Q4 2015.

Financing activities

For the three months ended March 31, 2017, cash provided from financing activities was $17.7 million, compared to $44.4 million from the same period a year ago. This change primarily relates to the additional borrowing required in the prior year due to the acquisition of 51% of Birchfield for cash consideration of $20.9 million (US$ 15 million) in Q1 2016.

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.

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

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, 2017, and based on the timing and level of cash held in U.S. dollars, the Company has recorded an insignificant gain on cash held in foreign currency in the three months ended March 31, 2017.

Due to an decrease in the rate of exchange to translate the assets and liabilities of the Company's subsidiaries with a U.S. dollar functional currency at the current quarter-end date (Q1 2017 – 1.33; YE 2016 – 1.34), the Company recorded a $0.9 million currency translation loss in other comprehensive income (Q1 2016 - $9.0 million loss), which was offset by a $0.2 million currency translation gain on our net investment hedge (Q1 2016 - $1.4 million gain).

Credit Facilities and Subordinated Debentures

The Company, through a syndicate group of lenders, has a credit facility that matures on September 30, 2019, with a total size of $165 million plus $15 million USD. At May 7, 2017, there was approximately $90 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.

Funded debt to EBITDA ratio

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

EBITDA is defined under the amended and restated credit facility as the net income of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $4.5 million in any fiscal year, write downs of goodwill and intangible assets, restructuring charges for stores, and amortization of inventory fair value adjustments. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions. 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, 2017, the Company was in compliance with all financial covenants, as set forth below:

Ratio	**Covenant**	**As at March 31, 2017**
Funded debt to EBITDA	< 3.50:1.00	0.51
Adjusted debt to EBITDAR	< 5.00:1.00	3.49
Fixed charge coverage	> or = 1.00:1.00	1.35

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

5.85% Debentures

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

4.70% Debentures

On September 29, 2016 the Company issued $67.5 million principal amount of convertible unsecured subordinated debentures and on October 4, 2016 the Company issued an additional $10.1 million upon exercise of the over-allotment option of the underwriters (collectively, the "4.70% Debentures") for a total aggregate principal amount of $77.6 million. The 4.70% Debentures are due January 31, 2022 and bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year, commencing July 31, 2017. The 4.70% Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price of $14.60 per share. The primary use of proceeds of the 4.70% Debentures was to repay the 5.85% Debentures prior to their maturity, as described above, to lower the ongoing interest costs of the Company.

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

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at May 7, 2017, the Company has undrawn credit of approximately $54 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 agreement expiring December 14, 2019 to fix the interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At May 7, 2017, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.73% per annum after taking into account the applicable credit spread determined with reference to the credit facility. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming an outstanding amount drawn on the credit facility of $90 million, with a notional $60.0 million subject to an 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 7, 2017:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	300	(300)
Increase (decrease) in net earnings	(228)	228

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

Credit Risk

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

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results. Refer to the Performance Overview section of this MD&A where we highlight the impact that translating our U.S. dollar denominated sales into Canadian dollars have had on our consolidated sales of the Company.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. This exposure primarily relates to U.S. intercompany management fees, interest payments and dividends which totalled US$3.9 million for the twelve months ended March 31, 2017.

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

6. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	As at March 31, 2017	As at December 31, 2016
Cash	2,982	7,020
Accounts receivable	2,725	3,184
Inventory	155,210	155,425
Total current assets	172,388	176,009
Property and equipment	63,988	63,674
Intangible assets	46,609	46,690
Goodwill	158,198	158,318
Total assets	459,894	463,047
Accounts payable and accrued liabilities	52,476	67,857
Dividends payable	1,001	830
Total current liabilities	57,569	69,461
Long-term debt	157,103	135,838
Total liabilities	232,422	227,652

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 in those jurisdictions, our working capital is higher in these regions compared to that in Kentucky, Alaska and other jurisdictions in the U.S. where we operate, where we generally have 30-day trade payment terms. At March 31, 2017, net working capital (current assets, excluding cash, less current liabilities) was $111.8 million, a $12.3 million increase from the previous year end (2016 - $99.5 million) primarily due to the timing of settlement of accounts payable and accrued liability balances.

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

- While inventory was flat compared to December 31, 2016, the expectation is typically for inventory to increase as at March 31 vs. December 31 (where inventory is depleted due to New Year's Eve sales). More importantly, our inventory balance was $15.8 million lower than as at March 31, 2016, with the decrease in inventory due to Management's continued focus on increasing inventory turns.

- The carrying value of property and equipment was $64.0 million, a $0.3 million increase from the prior year end (December 31, 2016 - $63.7 million). Additions during the period of $3.6 million (Q1 2016 - $1.1 million) were related to the construction costs for new stores which were under development in the period for the relocation of the two stores in British Columbia and preliminary construction costs for the new Wine and Beyond location in Calgary, additional store renovations and maintenance capital expenditures. Amortization during the period was $3.0 million (Q1 2016 - $3.1 million). Foreign exchange differences on property and equipment assets held in the U.S. resulted in a decrease in the carrying value of $0.3 million (Q1 2016 – $1.4 million decrease).

- Accounts payable and accrued liabilities decreased by $15.4 million to $52.5 million as at March 31, 2017, primarily as a result of the timing of a large amount of accounts payable and accruals recorded as at December 31, 2016 being paid in Q1 2017. This included accounts payable and accruals for inventory buys in the U.S. to replenish our stock subsequent to the holiday selling season.

- Long-term debt was $157.1 million at March 31, 2017, a $21.3 million increase from the prior year end (December 31, 2016 - $135.8 million). This increase is the result of additional debt required to finance the typical increase in working capital from year-end. Compared to March 31, 2016, however, our long-term debt balance decreased by $24.3 million due to our continued focus on reducing our overall long-term debt balance and strengthening our balance sheet through the current recessionary conditions faced in many of our key markets.

As at March 31, 2017 and May 7, 2017, the Company did not have any off-balance sheet arrangements in place, other than the operating leases entered into in the normal course of business.

7. Shareholders' Equity

At March 31, 2017, the Company had 27,731,840 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2017 was 27,676,433 (compared to 27,464,008 and 27,484,662, respectively, for the comparative period for both basic and diluted weighted average number of common shares outstanding). As at May 7, 2017, 27,739,552 common shares of the Company were issued and outstanding.

8. Dividends

Dividend Policy

Up to and including the dividend declared on February 15th, 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, and has continued declaring dividends at that level subsequently. 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.

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 to Liquor Stores' audited consolidated financial statements for the year ended December 31, 2016, and "Liquidity and Capital Resources" section within this MD&A.

Dividend Reinvestment Plan

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

As at April 30, 2017, shareholders enrolled in the DRIP held approximately 2.4 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.

There were no related party transactions that occurred in the three months ended March 31, 2017.

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 (in each case based upon number of stores and revenue). We have positioned our business to attract both customers who are focused on convenience and those who are looking for a destination-type shopping experience.

The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB.B".

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

As of May 7, 2017, the Company operated or had an interest in 252 stores in Alberta, British Columbia, Alaska, Kentucky, New Jersey and Connecticut, comprised of 17 destination/large-format stores, 233 full liquor stores, and two wine only stores. Product selection 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 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, of which we hold a 51% interest, are destination/large format stores with areas of approximately 17,000 and 25,000 square feet, respectively. Our destination/large format store in Connecticut is approximately 20,000 square feet. 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 Alberta 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 May 8, 2017:

	January 1/17 to May 8/17				
	1-Jan-17	Opened	Acquired	Closed[5]	8-May-17
Alberta					
Edmonton[1]	83	-	-	-	83
Calgary[1]	44	-	-	(1)	43
Other[2]	52	-	-	-	52
	179	-	-	(1)	178
British Columbia					
Interior	10	-	-	-	10
Lower Mainland	13	1	-	(1)	13
Vancouver Island	11	-	-	-	11
	34	1	-	(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
New Jersey					
Lawrenceville	1	-	-	-	1
Woodbridge	1	-	-	-	1
	2	-	-	-	2
Connecticut					
Norwalk	1	-	-	-	1
	1	-	-	-	1
Total	**253**	**1**	**-**	**(2)**	**252**

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 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 stores closed by region:*

   a. *Calgary – one store closed due to a consolidation of the Company's warehousing operations*

   b. *Lower Mainland British Columbia – one store closed due to relocation to a new superior, grocery-anchored location (occurred in April 2017).*

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 2016, 21% (2015 - 20%) of annual same store sales occurred in the first quarter, 25% (2015 - 26%) in the second quarter, 26% (2015 - 26%) in the third quarter, and 28% (2015 - 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

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

12. Company Strategy

As previously communicated, 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 Profits
- Pursue Expansion

The Plan is working. Since the introduction of the Plan in the second half of 2013, we have made significant investments in our store network and our people. We have enhanced brand awareness and loyalty, taken steps to diversify our revenue base and developed a private label program that has the potential to significantly increase our gross margin percentage in the near and long term. We have laid the groundwork for these initiatives already and incurred the expenses to do so. We believe we have the infrastructure in place now to grow sales and operating profits once economic conditions improve in many of our core markets.

At the same time, we are reducing same-store inventory levels and increasing inventory turns, which frees up capital for investment. Our goal is to continue to reduce our inventory levels and improve inventory turns in the near term through enhancements to our existing systems and processes, and more significantly over the coming years as we implement our new enterprise resource planning (ERP) system starting this year.

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, stabilize and grow our market share, and be positioned to increase our profitability as we emerge from these headwinds.

In short, we believe in our existing strategy. Liquor Stores is in a much better competitive position than when we launched the Seven Point Plan. We stand ready to deliver on this Plan and grow shareholder value over the coming years.

The following is a summary of our Seven Point Plan goals as included in our 2016 MD&A and our progress made in achieving them thus far in 2017:

Business Strategy	Goals for 2017	2017 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.	Continued Program Expansion Deliver our sales, workforce management and store operational training programs to our remaining store managers by the end of 2017. Make enhancements to our performance management process and coaching programs to improve employee engagement. Implement enhancements to our loss prevention strategies to continue to improve the safety and security of our employees.	**Status:** **On track** So far this year we have delivered in-depth training to our each of our area managers covering key topics such as strategies to increase basket size, private label penetration, in-store inventory optimization, and loss prevention. We have also implemented further stretch targets in our store level incentive program with the goal of continuing to increase the penetration rates of our private label products.
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.	Re-commence the project Develop a revised implementation schedule and software solution to reduce cost and complexity, and improve the return on investment of the project. 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 Company.	**Status:** **On track** We are in progress of developing a revised implementation schedule and software solution for the new ERP platform. We anticipate following an implementation path where we have the new system implemented in a select number of test pilot of stores by late 2017 or early 2018. Once the desired level of performance is reached with these test stores, roll out to the rest of the Company will occur.
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	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	**Status:** **On track** To date in 2017, we have completed the renovations of one existing store and commenced work on several others. We

stores, and by implementing a consistent store layout and design across our network to further enhance our brand with our customers.	depending on economic conditions and the Company's financial position.	remain on track to renovate 5% to 8% of our existing stores in 2017.
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.	Continued Expansion Continue to enhance our customer loyalty program, and grow the number of customers enrolled in this program in 2017.	**Status:** **On track** 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
6. Increase Operating Profits We have the opportunity to continue to improve our operating profits by leveraging our fixed occupancy costs and scalable infrastructure.	Expansion Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores. Increase gross margin rates through dynamic price optimization strategies.	**Status:** **On track** 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, which in term is increasing our gross margin rates thus far in 2017.
7. Pursue Expansion 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.	Continued expansion through new store growth in Canadian markets and through modest levels of expansion in the U.S. should the right opportunities arise. Relocate two existing British Columbia stores to more desirable locations. Open a new large format Wine and Beyond location in Calgary, AB in fall 2017. Evaluate opportunities to open 2-3 new locations in Alberta to protect our competitive position and grow market share.	**Status:** **On track** We completed the relocation of one store in British Columbia in April 2017 to a more desirable location. Construction work has already commenced on the second relocation to occur in British Columbia. We remain on track to open a new large format Wine and Beyond location in Calgary, AB in fall 2017, with construction work already underway. We continue to evaluate additional opportunities in Alberta to continue to grow our market share, however do not have any new committed deals to report at this time.

13. Critical Accounting Estimates and Accounting Policies

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

The Company's summary of significant accounting policies, estimates and critical judgments are contained in note 3 to the 2016 audited annual consolidated financial statements. There are no updates to the Company's critical accounting estimates and accounting policies for the current interim period.

14. Non-IFRS Financial Measures

Same-store sales, operating profit before amortization, operating profit before amortization as a percentage of sales, adjusted operating profit before amortization, adjusting items, adjusted net earnings, and adjusted basic and diluted earnings per share 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, and (iv) stores where sales have been suspended due to a fire, evacuation, or natural disaster in the last 12 full months.

- Operating profit before amortization for purposes of disclosure under "Operating Results" has been derived by subtracting selling and distribution expenses and administrative expenses from the aggregate of gross margin and other income. Operating profit before amortization as a percentage of sales is calculated by dividing operating profit before amortization by sales.
- Adjusted operating profit before amortization represents operating profit before amortization adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the *'Performance Overview'* section.
- Adjusted net earnings or 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 or loss per share is calculated as adjusted net earnings or loss divided by basic or diluted weighted average number of common shares outstanding.

Management believes the presentation of same-store sales, operating profit before amortization, adjusted operating profit before amortization, 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 of our recurring financial results. Management uses adjusted operating profit before amortization to set targets and assess performance of the Company.

EBITDA and EBITDAR, which are used by Management for the purposes of calculating compliance with 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 profit before amortization and net earnings (loss) to adjusted operating profit before amortization and adjusted net earnings:

(expressed in thousands)	Three months ended March 31, 2017 (unaudited)	2016 (unaudited)
Operating profit before amortization	$754	$2,086
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
Total adjusting items	-	1,245
Adjusted operating profit before amortization	754	3,331

(expressed in thousands)	Three months ended March 31, 2017 (unaudited)	2016 (unaudited)
Net loss	$(4,786)	$(1,472)
Total adjusting items per above	-	1,245
Tax effect of adjusting items	-	(346)
Total adjusting items, after tax	-	899
Adjusted net loss	(4,786)	(573)

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 29, 2017 and the Company's annual MD&A for the year ended December 31, 2016.

16. Internal Controls over Financial Reporting, Disclosure Controls, and Procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in National Instrument 52-109. 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, 2017. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

17. Condensed Quarterly Information

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

	2017	2016				2015		
	Mar 31	**Dec 31**	**Sep 30**	**June 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**
Statement of Financial Position								
Cash	$2,982	$7,020	$ 3,996	$6,206	$ 4,276	3,790	$ 2,790	$4,057
Total assets	459,894	463,047	470,877	487,483	483,696	455,554	562,400	546,351
Total current liabilities	57,569	69,461	56,054	58,766	56,410	64,795	52,522	44,458
Long-term debt	157,103	135,838	156,790	179,207	181,361	129,566	127,017	124,670
Total liabilities	232,422	227,652	230,984	253,483	251,694	199,818	198,145	186,244
Shareholders' equity	227,472	235,395	239,893	234,000	231,732	255,736	364,255	360,127
Non-controlling interest	3,976	4,506	3,812	4,268	3,969	77	15	60
Statement of Earnings								
# stores, end of period	252	253	252	253	254	252	247	247
Sales	162,419	227,606	208,760	209,273	172,034	214,166	194,186	190,606
Operating profit before amortization (1)	754	13,265	12,611	12,404	2,086	13,971	11,507	12,805
Net earnings (loss) attributable to owners of the parent	(4,910)	(6,094)	4,371	4,121	(1,743)	(105,897)	4,142	4,490
Net earnings (loss)	(4,786)	(4,856)	4,615	4,666	(1,472)	(105,808)	4,169	4,560
Basic earnings (loss) per share	($ 0.18)	(0.22)	$0.16	$0.15	($ 0.06)	($3.86)	$0.15	$0.16
Dividends declared per share	$ 0.09	$0.09	$0.09	$0.09	$ 0.21	$0.27	$0.27	$0.27

(1) Operating profit before amortization 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.

18. Forward Looking Statements

This MD&A contains forward looking statements or information (collectively "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements. In particular, this MD&A contains forward-looking statements, with respect to, without limitation, our future financial position, capital and liquidity, cash dividends, business strategy, proposed acquisitions, expansion plans, Seven Point Plan, budgets, government regulation and laws, projected costs, plans and objectives of or involving 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 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 representing a substantial amount of its operating cash flow; availability of sufficient financial resources to fund the Company's capital expenditures; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; the ability of management to execute the Company'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 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.