LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2018

Dated as at May 8, 2018

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1. Basis of Presentation

Management's Discussion and Analysis ("**MD&A**") provides a comparison of Liquor Stores N.A. Ltd.'s performance for the three months ended March 31, 2018 with the three months ended March 31, 2017. 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, 2018 and 2017, the audited consolidated financial statements for the years ended December 31, 2017 and 2016, the annual MD&A for the year ended December 31, 2017, and the Annual Information Form dated March 28, 2018, each of which is available on SEDAR at www.sedar.com. The information in this MD&A is current to May 8, 2018, unless otherwise noted.

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

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

Effective November 18, 2017, the Company sold its Kentucky operations consisting of 15 retail liquor stores. On November 30, 2017, the Company sold its 51% indirect interest in Birchfield Ventures LLC ("**Birchfield**"), which consisted of two retail liquor stores in New Jersey. The Company decided to not open its Massachusetts operation (one unopened location, lease terminated in February 2018) and entered into negotiations to sell its one retail store location in Norwalk, Connecticut. Collectively, the Company has classified these operations as discontinued operations, and further information on the operating results of these operations and financial impact of the sales can be found in note 3 of the interim financial statements. Accordingly, the operating results for the Company in this MD&A are presented on the basis of the Company's continuing operations only, unless otherwise noted.

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

Additional information relating to Liquor Stores can be found at www.liquorstoresna.ca/investors. The Company's continuous disclosure materials, including its annual and quarterly MD&A, audited annual and unaudited interim financial statements, its Annual Information Form, Information Circulars, 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. Business Update and Outlook

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

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

- Restore the Company's place as the market leader in Alberta retail alcohol sales and regain the Company's lost market share.
- Establish a market-leading cannabis retail brand in jurisdictions such as Alberta and B.C. where private retail will be permitted.

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

Refer to the Company's MD&A for the year ended December 31, 2017, dated March 14, 2018, for a summary of the Company's Strategic Plan and actions taken ensure that sufficient capital is available to make the needed investments to execute its Strategic Plan.

Change the name of the Company to Alcanna Inc.

The Company's Board of Directors has proposed to change the name of the Company from Liquor Stores N.A. Ltd. to Alcanna Inc. The proposed name better reflects the Company's new strategic direction through the expansion of the Company's business into two divisions, alcohol and cannabis. The change in the name also signals a departure from the Company's previous history and the launch of a newly transformed business. Shareholders will vote on changing the Company name at the Annual General Meeting on May 9, 2018.

Funding the Strategic Plan

On February 14, 2018, Liquor Stores' issued 6,900,000 Common Shares through a private placement to an indirect wholly-owned subsidiary of Aurora Cannabis Inc., 2095173 Alberta Ltd. (the "**Investor**") at a price of $15.00 per Common Share for total gross proceeds of $103.5 million (the "**Aurora Financing**"). As a result, the Investor owns approximately 19.9% of the Common Shares.

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

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

- 10,130,000 Sunshine warrants at an exercise price of $15.75 per Common Share to allow Aurora to increase its equity interest in the Company to approximately 40%; and
- Up to 1,750,000 Pro Rata warrants exercisable by Aurora at an exercise price of $15.00 per Common Share contingent upon the conversion of any of the outstanding 4.70% convertible unsecured subordinated debentures due January 31, 2022 (the "4.70% Debentures"), to allow Aurora to maintain its pro rata equity interest in the Company.

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

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

Restore our position as a market leader in retail alcohol sales

The Company is implementing several initiatives to drive sales, improve profitability and ultimately regain market share lost to new competitors in recent years. A summary of these initiatives can be found in the Company's MD&A for the year ended December 31, 2017, dated March 14, 2018.

The following is a business update on certain of the key initiatives:

- On April 9, 2018, the Company announced Paul Reid as its new President and Chief Operating Officer of its Liquor division. Mr. Reid most recently was Vice President, Corporate Retail Operations at FGL Sports, a subsidiary of Canadian Tire, where he was responsible for $1.2 billion in sales from 216 corporate retail stores and 13,000 sales associates for the Sport Chek, Nevada Bob's Golf, Atmosphere, and Hockey Experts banners. Mr. Reid started with Sport Chek as a part-time associate while pursuing his post-secondary education and progressed up the organization over 27 years. He was involved with all aspects of retail excellence including Field Operations, Marketing, Store Operations, Customer Service, Communications, Business Analytics and Digital Store Experience. Amongst many other recognition, Mr. Reid was the recipient of the FGL Sports President's, Game Changer, and Leadership Awards.

  The key factors in selecting Mr. Reid were his breadth of retail experience, particularly in Alberta and Western Canada, his team-focused approach to retail and customer service, and that he embodies the culture-shift the Company is implementing.

- The Company is focused on improving its brand image by accelerating the pace of renovating its Alberta and British Columbia store locations. The Company expects to renovate approximately 50 stores by the end of 2018, of which 11 store renovations were initiated in Q1 2018.

- On March 22, 2018, the Company launched a discount liquor store banner, *Deep Discount Liquor*. Five under-performing liquor stores were converted to Deep Discount Liquor, and the use of this brand will initially be limited to a small number of strategic locations in close proximity to existing competitors who operate a low price, low margin discount pricing strategy.

Launch a market leading retail cannabis business

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

- **Invest in a strong leadership team for cannabis** to supplement the existing infrastructure in place at the Company. On March 21, 2018, the Company announced that it had hired Paul Wilson as President and Chief Operating Officer of its Cannabis division. Adding this role to the Company ensures that the development of the cannabis business does not distract from the existing focus on the liquor retail operations.

  Mr. Wilson is a nationally-renowned retailer building and leading some of Canada's most popular and profitable retail brands and businesses. He has achieved a consistent winning record in sectors ranging from hard goods to apparel and in formats ranging from start-ups and small chains, departments stores and large concepts, in both publicly traded and privately-owned formats. Mr. Wilson's major career milestones over his 30 years as a retailer include CEO and President roles at Mark's Work Wearhouse, Canadian Tire, Princess Auto, Spence Diamonds and most recently Hold it All and Kit and Ace.

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

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

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

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

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

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

Expected Capital Investment of the Strategic Plan

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

- Renovations of approximately 50 existing retail liquor store locations at an aggregate capital cost of $20 to $25 million.

- Re-branding of ten to twelve existing retail liquor store locations to a discount banner at an aggregate capital cost of $4 million to $6 million.

- Targeting, subject to applicable provincial licensing and municipal regulations, approximately 50 cannabis retail locations in Alberta and British Columbia at an aggregate capital cost of $35 million to $50 million, plus aggregate inventory investments of $10 to $15 million.

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

Outlook

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

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

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

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

- In a limited number of Deep Discount Liquor locations, we expect to recalibrate pricing to a lower gross margin percentage for those locations to win back market share lost to discount competitors. The goal is to maximize sales for these locations, but it could come at the expense of reducing overall profitability in these locations compared to the previous year.

- We anticipate a reduction in gross margin as a percentage of sales in 2018 as we will be more competitive on select traffic driving promotions, as we drive sales and regain market share.

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

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

3. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,					
	2018		2017		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[(2)]	93,866	74.6%	95,601	74.8%	(1,735)	-1.8%
Other Canadian stores [(1)]	3,410	2.7%	2,463	1.9%	947	38.4%
Canadian wholesale	6,905	5.5%	7,474	5.9%	(569)	-7.6%
Total Canadian store sales	104,181	82.8%	105,538	82.6%	(1,357)	-1.3%
U.S. same-stores (US$)[(2)]	17,104	13.6%	16,797	13.2%	307	1.8%
Foreign exchange on U.S. store sales	4,529	3.6%	5,424	4.2%	(895)	-16.5%
Total U.S. store sales	21,633	17.2%	22,221	17.4%	(588)	-2.6%
Total sales	125,814	100.0%	127,759	100.0%	(1,945)	-1.5%
Gross margin	31,971	25.4%	33,854	26.5%	(1,883)	-5.6%
Selling and distribution expenses	29,047	23.1%	27,631	21.6%	1,416	5.1%
Administrative expenses	5,213	4.1%	4,722	3.7%	491	10.4%
Operating (loss) profit before amortization [(2)]	(2,289)	-1.8%	1,501	1.2%	(3,790)	-252.5%
Net loss from continuing operations	(1,826)	-1.5%	(2,926)	-2.3%	1,153	37.6%
Basic and diluted loss per share from continuing operations	(0.06)		(0.11)		0.05	45.5%

Notes:

(1) *Sales for Other Canadian stores for the three months ended March 31, 2018 and 2017 include those of one new store opened, seven stores closed, two stores in British Columbia relocated to more desirable locations, and one wine-only store in British Columbia sold to a third party subsequent to January 1, 2017.*

(2) *Same-store sales and operating (loss) profit before amortization 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 2018 Operating Results Compared to First Quarter 2017 Operating Results

Sales

Total sales decreased by $1.9 million or 1.5% to $125.8 million in the first quarter of 2018 (Q1 2017 - $127.7 million), attributable to the following:

Same-Store Sales[1]

- Canadian same-store sales decreased by $1.7 million, or 1.8%.
  - The decline in Canadian same-store sales was reflective of a decline in overall liquor sales in the Alberta market. The Company believes based on information from vendors and market intelligence that this 1.8% decline was less than declines experienced by its competitors and the market in general. Province-wide sales negatively impacted by the extreme and prolonged winter weather experienced in Alberta compared to the prior year, and as a result of Alberta's two professional hockey teams not being as competitive as they were in 2017. The Company believes it increased its market share in Alberta in Q1 2018.
  - During the quarter we initiated a number of store renovation projects, which generally results in a sales decline at the location during the period of construction (generally 6 to 8 weeks in length). However, as the renovations did not start until the latter half of the quarter the negative impact on Q1 2018 same-store sales was not significant.
  - The decline in sales compared to the prior year was offset by the positive impact of the Easter shift in 2018 (Easter was in Q2 in 2017). Management estimates that our Canadian same-store sales were positively impacted by approximately 1.2% compared to Q1 2017.
  - The British Columbia market overall had a same-store sales increase compared to the same quarter last year.
- U.S. same-store sales increased by $0.3 million or 1.8%.
  - Same-store sales in Alaska continue to be negatively impacted by the Alaska economy. However, in Q1 2018 sales were positively impacted by two stores that were renovated in mid-2017 and by approximately 0.3% compared to Q1 2017 as a result of the Easter shift in 2018.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $6.9 million for the three months ended March 31, 2018, which decreased by $0.6 million or 7.6% compared to Q1 2017. This decline was primarily driven by a decrease in activity in our customer's establishments as a result of negative economic pressures and due to Alberta's two professional hockey teams not being as competitive as they were in 2017.
- Sales for the Other Canadian stores have increased by $0.9 million compared to the same period in the prior year due to the opening of a new Wine and Beyond location in Calgary, AB in September 2017, along with strong performance from the two relocated stores in British Columbia more than offsetting the sales decline from closed stores.

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

Foreign exchange

- The impact of foreign exchange on the Company's U.S. store sales resulted in a $0.9 million negative adjustment in $USD sales being converted to $CAD compared to Q1 2017 as a result of the strengthening in the Canadian dollar compared to the U.S. dollar.

Gross Margin

Gross margin as a percentage of sales for the period decreased to 25.4% (Q1 2017 – 26.5%). Gross margin percentage was reduced by two initiatives of the Company: (i) to gain market share in Alberta by being more competitive on select traffic driving promotions and (ii) to clear out aging and slow-moving inventory items.

Gross margin for the period was $32.0 million, down $1.9 million or 5.6% from $33.9 million for the same period last year, which was due primarily to the decrease in gross margin as a percentage of sales compared to the prior year due to the factors discussed above.

Selling and distribution expenses

Selling and distribution expenses for the three months ended March 31, 2018 were $29.0 million, up $1.4 million from $27.6 million a year earlier. The Company's selling and distribution expenses increased primarily as a result of the impact of an increase in the minimum wage in Alberta and British Columbia and increases in leasing costs for existing locations.

Administrative expenses

Administrative expenses for the three months ended March 31, 2018 were $5.2 million, up $0.5 million from $4.7 million a year earlier, primarily due to investments being made to build a team and infrastructure for the Company's new cannabis division and recruitment costs related to the hiring of new senior leaders for the Company.

Operating (loss) profit before amortization

Operating profit before amortization for the three months ended March 31, 2018 decreased by $3.8 million to a $2.3 million loss. The decrease in our operating profit was due to the decrease in gross margin and increase in selling and distribution expenses and administrative costs as discussed above.

Amortization of property, equipment and intangible assets

Amortization expense on property, equipment and intangible assets of $2.9 million for the first quarter of 2018 increased by $0.5 million compared to the same period in the prior year (Q1 2017 - $2.4 million). The increase in amortization in the current year related primarily to higher accelerated amortization for stores being renovated or closed this year.

Finance Costs

Finance costs for the first quarter of 2018 decreased by $0.9 million to $1.6 million (Q1 2017 - $2.5 million) primarily related to lower average long-term debt balances compared to the same period in the prior year resulting in lower interest paid on the Company's operating line of credit.

Net gain or loss on foreign exchange from financing activities

During the three months ended March 31, 2018, the Company recorded an insignificant net gain on foreign exchange from financing activities (2017 - $0.1 million loss). The movement from a loss to gain position in the current year is due to a strengthening of the Canadian dollar over that period.

Fair value adjustments

Fair value adjustments in the first quarter of 2018 are comprised primarily of a gain of $4.3 million on the derivative warrant liabilities as a result in the decline in the Company's common share price between the date that the warrants were issued on February 14, 2018 and the period end of March 31, 2018.

Income Taxes

In the first quarter of 2017, we recorded an income tax recovery of $0.7 million for an effective tax rate of 26.3% (Q1 2017 - $0.6 million recovery). 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 2018 compared to 2017.

Net loss from continuing operations

For the three months ended March 31, 2018, a net loss from continuing operations of $1.8 million was recorded (Q1 2017 – net loss of $2.9 million). The decrease in the net loss is due to the gain of $4.3 million on the derivative warrant liabilities, which was offset by the increase in the operating loss before amortization as discussed further above. On a per share basis, basic loss per share from continuing operations was $0.06 for Q1 2018 (Q1 2017 – $0.11 basic loss per share).

4. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

	Three months ended March 31,	
(expressed in thousands)	**2018**	**2017**
	(unaudited)	(unaudited)
Cash used in operating activities	(15,704)	(18,719)
Cash provided from (used in) investing activities	4,332	(2,977)
Cash provided by financing activities	70,082	17,696
Effect of exchange rate on changes in cash	301	(38)
Net increase (decrease) in cash	59,011	(4,038)

Operating activities

(expressed in thousands)	Three months ended March 31, 2018 (unaudited)	2017 (unaudited)
Cash used in operating activities	(15,704)	(18,719)
Less, cash provided by (used in) operating activities, discontinued operation	2,544	(12,919)
Cash used by operating activities of the continuing operation	(18,248)	(5,800)

For the three months ended March 31, 2018, cash used in operating activities from continuing operations was $18.2 million, a $12.4 million increase from $5.8 million used in the same period in the prior year. The increase primarily related to a decline in operating profit before amortization[2] compared to Q1 2017, as discussed previously in this MD&A, an investment in inventory, and the settlement of accounts payable and accrued liabilities at December 31, 2017 during Q1 2018.

Investing activities

For the three months ended March 31, 2018, cash provided from investing activities was $4.3 million, a $7.3 million increase from $3.0 million used investing activities for the same period in the prior year. While there was a consistent capital spend in Q1 2018 compared to Q1 2017 on assets acquired for the construction of new stores and renovations (Q1 2018 - $2.8 million; Q1 2017 - $2.7 million), the Company collected $8.3 million in receivables in the quarter related to the disposition of its Kentucky and New Jersey locations (Q1 2017 - $nil).

Financing activities

For the three months ended March 31, 2018, cash provided from financing activities was $70.1 million, compared to $17.7 million from the same period a year ago. In Q1 2018, the Company issued common shares, net of share issuance costs as part of the Aurora Financing (see the "Business Update" section of this MD&A) for cash proceeds of $102.4 million (Q1 2017 - $nil), had cash used for the repayment of long-term debt of $30.0 million (Q1 2017 - $20.4 million in proceeds from long-term debt), and $2.4 million in cash used for return of capital to shareholders (Q1 2017 - $2.7 million).

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, 2018, and based on the timing

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

and level of cash held in U.S. dollars, the Company has recorded a $0.3 million gain on cash held in foreign currency in the three months ended March 31, 2018 (Q1 2017 – insignificant loss).

Credit Facilities and Subordinated Debentures

On August 31, 2016, the Company and a syndicate group of lenders agreed to amend and restate the credit facility available to the Company. The primary purpose of the amendment was to extend the maturity date of the credit facility to September 30, 2019, and to increase the total size of the credit facility to $165 million plus $15 million USD. At May 8, 2018, there was nothing drawn on the credit facility and the Company was in a positive net cash position from the Aurora Financing (see "Business Update" section in this MD&A). Pursuant to the terms of the credit facility, the Company has the ability to request an additional $50 million of loan availability (to be provided by the lenders on a best-efforts basis).

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

Funded debt to EBITDA ratio

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

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

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at March 31, 2018, the Company was in compliance with all financial covenants, as set forth below:

Ratio	Covenant	As at March 31, 2018
Funded debt to EBITDA	< 3.50:1.00	0.03
Adjusted debt to EBITDAR	< 5.00:1.00	3.76
Fixed charge coverage	> or = 1.00:1.00	1.15

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.

4.70% Debentures

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

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

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at May 8, 2018, the Company has undrawn credit of approximately $88.7 million under its credit facility available to finance operating requirements, growth opportunities and for general corporate purposes.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company entered into a forward starting interest rate swap effective on December 14, 2015 and expiring December 14, 2019, to fix the effective interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At May 8, 2018, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.73% per annum after taking into account the applicable credit spread determined with reference to the credit facility. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming a $nil amount drawn on the credit facility, 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 8, 2018:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	600	(600)
Increase (decrease) in net earnings	(442)	442

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. The expected credit loss ("ECL") model is now being applied to the Company's trade receivables from wholesale customers, as discussed in "Critical Accounting Estimates and Accounting Policies" section of this MD&A.

Foreign Exchange Risk

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

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. This exposure primarily relates to U.S. intercompany management fees, interest payments and dividends which totalled US$3.9 million for the twelve months ended March 31, 2018.

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

Contractual Obligations

The table below sets forth, as of March 31, 2018, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, finance leases for a portion of the Company's vehicles, software licenses and maintenance, long-term debt and the 4.70% Debentures.

(expressed in thousands)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Operating leases	23,849	28,408	25,628	22,810	18,137	46,869
Finance leases	422	403	197	123	-	-
4.70% Debentures	-	-	-	-	77,625	-
Software licenses and maintenance	309	-	-	-	-	-
Total	24,580	28,811	25,825	22,933	95,762	46,869

5. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	**As at March 31, 2018**	**As at December 31, 2017**
Cash	61,166	2,155
Accounts receivable	4,600	19,168
Inventory	90,373	84,333
Assets held for sale	2,757	2,860
Total current assets	203,035	117,654
Property and equipment	51,544	49,534
Intangible assets	37,300	35,576
Goodwill	145,519	145,519
Total assets	448,601	356,402
Accounts payable and accrued liabilities	40,428	47,639
Dividends payable	3,125	2,501
Subscription receipt liability	34,162	-
Derivative warrant liabilities	2,630	-
Liabilities directly associated with assets held for sale	1,193	1,450
Total current liabilities	82,655	53,397
Long-term debt	72,332	101,903
Total liabilities	162,659	162,617
Shareholders' Equity	285,942	193,785

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

The discussion below analyzes certain changes in the Company's consolidated financial position compared to December 31, 2017:

- Cash increased by $59.0 million to $61.2 million as at March 31, 2018, primarily as a result of the funds received from the Aurora Financing received in Q1 2018 (see the "Business Update and Outlook" section of this MD&A) net of the repayment of the Company's operating line of credit/long-term debt.

- Accounts receivable decreased by $14.6 million to $4.6 million as at March 31, 2018, primarily as a result of the collection of sale proceeds from the sale of Birchfield ($4.4 million, received in full in February 2018) and from the sale of the 15 stores in Kentucky, and transitional support provided to the new owners of that business ($9.6 million, received in full in Q1 2018).

- Inventory increased by $6.0 million to $90.4 million as at March 31, 2018, primarily related to ramping up our inventory buys as we headed into the spring selling season and as a result of additional purchases to support the growth of our control and exclusive brands.

- The carrying value of property and equipment was $51.5 million, a $2.0 million increase from the prior year end (December 31, 2017 - $49.5 million). Additions during the period related primarily to store renovations, one new store location being constructed in Edmonton, and maintenance capital expenditures.

- Intangible assets increased by $1.7 million to $37.3 million as at March 31, 2018, which primarily related to additions related to the design and implementation of our new enterprise resource planning system.

- Goodwill was $145.5 million as at March 31, 2018, consistent with the prior year end.

- Accounts payable and accrued liabilities decreased by $7.2 million to $40.4 million as at March 31, 2018 primarily as a result of the settlement of trade payables in Q1 2018 related to larger one-time inventory purchases made towards the end of the prior year.

- The subscription receipt liability of $34.2 million and the derivative warrant liabilities of $2.6 million arose from the Aurora Financing (see the "Business Update and Outlook" section of this MD&A).

  <u>Subscription receipts</u>

  The conversion of subscription receipts into common shares is contingent on approval from the Company's shareholders (other than Aurora, its associates, and affiliates) at the next AGM and the satisfaction of other escrow release conditions. The subscription receipts will be automatically terminated and cancelled if these conditions are not satisfied. As such, the subscription receipts are classified as a current liability and the aggregate gross proceeds of the subscription receipts are being held in escrow and have been recorded as cash held in escrow.

  The subscription receipts have been initially measured and recorded at fair value, and were reduced by an allocation for the sunshine and pro rata warrants. At the time of subscription, proceeds of $32.6 from the private placement were allocated to the subscription receipts, and transaction costs of $0.3 were deducted from the value of the subscription receipts on initial recognition. The subscription receipt liability has been recognized at an amortized cost of $34.1 (gross proceeds of $34.5, less a discount of $0.1 and transaction costs of $0.3), with the difference in fair value and amortized cost of

$1.7 recorded as a reduction to share capital. If the release conditions for the escrow are met and the common shares are issued, the amount of the liability will be reclassified to share capital.

Sunshine warrants

The Company's sunshine warrants satisfy derivative liability classification on the date of issuance, as the number of common shares to be issued per warrant is adjusted to sustain the agreed upon ownership percentage up until approval is obtained from the Company's shareholders at the next AGM and approval under the Competition Act (Canada) is obtained. Under IFRS, these warrants are to be initially accounted for as a derivative warrant liability measured at fair value with subsequent changes in fair value each reporting period accounted through profit and loss.

A fair value of $4.2 was recognized at the time of issuance of the sunshine warrants, and insignificant transaction costs were recognized immediately in administrative expenses. A fair value of $2.8 was recognized at the time of issuance of the pro rata warrants, and insignificant transaction costs were recognized immediately in administrative expenses.

If the ability to exercise the sunshine warrants is approved at the next AGM, the holder will receive a fixed number of common shares for each warrant when exercised, thus the warrants meet equity classification criteria under IFRS and will be remeasured to fair value and reclassified to contributed surplus net of tax at this time. The holder may exercise the warrants any time before August 14, 2019. As the warrants are exercised, the value of the warrants recorded in contributed surplus on the date of exercise is included in share capital along with the proceeds from exercise. If the warrants expire, the value of the warrants recorded in contributed surplus will be reclassified to the Company's deficit. If the sunshine warrants are not approved at the next AGM or approval under the Competition Act (Canada) is not obtained, they will be immediately cancelled.

Pro rata warrants:

The Company's pro rata warrants satisfy derivative liability classification requirements as exercise of the warrants is contingent on the conversion of any of the outstanding 4.70% Debentures, which allow Aurora to maintain its pro rata ownership percentage of the Company. Additionally, their exercise is conditional on approval from the Company's shareholders at the next AGM and approval under the Competition Act (Canada).

Under IFRS, these warrants are to be initially accounted for as a derivative liability measured at fair value with subsequent changes in fair value each reporting period accounted through profit and loss. A fair value of $2.8 was recognized at the time of issuance of the pro rata warrants, and insignificant transaction costs were recognized immediately in administrative expenses.

As these warrants are exercised, the fair value of the recorded derivative warrant liability on the date of exercise is included in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in warrant liability is recognized in profit or loss. If the pro rata warrants are not approved at the next AGM or approval under the Competition Act (Canada) is not obtained, they will be immediately cancelled.

- Long-term debt was $72.3 million at March 31, 2018, a $29.6 million decrease from the prior year end (December 31, 2017 - $101.9 million) as a result of using the funds received from the Aurora Financing received in Q1 2018 (see the "Business Update and Outlook" section of this MD&A) to repay the Company's operating line of credit.

- Shareholders' Equity increased by $92.2 million to $285.9 million as at March 31, 2018, primarily as a result of the issuance of common shares as part of the Aurora Financing received in Q1 2018 (see the "Business Update and Outlook" section of this MD&A). This increase in shareholders' equity was offset by the net loss recorded and the dividends paid to shareholders in the first quarter of 2018.

As at March 31, 2018 and May 8, 2018 the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified above under the heading "Liquidity and Capital Resources – Contractual Obligations".

6. Shareholders' Equity

At March 31, 2018, the Company had 34,717,919 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2018 was 31,256,569 (compared to 27,676,433 for the comparative period for both basic and diluted weighted average number of common shares outstanding). As at May 8, 2018, 34,747,365 common shares of the Company were issued and outstanding.

7. Dividends

Dividend Policy

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

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

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

The agreement governing Liquor Stores' credit facility contains provisions which restrict its ability to pay dividends to Shareholders in the event of the occurrence of certain events of default. The full text of the agreement governing Liquor Stores' credit facility is available on SEDAR at www.sedar.com. For additional information regarding the credit facility, see note 10 to the December 31, 2017 Annual Financial Statements and the "Liquidity and Capital Resources" section in this MD&A.

Dividend Reinvestment Plan

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

As at May 8, 2018, shareholders enrolled in the DRIP held approximately 2.5 million shares.

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

8. Related Party Transactions

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

During the three months ended March 31, 2018, the Company had no related party transactions.

9. Business Overview

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

Liquor Retail

As of May 8, 2018, the Company owned and operated 173 retail liquor stores in Alberta, 33 stores in British Columbia, 22 stores in Alaska and one store in Connecticut that is currently in the process of being disposed of. The stores are comprised of 8 destination-format stores, 220 convenience format liquor stores and one wine only store.

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

The following provides a summary of the Company's locations as at May 8, 2018:

	January 1/18 to May 8/18				
	1-Jan-18	**Opened**	**Sold**	**Closed(4)**	**8-May-18**
Alberta					
Edmonton(1)	82	-	-	-	82
Calgary(1)	43	-	-	-	43
Other(2)	50	-	-	(2)	48
	175	-	-	(2)	173
British Columbia					
Interior	10	-	-	-	10
Lower Mainland	12	-	-	-	12
Vancouver Island	11	-	-	-	11
	33	-	-	-	33
Alaska					
Anchorage	18	-	-	-	18
Other(3)	4	-	-	-	4
	22	-	-	-	22
Connecticut					
Norwalk	1	-	-	-	1
	1	-	-	-	1
Total	**231**	**-**	**-**	**(2)**	**229**

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 (23), Southern (10), Central (13) and resort communities (two).*

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

(4) *The stores closed by in the Other Alberta include one store closed in Red Deer and one store closed in Slave Lake, in each case due to underperformance.*

Approximately 99% (2017: 99%) of the retail sales in Alberta, 97% (2017: 97%) of the retail sales in British Columbia, and 88% (2017: 88%) of the retail sales in Alaska in the three months ended March 31, 2018 were derived from the sale of alcoholic products. Stores in British Columbia and Alaska are permitted to sell tobacco products, to varying extents, in addition to alcoholic products and related accessories. Approximately 9% (2017: 9%) of Alaska's retail sales in the three months ended March 31, 2018 were derived from tobacco products.

Cannabis Retail

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

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

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

Seasonality

The retail liquor industry is subject to seasonal variations. The Company's sales are typically lowest in the first half of the year and increase in the latter half. In 2017, 21% (2016 - 21%) of annual sales occurred in the first quarter, 26% (2016 - 26%) in the second quarter, 26% (2016 - 26%) in the third quarter, and 27% (2016 - 27%) in the fourth quarter. The Company's working capital requirements are greatest in the second and third quarters as we increase inventory for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

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

10. Critical Accounting Estimates and Accounting Policies

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

The Company has:

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

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

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

The Company's summary of significant accounting policies, estimates and critical judgments are contained in note 3 to the 2017 audited annual consolidated financial statements. The accounting policies applied by the Company as described in these interim financial statements are the same as those applied by the Company as at and for the year ended December 31, 2017, and there have been no changes to those policies, with the exception of the policies described below:

i. Cash held in escrow

Cash held in escrow is cash that is held by independent escrow agents for the purposes of raising capital through the issuance of common shares but restricted by certain release conditions. Cash held in escrow is excluded from the Consolidated Statements of Cash Flow as it does not meet the definition of cash and cash equivalents.

ii. Subscription receipts

The Company accounts for subscription receipts as a financial liability, including when there may be a requirement for the Company to deliver cash or another financial asset in the event of the occurrence or non-occurrence of uncertain future events that are beyond the control of both the Company and the holder of the subscription receipt. Transaction costs are recorded as deferred financing costs reducing the financial liability. Subscription receipts are accounted for as an equity instrument when the Company no longer has a contractual obligation to deliver cash or another financial asset to another entity.

iii. Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9 "Financial Instruments", which replaced IAS 39 "Financial Instruments: Recognition and Measurement". The Company has taken the modified retrospective approach to adopting the standard. The adoption of IFRS 9 did not have a material impact on the Company's interim financial statements, and as such the comparative figures have not been restated. The nature and effects of the key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarized below:

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables, and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Company's business model for managing the financial asset. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The following tables shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each of the Company's financial assets and financial liabilities:

Financial Instrument	IAS 39	IFRS 9 [1]
Cash	Loans and receivables	Amortized cost
Cash held in escrow	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Dividends payable	Financial liabilities measured at amortized cost	Amortized cost
Subscription receipt liability	Financial liabilities measured at amortized cost	Amortized cost
Interest rate swap derivative	FVTPL	FVTPL
Derivative warrant liabilities	FVTPL	FVTPL
Long-term debt	Financial liabilities measured at amortized cost	Amortized cost

[1] There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39. The ECL model applies to the Company's trade receivables from wholesale customers.

Modification of financial liabilities

When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Hedge accounting

The new hedging accounting guidance aligns hedge accounting more closely with an entity's risk management objectives and strategies. IFRS 9 does not fundamentally change the types of hedging relationships or the requirements to measure and recognize effectiveness; however, it allows more hedging strategies used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship, primarily from a qualitative standpoint. This is not expected to have an effect on our reported results and will simplify our application of effectiveness tests going forward.

iv. Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and several revenue related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized, and includes expanded disclosure requirements for annual financial statements.

Disaggregation of revenue:

The Company has two streams of revenue:

(1) Revenue generated from sales to customers through retail stores which is recognized at the point of sale; and

(2) Revenue generated from licensee sales to wholesale customers which is recognized at the time of shipment.

Other considerations:

We have considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services we offer, the degree to which contracts include multiple performance obligations, and the pattern in which revenue is currently recognized among other things. The Company does not typically enter into contracts with customers that have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date as the revenue is recognized, at either the point of sale or at the time of shipment.

The Company has adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 resulted in certain procedural changes in our accounting for revenue, however its adoption did not have a significant impact on the Company's interim financial statements. As such the comparative figures have not been restated and continue to be reported under the accounting standards in effect for those periods.

v. Other narrow scope amendments / interpretations

The Company has adopted narrow scope amendments / interpretations to IFRIC 22, *Foreign Currency Translation and Advance Consideration*, IFRS 2, *Share-Based Payments*, and IAS 1, *Presentation of Financial Statements*, which did not have an impact on the Company's interim financial statements.

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

i. Derivative warrant liabilities

Warrants issued pursuant to equity offerings that are potentially exercisable in cash resulting in a variable number of shares being issued are considered derivative liabilities and therefore measured at fair value.

Estimates and assumptions are used to calculate the value of the derivative warrant liabilities related to the sunshine and pro-rata warrants issued as part of the Aurora Financing. The Company uses the Black-Scholes pricing model to estimate fair value on the grant and period-end dates. The key assumptions used in the model are the expected future volatility in the price of the Company's shares, interest rates, dividend yields, probability of shareholder approval, and probability of the conversion of convertible debentures. The impact of changes in key assumptions is described in note 8 of the interim financial statements.

The derivative warrant liabilities are re-measured each period with gains and losses recorded in fair value adjustments in the Consolidated Statements of Loss.

11. Non-IFRS Financial Measures

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

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

- Operating profit before amortization for purposes of disclosure under the headings "Performance Overview - First Quarter 2018 Operating Results Compared to First Quarter 2017 Operating Results" and "Performance Review – Three months ended March 31, 2018 Operating Results Compared to the Three months ended March 31, 2017 Operating Results" in this MD&A has been derived by subtracting selling and distribution expenses and administrative expenses from gross margin. Operating profit before amortization as a percentage of sales is calculated by dividing operating profit before amortization by sales.

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

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

12. 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 28, 2018 and the Company's annual MD&A for the year ended December 31, 2017.

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

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

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

The Chief Executive and Chief Financial Officers have certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the three months ended March 31, 2018. 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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

14. Condensed Quarterly Information

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

	2018	2017				2016		
	31-Mar	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**30-Sep**	**30-Jun**
Statement of Earnings								
# stores, end of period	229	231	250	251	252	253	252	253
Sales from continuing operations	125,814	167,192	163,975	162,435	127,759	170,300	167,242	164,993
Net earnings (loss) attributable to the owners of the parent from continuing operations	(1,839)	(1,122)	556	2,765	(2,937)	3,386	5,138	3,809
Net earnings (loss) attributable to owners of the parent	(2,118)	(20,342)	(3,208)	(2,067)	(4,910)	(6,094)	4,371	4,121
Basic and diluted earnings (loss) per share from continuing operations	(0.06)	(0.04)	0.02	0.10	(0.11)	0.11	0.19	0.14
Basic and diluted earnings (loss) per share	(0.07)	(0.73)	(0.12)	(0.07)	(0.18)	(0.22)	0.16	0.15

Quarterly sales in 2018 compared to 2017 and 2016 were affected by the following significant items:

- Easter shifted timing in 2018 where it started in Q1 and into Q2 compared to occurring in Q2 in 2017 and Q1 in 2016, which increased the Company's sales in Q1 2018 compared to Q1 2017, and increased the Company's sales in Q2 2017 compared to Q2 2018. The Easter shift caused an improvement in the sales trend of the Company in Q1 2018 and Q2 2017.

- The Company experienced poor weather in B.C. and Alberta in Q1 2018 compared to Q1 2017, and in Q2 2017 compared to Q2 2016, which caused a decline in beer sales compared to the prior year.

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

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

Quarterly net (loss) earnings in 2018 compared to 2017 and 2016 were affected by the following significant items:

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

- The Company's operating costs were impacted throughout 2018 and 2017 by an increase in the minimum wage in compared to 2016 in Alberta and British Columbia. The minimum wage increased again on October 1, 2017 in Alberta and is now $13.60 per hour.

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

- The Company incurred additional administrative expenses in Q1 2018 compared to Q1 2017 related to the build out of its team for the newly formed cannabis division.

- The Company incurred less finance costs in Q1 2018 compared to Q1 2017 as a result of the Aurora Financing (see the "Business Update and Outlook" section of this MD&A). The Company incurred additional finance costs in Q1 and Q2 2017 compared to Q1 and Q2 2016 related to additional interest costs incurred from the issuance of a new series of subordinated debentures (the 4.70% Debentures) in Q4 2016, along with additional non-cash interest costs associated with the redemption of the previous 5.85% Debentures in May 2017.

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

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

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

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

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

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

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

15. Forward Looking Statements

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

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

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

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

16. Additional Information

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