LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2017

Dated as at August 9, 2017

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1. Basis of Presentation

This Management's Discussion and Analysis ("MD&A") provides a comparison of Liquor Stores N.A. Ltd.'s performance for the three and six months ended June 30, 2017 with the three and six months ended June 30, 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 and six months ended June 30, 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 August 9, 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. Strategic Direction and Outlook

Following the annual meeting of shareholders held on June 20, 2017, the Company elected a new Board of Directors comprising six new directors along with two incumbent directors.

The Company announced that Kenneth Barbet, former Chief Executive Officer of the Nova Scotia Liquor Corporation and Big Rock Brewery Inc., was appointed as the Chief Executive Officer of the Company on August 9, 2017.

Also on August 9, 2017, Richard D. Perkins has stepped down from the Board to take on the role of Executive Vice President, Business Transformation of the Company.

Replacing Mr. Perkins on the Board was Denis Ryan, whose career included serving as an investment advisor with CIBC Wood Gundy, an executive with BGH Investment Management Limited, Vice-President Institutional Asset Management with Altamira, an investment banking role for Griffiths McBurney and Partners and a founding partner with Morrison Williams Investment Management Limited.

These changes in leadership, along with anticipated changes to the Company's ongoing strategy detailed below, are as a result of the decision made by the shareholders of the Company to elect a new board of directors and embrace a new vision and strategy for the Company.

Economic and competitive conditions

With WTI crude oil prices dipping down from above $50/bbl into the $45/bbl range through the last quarter (and roughly flat to crude oil prices for the same period in the prior year), economic improvement in the Company's core market of Alberta has been modest through the quarter. The unemployment rate in Alberta, while still higher than normal historical levels at 7.4%[1], has been steadily declining from 8.5% at the start of 2017. There has been an increase in competitive pressure faced from discount chains using low pricing to win market share in Alberta, and this is anticipated to continue to intensify in the Edmonton market due to changes in the radius restrictions that provide for a minimum distance between liquor stores outside of an overlay of mature neighborhoods.

The U.S. operating performance is being significantly impacted by increased competition in Kentucky, both from existing grocery store chains and the entrance of a new national competitor in Q4 2016, increased competition in New Jersey, as well as poor economic conditions in Alaska due to depressed oil prices.

Strategic direction of the Company

In light of the economic and competitive headwinds faced by the Company in many of its core markets, the Company will implement the following initiatives to drive sales, improve profitability and deliver shareholder value by focusing on:

- Significantly reducing the Company's operating costs by simplifying and streamlining the business, lowering overhead and store operating costs, and reviewing stores for closure or repositioning that are not strategic or contributing positively to the Company's operating profits.

- Significantly reducing the Company's inventory levels and increasing the Company's inventory turnover ratios in order to free up trapped capital to use to fund other more accretive uses of capital.

- Accelerating the pace of renovating Canadian store locations to drive increases to same-store sales in Canada, increase brand image, and better position the Company against intensifying competition.

[1] At June 30, 2017, from the Alberta Economic Dashboard

- Re-evaluating the Company's U.S. operations to maximize shareholder value.
- Accelerating the implementation of a new Enterprise Resource Planning system.

The Company will provide further detail and updates on progress against this Plan in due course.

Planned capital investments

The Company will now focus on re-investing in its core Alberta and British Columbia markets to defend its competitive position against new entrants – particularly in Alberta where new licenses continue to be granted notwithstanding limited growth in population and the economy. Selective new store growth in Alberta and relocations of existing stores within British Columbia where the opportunities present themselves will also be pursued.

More specifically:

- Liquor Stores currently expects to incur an estimated aggregate capital cost of $7 million to $8 million for new store construction of five locations in Alberta and relocation of an existing store in British Columbia over the next twelve months. The Company will continue to monitor and evaluate additional potential new stores for 2018 and beyond.
- In the fall of 2016 the Company was awarded a single liquor license to open a store in the city of Saskatoon, Saskatchewan. Further evaluation is necessary to determine whether entry into this Province would generate sufficient return on capital invested in the context of its future growth potential.
- The Company anticipates investing $4 to $6 million on store refurbishments in 2017. Through the second quarter of 2017, six renovations were completed for an investment of $3.6 million on these renovations plus several currently in progress. The Company will significantly accelerate the store renovation program for 2018 and 2019.
- The Company has begun implementing a new enterprise resource planning ("ERP") system that will improve business operations, drive down costs, be instrumental in improving inventory turnover, and provide a scalable growth platform. Once the implementation work and testing is completed in the coming months, the Company will complete a full roll out across the business as soon as possible.

Management believes that this new strategic approach reflects the best use of the Company's capital to maximize shareholder value. The capital investments of the Company will be funded through cash flow from existing operations, its current available credit and access to capital through ongoing inventory reduction efforts, which Management believes will be sufficient to finance the execution of the Company's objectives as outlined above.

3. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended June 30, 2017 and 2016:

(Cdn $000's unless otherwise noted)	Three months ended June 30, 2017 $	2017 %	2016 $	2016 %	Variance $	Variance %
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[5]	119,595	57.5%	124,476	59.5%	(4,881)	-3.9%
Other Canadian stores [1]	7,606	3.7%	5,907	2.8%	1,699	28.8%
Canadian wholesale	8,392	4.0%	8,122	3.9%	270	3.3%
Total Canadian store sales	135,593	65.2%	138,505	66.2%	(2,912)	-2.1%
U.S. same-stores (US$)[5]	52,487	25.2%	54,936	26.2%	(2,449)	-4.5%
Other U.S. stores (US$)[2]	1,413	0.7%	-	0.0%	1,413	100.0%
Foreign exchange on U.S. store sales	18,585	8.9%	15,832	7.6%	2,753	17.4%
Total U.S. store sales	72,485	34.8%	70,768	33.8%	1,717	2.4%
Total sales	208,078	100.0%	209,273	100.0%	(1,195)	-0.6%
Gross margin	54,351	26.1%	52,490	25.1%	1,861	3.5%
Selling and distribution expenses	42,187	20.3%	34,174	16.3%	8,013	23.4%
Administrative expenses	6,859	3.3%	5,912	2.8%	947	16.0%
Operating profit before amortization	5,305	2.5%	12,404	5.9%	(7,099)	-57.2%
Adjusted operating profit before amortization[5]	10,931	5.3%	12,404	5.9%	(1,473)	-11.9%
Net earnings (loss)	(1,381)	-0.7%	4,666	2.2%	(6,047)	-129.6%
Adjusted net earnings[5]	3,690	1.8%	4,666	2.2%	(976)	-20.9%
Cash provided by operating activities	12,949	6.2%	10,570	5.1%	2,379	22.5%
Dividends paid in cash	2,287	1.1%	2,222	1.1%	65	2.9%
Total assets	461,392		487,483		(26,091)	-5.4%
Total equity	221,560		234,000		(12,440)	-5.3%
Basic and diluted earnings (loss) per share	(0.07)		0.15		(0.22)	-146.7%
Basic and diluted adjusted earnings per share [5]	0.11		0.15		(0.04)	-26.7%

The following table summarizes highlights of the Company's financial performance for the six months ended June 30, 2017 and 2016:

(Cdn $000's, unless otherwise noted)	Six months ended June 30, 2017 $	%	2016 $	%	Variance $	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[5]	211,881	57.2%	221,154	58.0%	(9,273)	-4.2%
Other Canadian stores [3]	13,384	3.6%	12,579	3.3%	805	6.4%
Canadian wholesale	15,866	4.3%	15,200	4.0%	666	4.4%
Total Canadian store sales	241,131	65.1%	248,933	65.3%	(7,802)	-3.1%
U.S. same-stores (US$)[5]	76,710	20.7%	80,787	21.2%	(4,077)	-5.0%
Other U.S. stores (US$)[4]	20,188	5.4%	18,982	5.0%	1,206	6.4%
Foreign exchange on U.S. store sales	32,468	8.8%	32,605	8.5%	(137)	-0.4%
Total U.S. store sales	129,366	34.9%	132,374	34.7%	(3,008)	-2.3%
Total sales	370,497	100.0%	381,307	100.0%	(10,810)	-2.8%
Gross margin	95,985	25.9%	96,104	25.2%	(119)	-0.1%
Selling and distribution expenses	78,035	21.1%	69,074	18.1%	8,961	13.0%
Administrative expenses	11,891	3.2%	12,540	3.3%	(649)	-5.2%
Operating profit before amortization[5]	6,059	1.6%	14,490	3.8%	(8,431)	-58.2%
Adjusted operating profit before amortization[5]	11,685	3.2%	15,735	4.1%	(4,050)	-25.7%
Net earnings (loss)	(6,167)	-1.7%	3,194	0.8%	(9,361)	-293.1%
Adjusted net earnings (loss) [5]	(1,096)	-0.3%	4,093	1.1%	(5,189)	-126.8%
Cash used in operating activities	(5,770)	-1.6%	(7,238)	-1.9%	1,468	20.3%
Dividends paid in cash	4,562	1.2%	8,839	2.3%	(4,277)	-48.4%
Total assets	461,392		487,483		(26,091)	-5.4%
Total equity	221,560		234,000		(12,440)	-5.3%
Basic and diluted earnings (loss) per share	(0.25)		0.09		(0.34)	-377.8%
Basic and diluted adjusted earnings (loss) per share [5]	(0.07)		0.12		(0.19)	-158.3%

Notes:

(1) *Sales for Other Canadian stores for the three months ended June 30, 2017 and 2016 include those of one new store opened and five stores closed subsequent to March 31, 2016, two stores in British Columbia that were closed and relocated to superior locations, 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 June 30, 2017 and 2016 include one new store opened in Connecticut subsequent to March 31, 2016.*

(3) *Sales for Other Canadian stores for the six months ended June 30, 2017 and 2016 include those of one new store opened and five stores closed subsequent to December 31, 2015, two stores in British Columbia that were closed and relocated to superior locations, 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.*

(4) *Sales for Other U.S. stores for the six months ended June 30, 2017 and 2016 include the following changes subsequent to December 31, 2015: (i) New Jersey: two new stores acquired, and (ii) Connecticut: one new store opened.*

(5) *Same-store sales, operating profit before amortization, adjusting items, adjusted operating profit before amortization, adjusted net earnings (loss), and adjusted earnings (loss) 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.*

Second Quarter 2017 Operating Results Compared to Second Quarter 2016 Operating Results

Sales

Total sales decreased by $1.2 million or 0.6% to $208.1 million in the second quarter of 2017 (Q2 2016 - $209.3 million), attributable to the following:

Same-Store Sales[2]

- Canadian same-store sales decreased by $4.9 million, or 3.9%.
  - Easter occurring in Q2 2017 versus Q1 2016 shifted sales by approximately 1.3% in Q2 2017.
  - Poor weather in Alberta and British Columbia resulted in beer sales being negatively impacted, which represents approximately 75% of the decline in same-store sales compared to Q2 2016.
  - Same-store sales increased overall in the Grande Prairie, Alberta region, as the local economy in that region has begun to recover. The large format Wine and Beyond stores also continued to perform well, with increases in sales at all three locations compared to the same period last year.
- U.S. same-store sales decreased by $2.5 million or 4.5%.
  - Same-store sales in Alaska continue to be negatively impacted by a continued slowdown in the Alaska economy.
  - Same-store sales in Kentucky and New Jersey declined compared to the same quarter in the prior year due to intensified competition in these markets.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $8.4 million for the three months ended June 30, 2017, which increased by $0.3 million or 3.3% compared to Q2 2016 (Q2 2016 - $8.1 million). Sales growth resulted from the addition of new wholesale customer accounts over the past year and the shift in Easter to Q2 2017 from Q1 2016.
- Sales for the Other Canadian stores have increased by $1.7 million compared to Q2 2016, primarily as a result of the increase in sales from the seven stores in Fort McMurray, as these stores were closed for approximately a month due to a fire that occurred in Q2 2016.

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

- Sales for Other U.S. stores have increased by $1.4 million compared to Q2 2016, due to a new large format store opened in Norwalk, Connecticut in October 2016.

Gross Margin

Gross margin as a percentage of sales for the period has increased to 26.1% (Q2 2016 – 25.1%), which benefitted from a lower proportion of the Company's total sales in beer (which attract a lower gross margin percentage than wine).

Gross margin for the period was $54.4 million, an increase of $1.9 million or 3.5% from $52.5 million for the same period last year. The increase in gross margin is attributable to a $2.3 million gain from the higher gross margin as a percentage of sales, the gross margin increase new store openings (net of closures) and sales increases from the seven stores located in Fort McMurray ($0.5 million), and a positive change in foreign exchange on translation of the U.S dollar denominated gross margin to Canadian dollars ($0.8 million), offset by the gross margin impact of the decline in same store sales in the current quarter ($1.7 million).

Selling and distribution expenses

Selling and distribution expenses for the three months ended June 30, 2017 were $42.2 million, up $8.0 million from $34.2 million a year earlier. The Company's normal course expenses increased as a result of the impact of an increase in the minimum wage in Alberta and British Columbia, additional marketing costs due to the shift of Easter into Q2 2017 from Q1 2016, and an increased impact in foreign exchange on translation of the U.S dollar denominated expenses to Canadian dollars. In addition, selling and distribution expenses were negatively impacted by the following:

- As previously communicated in Q4 2016, the decision was made to not proceed with opening a planned store in Berlin, Massachusetts as subsequent to the lease being executed in 2015, Management determined that the store was unlikely to generate sufficient return on the capital required to construct and open the location. A process to identify a subtenant for the location commenced at that time, but has been unsuccessful to date. The Company has recognized a provision recorded for the estimated loss on the remaining term of the lease in the current quarter of $4.2 million
- The Company incurred capital cost of $0.2 million along with $0.3 million of marketing and promotion costs as a result of rebranding the new large format store in Norwalk, Connecticut to 'Wine and Beyond', as the previous brand "LQR MKT" was not resonating as strongly with the local market, which is a wine centric customer predominantly. The change in brand, made at the end of June 2017, has already begun to drive significant additional traffic to this location.

Administrative expenses

Administrative expenses for the three months ended June 30, 2017 were $6.9 million, an increase of $1.0 million from $5.9 million a year earlier. This increase was caused by additional costs incurred by the previous Board of Directors in preparation for the contested annual meeting of the shareholders ($1.4 million) consisting of legal, public relations, proxy solicitation and financial advisory costs. The dissident proxy was ultimately successful, resulting in the election of the six new Directors and new strategy being implemented for the Company, discussed earlier in the MD&A.

The increase was partially offset by administrative cost containment measures to freeze compensation, reduce administrative headcount, and reductions to information technology and third party consulting costs.

Operating profit before amortization

Operating profit before amortization for the three months ended June 30, 2017 decreased by $7.1 million to $5.3 million or 2.5% as a percentage of sales (Q2 2016 – 5.9%). The decrease in operating profit was primarily due to the increase in operating and administrative costs more than offsetting the increase in gross margin as discussed above.

Adjusted operating profit before amortization for the three months ended June 30, 2017 decreased by $1.5 million, or 11.9%, to $10.9 million after the impact of the unfavorable lease for the Berlin, Massachusetts location and the incremental costs for the contested annual shareholders meeting was removed.

Amortization

Amortization expense of $3.2 million for the second quarter of 2017 was flat to the same period in the prior year (Q2 2016 - $3.2 million). Additional amortization in the current year related to the new stores opened subsequent to June 30, 2016 was fully offset by reduced amortization by the stores that were closed in that same period.

Finance Costs

Finance costs for the second quarter of 2017 have increased by $1.0 million to $3.6 million (Q2 2016 - $2.6 million) primarily related to the $1.2 million of non-cash finance costs recorded upon the early redemption of the 5.85% debentures. Additional interest costs incurred from the issuance of the 4.70% convertible subordinated debentures issued prior to the redemption of the 5.85% debentures were more than offset by lower interest paid on the Company's operating line of credit over that same period.

Fair value adjustments

Fair value adjustments are comprised of unrealized losses recorded on the non-controlling interest put option liability of $0.1 million (Q2 2016 – $0.1 million) and on the purchase option of $0.5 million (Q2 2016 – $0.5 million) both of which relate to the remaining 49% of Birchfield Ventures not currently owned by the Company. These were offset by an unrealized gain recorded for an interest rate swap of $0.4 million (Q2 2016 - insignificant).

Income taxes

Income tax recoveries of $0.4 million for an effective rate of 22% was recorded for the second quarter of 2017.

The Company's estimated effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction in which the Company operates.

Net earnings (loss)

For the three months ended June 30, 2017, a net loss of $1.4 million was recorded, which is a $6.1 million decrease from Q2 2016 (Q2 2016 –$4.7 million net earnings). The decrease in earnings is due to the decrease in operating margin and increased finance costs as discussed above, slightly offset by lower fair value adjustments. On a per share basis, loss per share was $0.07 for Q2 2017 (Q2 2016 – $0.15 earnings per share).

Normalized for other adjusting items (see 'Non-IFRS Measures' of this MD&A for a summary of adjusting items), adjusted net earnings in the current year were $3.7 million, a decline of $1.0 million compared to the prior year, and earnings per share was $0.11 (Q2 2016 - $0.15 per share).

Six months ended June 30, 2017 Operating Results Compared to Six months ended June 30, 2016 Operating Results

Sales

Total sales decreased by $10.8 million or 2.8% to $370.5 million for the six months ended June 30, 2017 (2016 - $381.3 million), related primarily to the following:

Same-Store Sales[3]

- Canadian same-store sales decreased by $9.3 million, or 4.2%.
    - Stores located in Alberta continued to face pressure for the six months ended June 30, 2017 from the economic slowdown that persisted in these regions compared to the same period in 2016, along with an increasing level of competition faced from discounters that have continued to enter Alberta.
    - In addition, sales in both Alberta and British Columbia were negatively impacted by poor weather for the majority of the second quarter of 2017 compared to the same period in the prior year.
- U.S. same-store sales decreased by $4.1 million or 5.0%.
    - Same-store sales in Alaska continue to be negatively impacted by a continued slowdown in the Alaska economy.
    - Same-store sales in Kentucky declined compared to the same period 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 the large format stores in Kentucky due to close proximity to the affected county. The Company also continue to observe a higher level of competitive pressure in the Louisville market from the entrance of a new national competitor in Q4 2016, and in both Louisville and Lexington from the continued expansion of stand-alone liquor stores operated by a national grocer.

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

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $15.9 million for the six months ended June 30, 2017, representing an increase of $0.7 million or 4.4% from the prior year (2016 - $15.2 million). Sales increased due to the addition of new licensee customer accounts over the past year, which were partly offset by a decline in sales to existing customers due to the economic slowdown in Alberta.
- Sales for the Other Canadian stores have increased $0.8 million compared to the same period in the prior year, primarily as a result of the increase in in sales from the seven Fort McMurray stores being closed for a significant portion of time in Q2 2016 due to a forest fire in that region.
- Sales for Other U.S. stores have increased by $1.2 million compared to the same period in 2016, primarily as a result of the sales contribution of the new large format store in Norwalk, Connecticut opened in October 2016.

Gross Margin

Gross margin for the period was $96.0 million, a decrease of $0.1 million or 0.1% from $96.1 million for the same period last year. The change in gross margin is attributable to a $3.0 million gain from the higher gross margin as a percentage of sales and the gross margin increase new store openings (net of closures) and sales increases from the seven stores located in Fort McMurray ($0.4 million), more than offset by the gross margin impact of the decline in same store sales in the current quarter ($3.5 million). Gross margin as a percentage of sales for the period has increased to 25.9% (Q2 2016 – 25.2%).

Selling and distribution expenses

Selling and distribution expenses for the six months ended June 30, 2017 were $78.0 million, up $8.9 million from $69.1 million a year earlier. The increase in selling and distribution expenses related primarily to the provision recorded for the unfavorable lease for the unopened store in Berlin, Massachusetts and increase in marketing and promotion costs for the new large format store in Norwalk, Connecticut discussed under the summary of results for the three months ended June 30, 2017.

The majority of in-store operating costs are fixed, and therefore were relatively consistent compared to the same period in the prior year despite the reduction in sales levels over the same period aside from inflationary increases to in-store labor costs as a result of minimum wage increases in Alberta and British Columbia.

Administrative expenses

Administrative expenses for the six months ended June 30, 2017 were $11.9 million, a decrease of $0.6 million from $12.5 million a year earlier. As discussed in the summary of results for the three-months ended June 30, 2017 earlier in this MD&A, ongoing cost containment measures were offset by additional costs incurred in preparation for the contested annual meeting of the shareholders ($1.4 million).

Operating profit before amortization

Operating profit before amortization for the six months ended June 30, 2017 decreased by $8.4 million to $6.1 million or 1.6% as a percentage of sales (Q2 2016 – 3.8%). The decrease in operating profit was primarily due to the increase in operating and administrative costs as discussed above.

Adjusted operating profit before amortization for the six months ended June 30, 2017 decreased by $4.1 million, or 25.7%, to $11.7 million with the impact of the unfavorable lease for the Berlin, Massachusetts location and the incremental costs for the contested annual shareholders meeting removed.

Amortization

Amortization expense of $6.2 million for the first six months of 2017 decreased by $0.2 million from the same period in the prior year (2016 - $6.4 million). Additional amortization in the current year related to the new stores opened subsequent to December 31, 2015 was more than offset by the reduced amortization related to stores that were closed over this same period.

Finance Costs

Finance costs have increased by $1.6 million to $6.8 million for the six months ended June 30, 2017 (2016 - $5.2 million) related to the $1.2 million of non-cash finance costs recorded upon the early redemption of the 5.85% debentures, along with additional interest costs incurred from the issuance of the 4.70% convertible subordinated debentures issued prior to the redemption of the 5.85% debentures which was partially offset by lower interest paid on the Company's operating line of credit over that same period.

Fair value adjustments

Fair value adjustments are comprised of unrealized losses recorded on the non-controlling interest put option liability of $0.2 million (2016 – $0.2 million) and the purchase option of $0.9 million (2016 – $0.5 million) for the remaining 49% of Birchfield Ventures not owned by the Company, and a gain recorded on the interest rate swap of $0.3 million (2016 - $0.2 million loss).

Income taxes

In the first six months of 2017, the Company recorded an income tax recovery of $1.8 million for an effective rate of 22% (2016 - $0.9 million expense).

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

Net earnings (loss)

For the six months ended June 30, 2017, a net loss of $6.2 million was recorded, representing a decrease of $9.4 million compared to the same period in the prior year (2016 –$3.2 million net earnings). The decrease in earnings is due to the decrease in operating profit as discussed above coupled with the increase in finance costs discussed above. On a per share basis, loss per share was $0.25 for the six months ended June 30, 2017 (2016 – $0.09 earnings per share).

Normalized for other adjusting items (see 'Non-IFRS Measures' of this MD&A for a summary of adjusting items), adjusted net loss was $1.1 million, a decline of $5.2 million compared to same period in the prior year.

4. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands)	**2017**	**2016**	**2017**	**2016**
Cash provided by (used in) operating activities	12,949	10,570	(5,770)	(7,238)
Cash used in investing activities	(3,529)	(3,053)	(6,506)	(28,679)
Cash provided by (used in) financing activities	(9,173)	(5,629)	8,523	38,805
Effect of exchange rate on changes in cash	(23)	42	(61)	(472)
Net increase (decrease) in cash	224	1,930	(3,814)	2,416

Operating activities

For the three months ended June 30, 2017, cash provided by operating activities was $12.9 million, a $2.3 million increase from $10.6 million provided in the same period in the prior year. For the six months ended June 30, 2017, cash used in operating activities was $5.8 million, a $1.4 million decrease from $7.2 million used in the same period in the prior year. The increase in cash flows from operating activities in both periods related to continued efforts to reduce inventory levels, partially offset by a decline in operating profit before amortization[4] compared to the prior year, as discussed previously in this MD&A.

Investing activities

For the three months ended June 30, 2017, cash used in investing activities was $3.5 million, a $0.4 million increase from $3.1 million used for the same period in the prior year primarily related to assets acquired for the construction of new stores and renovation activity, which has increased compared to the same period in the prior year.

For the six months ended June 30, 2017, cash used in investing activities was $6.5 million, a $22.2 million decrease from $28.7 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, the Company 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 a result of settling the accounts payable of several construction invoices from the new stores opened in Q4 2015.

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

Financing activities

For the three months ended June 30, 2017, cash used in financing activities was $9.2 million, compared to $5.6 million used in financing activities from the same period in 2016. This change primarily relates to higher operating cash flows generated in 2017 compared to the same period in 2016 being used to repay long-term debt, along with a more efficient cash management processes in the current year which resulted in higher utilization of cash balances to repay long-term debt.

For the six months ended June 30, 2017, cash provided by financing activities was $8.5 million, compared to $38.8 million from the same period in 2016. This change primarily relates to higher total proceeds from total long term debt (net of debentures repaid) in the prior year, which was due to the acquisition of Birchfield for cash consideration of $20.9 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.

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 June 30, 2017, and based on the timing and level of cash held in U.S. dollars, the Company has recorded an insignificant loss on cash held in foreign currency in the three months ended June 30, 2017 (2016 – insignificant gain) and a $0.1 million loss in the six months ended June 30, 2017 (2016 - $0.5 million loss).

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 August 8, 2017, there was approximately $83 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.

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

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. The Company is 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 June 30, 2017, the Company was in compliance with all financial covenants, as set forth below:

Ratio	**Covenant**	**As at June 30, 2017**
Funded debt to EBITDA	< 3.50:1.00	2.12
Adjusted debt to EBITDAR	< 5.00:1.00	4.45
Fixed charge coverage	> or = 1.05:1.00	1.28

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 believes the Company is managing liquidity risk appropriately and anticipates the Company will be able to fund operating and liquidity needs in the near term. As at August 8, 2017, the Company has undrawn credit of approximately $33 million under its credit facility available to finance operating requirements, growth opportunities and for general corporate purposes.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company is party to an interest rate swap with a Canadian Schedule I bank that expires December 14, 2019 with a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At August 8, 2017, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.98% per annum after taking into account the applicable credit spread determined with reference to the credit facility. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming an outstanding amount drawn on the credit facility of $83 million, of which $60.0 million is subject to the interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at August 8, 2017:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	230	(230)
Increase (decrease) in net earnings	(179)	179

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.

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 $4.1million USD for the twelve month period ended June 30, 2017.

5. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	As at June 30, 2017	As at December 31, 2016
Cash	3,206	7,020
Accounts receivable	4,326	3,184
Inventory	152,779	155,425
Total current assets	172,354	176,009
Property and equipment	66,956	63,674
Intangible assets	46,087	46,690
Goodwill	157,896	158,318
Total assets	461,392	463,047
Accounts payable and accrued liabilities	61,663	67,402
Dividends payable	1,023	830
Total current liabilities	66,160	69,006
Long-term debt	152,139	135,838
Total liabilities	239,832	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. At June 30, 2017, net working capital (current assets, excluding cash, less current liabilities) was $103.0 million, a $3.0 million increase from the previous year end (2016 - $100.0 million) primarily due to the timing of settlement of accounts payable and accrued liability balances.

- Accounts receivable increased $1.1 million to $4.3 million as at June 30, 2017 primarily due to an increase in tenant allowance receivables for construction work performed on new stores which will be partially funded by the Company's landlords.

- Inventory was reduced by $2.6 million compared to December 31, 2016 as seasonal increases in the Company's inventory levels were more than offset by measures implemented by the Company to begin better managing inventory levels.

- The carrying value of property and equipment was $67.0 million, a $3.3 million increase from the prior year end (December 31, 2016 - $63.7 million). Additions during the period of $10.3 million (Q2 2016 - $5.5 million) were related to the construction costs for new stores under development in the period for the relocation of the two stores in British Columbia, the new Wine and Beyond location in Calgary, AB, store renovations and maintenance capital expenditures. Amortization and disposals during the period were $6.1 million (Q2 2016 - $6.2 million). Foreign exchange differences on property and equipment assets held in the U.S. resulted in a decrease in the carrying value of $0.9 million (Q2 2016 – $1.6 million decrease).

- Accounts payable and accrued liabilities decreased by $5.7 million to $61.7 million as at June 30, 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 stock subsequent to the holiday selling season.

- Long-term debt was $152.1 million at June 30, 2017, a $16.3 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.

- Provisions increased by $3.7 million to $4.1 million as at June 30, 2017, primarily related to the exit from the Berlin, MA location as discussed earlier in the MD&A.

As at June 30, 2017 and August 9, 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.

6. Shareholders' Equity

At June 30, 2017, the Company had 27,753,233 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended June 30, 2017 were 27,743,138 (compared to 27,595,667 basic shares and 27,644,159 diluted shares for the comparative period). The basic and diluted weighted average number of common shares outstanding for the six months ended June 30, 2016 were 27,709,969 (compared to 27,551,091 basic shares and 27,586,353 diluted shares for the comparative period). As at August 9, 2017, 27,760,087 common shares of the Company were issued and outstanding.

7. Dividends

Dividend Policy

The Company currently pays a monthly dividend of $0.03 per Common Share. Dividends are paid, if declared, on or about the 15th day of each month to Shareholders of record at the end of the previous month. Effective for the fourth quarter of 2017, the Company will change the frequency of the dividend payments to quarterly and anticipates paying a dividend of $0.09 per quarter rather than the previous monthly dividend. The last dividend payment on the monthly frequency will be for the month of September 2017 (payable in October 2017). The dividend for the fourth quarter of 2017 will be payable in January 2018.

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 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 "*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 July 31, 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.

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.

There were no related party transactions that occurred in the three and six months ended June 30, 2017.

9. Financial Instruments

The Company, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, 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.

10. Business Overview

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".

As of August 9, 2017, the Company owned and operated 176 stores in Alberta, 34 stores in British Columbia, 22 stores in Alaska, 15 stores in Kentucky, had an interest in two stores in New Jersey and opened a stand-alone store in Connecticut. The stores are comprised of 17 destination/large-format stores, 231 full liquor stores, and two wine only stores. Stores in Canada generally range in size, on average, from 2,000 to 5,000 square feet. The 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 the Company has one combined store and warehouse in excess of 40,000 square feet. The Kentucky stores range in size from 2,700 to 30,000 square feet along with a flagship store of 44,000 square feet. The New Jersey stores, in which the Company holds a 51% interest, are destination/large format stores with areas of approximately 17,000 and 25,000 square feet, respectively. The destination/large format store in Connecticut is approximately 20,000 square feet. The two large Wine & Beyond stores, which are 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. The Company added a third Wine & Beyond store in Alberta in Q4 2015, with a slightly smaller footprint than the existing Wine & Beyond stores.

The following provides a summary of the Company's locations as at August 9, 2017:

	January 1/17 to August 9/17				
	1-Jan-17	**Opened**	**Acquired**	**Closed[5]**	**10-Aug-17**
Alberta					
Edmonton[1]	83	-	-	-	83
Calgary[1]	44	-	-	(2)	42
Other[2]	52	-	-	(1)	51
	179	-	-	(3)	176
British Columbia					
Interior	10	-	-	-	10
Lower Mainland	13	2	-	(2)	13
Vancouver Island	11	-	-	-	11
	34	2	-	(2)	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**	**2**	**-**	**(5)**	**250**

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 (14) 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) Two underperforming stores in Alberta were closed in the current year at the end of their contractual lease term, and one store was closed due to a consolidation of the Company's warehousing operations.

(6) Two stores in British Columbia were relocated to superior grocery-anchored locations in the current year.

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. Working capital requirements are greatest in the second and third quarters as the Company invests in 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 used 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 (iii) stores where same-store sales have increased due to the closure of closely-located stores in the last 12 full months, and (iv) stores where sales have been suspended due to a fire, evacuation, or natural disaster in the last 12 full months.

11. 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.

12. 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 is used 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 "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 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 (loss):

	Three months ended June 30,		**Six months ended June 30,**	
(expressed in thousands)	**2017**	**2016**	**2017**	**2016**
Operating profit before amortization	$5,305	$12,404	$6,059	$14,490
Adjusting items:				
Additional costs incurred in preparation for the contested 2017 annual shareholders meeting	1,433	-	1,433	-
Early termination of leases in conjunction with a store closure and the exit of a lease for the Berlin, MA location	4,193	-	4,193	354
Restructuring costs in right-sizing operating and administrative spend	-	-	-	696
Legal, professional and travel fees incurred in evaluating potential acquisitions	-	-	-	195
Total adjusting items	5,626	-	5,626	1,245
Adjusted operating profit before amortization	10,931	12,404	11,685	15,735

	Three months ended June 30,		**Six months ended June 30,**	
(expressed in thousands)	**2017**	**2016**	**2017**	**2016**
Net earnings (loss)	($1,381)	$4,666	($6,167)	$3,194
Total adjusting items per above	5,626	-	5,626	1,245
Early redemption of 5.85% debentures	1,196	-	1,196	-
Tax effect of adjusting items	(1,751)	-	(1,751)	(346)
Total adjusting items, after tax	5,071	-	5,071	899
Adjusted net earnings (loss)	3,690	4,666	(1,096)	4,093

13. 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.

14. 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 and six months ended June 30, 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 and six months ended June 30, 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.

15. Condensed Quarterly Information

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

	2017		2016				2015	
	Jun 30	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**
Statement of Financial Position								
Cash	$ 3,206	$2,982	$7,020	$ 3,996	$6,206	$ 4,276	3,790	$ 2,790
Total assets	461,392	459,894	463,047	470,877	487,483	483,696	455,554	562,400
Total current liabilities	66,160	57,569	69,461	56,054	58,766	56,410	64,795	52,522
Long-term debt	152,139	157,103	135,838	156,790	179,207	181,361	129,566	127,017
Total liabilities	239,832	232,422	227,652	230,984	253,483	251,694	199,818	198,145
Shareholders' equity	221,560	227,472	235,395	239,893	234,000	231,732	255,736	364,255
Non-controlling interest	3,942	3,976	4,506	3,812	4,268	3,969	77	15
Statement of Earnings								
# stores, end of period	251	252	253	252	253	254	252	247
Sales	208,078	162,419	227,606	208,760	209,273	172,034	214,166	194,186
Operating profit before amortization (1)	5,305	754	13,265	12,611	12,404	2,086	13,971	11,507
Net earnings (loss) attributable to owners of the parent	(2,067)	(4,910)	(6,094)	4,371	4,121	(1,743)	(105,897)	4,142
Net earnings (loss)	(1,381)	(4,786)	(4,856)	4,615	4,666	(1,472)	(105,808)	4,169
Basic earnings (loss) per share	($0.07)	($ 0.18)	($0.22)	$0.16	$0.15	($ 0.06)	($3.86)	$0.15
Dividends declared per share	$0.09	$ 0.09	$0.09	$0.09	$0.09	$ 0.21	$0.27	$0.27

(1) *Adjusted 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.*

16. 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, the Company's 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.