LIQUOR STORES N.A. LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended September 30, 2016

Dated as at November 9, 2016

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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 nine months ended September 30, 2016 with the three and nine months ended September 30, 2015. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto (the "interim financial statements") for the three and nine months ended September 30, 2016 and 2015, the audited consolidated financial statements for the years ended December 31, 2015 and 2014, the annual MD&A for the year ended December 31, 2015, and the Annual Information Form dated March 9, 2016. The information in this MD&A is current to November 9, 2016, unless otherwise noted.

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

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

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

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

2. Forward Looking Statements

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

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include, but are not limited to: risks relating to government regulation and changes thereto (whether by court decisions, citizen referenda, or otherwise); competition; the state of the economy including general economic conditions in Canada (including Alberta) and the U.S.; the unpredictability and volatility of Liquor Stores' common share price; restrictions on potential growth; availability of sufficient financial resources to fund the Company's capital expenditures and potential growth; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; the ability of management to execute the Company's business and strategic plans; Liquor Stores' ability to locate and secure acceptable store sites and to adapt to changing market conditions; the financial impact that the forest fire that occurred in the Fort McMurray area in the second quarter of 2016 will have on the Company in the short and long term; poor weather conditions; dependence on key personnel; labour costs, shortages and labour relations including Liquor Stores' ability to hire and retain staff at current wage levels and the risk of possible future unionization; supply interruption or delays; dependence on suppliers; reliance on information and control systems; income tax changes; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores; credit risks arising from operations; dilution and future sales of Liquor Stores common shares; and the potential lack of an active trading market for Liquor Stores' common shares and convertible debentures. These factors should not be construed as exhaustive. The information contained in this MD&A, including the information set forth under "Risk Factors", and as disclosed in other filings made by the Company with Canadian securities regulatory authorities and available on SEDAR at www.sedar.com, identifies additional factors that could affect the operating results and performance of Liquor Stores. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

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

3. Business Highlights

The following summarizes key business highlights of the Company since the previously filed quarterly Management's Discussion and Analysis:

Opening of the first LQR MKT location in Norwalk, CT

On October 20, 2016 the Company opened its first location under the LQR MKT Inspire + Discover + Celebrate brand ("LQR MKT") – a 20,000 square foot retail liquor store in Norwalk, Connecticut. The store is well positioned in a high traffic, grocery anchored retail centre and features a selection of over 4,000 wines, 2,000 spirits, 1,000 beers and Norwalk's largest walk-in cooler.

4.70% Unsecured Subordinated Convertible Debentures

On September 29, 2016 the Company issued $67,500 aggregate principal amount of convertible unsecured subordinated debentures due January 31, 2022. The Debentures bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year, commencing July 31, 2017. The Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the "Conversion Price") of $14.60 per share.

On October 4, 2016, the underwriting syndicate exercised in full their over-allotment option, resulting in the issue of an additional $10,125 aggregate principal amount of Debentures at the same terms and conditions as the Debentures described above.

Proceeds from the Debentures were initially used to pay down amounts owing on the Company's revolving credit facility which can then be utilized to repay the existing 5.85% unsecured subordinated convertible Debentures as permitted under the terms thereof, with the earliest date being April 30, 2017. In addition to providing certainty regarding the availability of funds to the Company to repay the 5.85% Debentures on their upcoming maturity (due April 30, 2018), this financing will reduce the ongoing interest expense of the Company by replacing the 5.85% Debentures after they are repaid with a cheaper coupon (4.70%).

4. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended September 30, 2016 and 2015:

	Three months ended September 30,					
	2016		2015		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[1]	119,878	57.4%	122,477	63.1%	(2,599)	(2.1)%
Other Canadian stores [2]	12,449	6.0%	8,636	4.4%	3,813	44.2%
Canadian wholesale	7,847	3.7%	7,202	3.7%	645	9.0%
Total Canadian store sales	140,174	67.1%	138,315	71.2%	1,859	1.3%
U.S. same-stores (US$)[1]	41,126	19.7%	41,635	21.5%	(509)	(1.2)%
Other U.S. stores (US$)[4]	11,442	5.5%	1,044	0.5%	10,398	996.0%
Foreign exchange on U.S. store sales	16,018	7.7%	13,192	6.8%	2,826	21.4%
Total U.S. store sales	68,586	32.9%	55,871	28.8%	12,715	22.8%
Total sales	208,760	100.0%	194,186	100.0%	14,574	7.5%
Gross margin	52,967	25.4%	49,837	25.7%	3,130	6.3%
Operating and administrative expense	40,356	19.3%	38,940	20.1%	1,416	3.6%
Operating margin[1]	12,611	6.0%	10,897	5.6%	1,714	15.7%
Adjusted operating margin[1]	12,611	6.0%	11,507	5.9%	1,104	9.6%
Net earnings	4,615	2.2%	4,169	2.1%	446	10.7%
Adjusted net earnings[1]	4,615	2.2%	4,621	2.4%	(6)	(0.1)%
Cash provided by operating activities	23,013		7,097		15,916	224.3%
Cash provided by operating activities before changes in non-cash working capital and adjusting items [1]	10,691		9,855		836	8.5%
Dividends paid in cash	2,227		6,708		(4,481)	(66.8)%
Total assets	470,877		562,400		(91,523)	(16.3)%
Total equity	239,893		364,255		(124,362)	(34.1)%
Basic and diluted earnings per share	0.16		0.15		0.01	6.7%
Basic and diluted adjusted earnings per share [1]	0.16		0.17		(0.01)	(5.9)%

The following table summarizes highlights of the Company's financial performance for the nine months ended September 30, 2016 and 2015:

	Nine Months ended September 30,					
	2016		2015		Variance	
(Cdn $000's, unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[1]	329,908	55.9%	332,928	62.5%	(3,020)	(0.9)%
Other Canadian stores [3]	37,123	6.3%	28,827	5.4%	8,296	28.8%
Canadian wholesale	22,076	3.7%	20,568	3.9%	1,508	7.3%
Total Canadian store sales	389,107	65.9%	382,323	71.8%	6,784	1.8%
U.S. same-stores (US$)[1]	102,684	17.4%	102,284	19.2%	400	0.4%
Other U.S. stores (US$)[5]	49,654	8.4%	16,558	3.1%	33,096	199.9%
Foreign exchange on U.S. store sales	48,622	8.3%	31,053	5.9%	17,569	56.6%
Total U.S. store sales	200,960	34.1%	149,895	28.2%	51,065	34.1%
Total sales	590,067	100.0%	532,218	100.0%	57,849	10.9%
Gross margin	149,071	25.3%	136,751	25.7%	12,320	9.0%
Operating and administrative expense	121,970	20.7%	111,759	21.0%	10,211	9.1%
Operating margin[1]	27,101	4.6%	24,992	4.7%	2,109	8.4%
Adjusted operating margin[1]	28,346	4.8%	26,923	5.1%	1,423	5.3%
Net earnings	7,809	1.3%	6,416	1.2%	1,393	21.7%
Adjusted net earnings [1]	8,708	1.5%	9,135	1.7%	(427)	(4.7)%
Cash provided by operating activities	15,775		693		15,082	2176.3%
Cash provided by operating activities before changes in non-cash working capital and adjusting items [1]	18,250		18,120		130	0.7%
Dividends paid in cash	11,066		20,300		(9,234)	(45.5)%
Total assets	470,877		562,400		(91,523)	(16.3)%
Total equity	239,893		364,255		(124,362)	(34.1)%
Basic and diluted earnings per share	0.24		0.23		0.01	4.3%
Basic and diluted adjusted earnings per share [1]	0.28		0.33		(0.05)	(15.2)%

Notes:

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

(2) *Sales for Other Canadian stores for the three months ended September 30, 2016 and 2015 include those of six stores opened, and four stores closed subsequent to July 1, 2015, three stores in close proximity to the new and closed stores, one store closed due to a fire in the previous year, and seven stores that were closed for a significant portion of Q2 2016 due to the evacuation of the Fort McMurray area due to a fire.*

(3) *Sales for Other Canadian stores for the nine months ended September 30, 2016 and 2015 include those of ten stores opened, one store acquired, and five stores closed subsequent to January 1, 2015, three stores in close proximity to the new and closed stores, one store closed due to a fire in the previous year, and seven stores that were closed for a significant portion of Q2 2016 due to the evacuation of the Fort McMurray area due to a fire.*

(4) *Sales for Other U.S. stores for the three months ended September 30, 2016 and 2015 include the following changes subsequent to July 1, 2015: (i) Kentucky: one new store opened and one store closed; (ii) Alaska: one store closed and one store within close proximity to the closed store; and (iii) New Jersey: two new stores acquired.*

(5) *Sales for Other U.S. stores for the nine months ended September 30, 2016 and 2015 include the following changes subsequent to January 1, 2015: (i) Kentucky: three new stores opened, one store closed and two stores within close proximity to the opened stores; (ii) Alaska: one store closed and one store within close proximity to the closed store; and (iii) New Jersey: two new stores acquired.*

Third Quarter 2016 Operating Results Compared to Third Quarter 2015 Operating Results

Sales

Total sales increased by $14.6 million or 7.5% to $208.8 million in the third quarter of 2016 (Q3 2015 - $194.2 million). The increase is primarily the result of the sales contribution from the Birchfield acquisition (two stores in New Jersey), new store expansion in the United States and Canada offsetting store closures (one new store opened in the United States and six new stores opened in Canada, compared to six stores closed since July 1, 2015), an increase in the sales from our Canadian wholesale business, and a $2.8 million positive change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales[1]

- Canadian same-store sales decreased by $2.6 million, or 2.1%.
  - We were impacted by poor weather during key sales weekends in many markets in Alberta against above average weather in the prior year including the July, August and September long weekends, which are key selling periods in the third quarter. In Edmonton (our largest market) there were 31 days with precipitation in the months of July and August compared to 22 days in the prior year[2]. In Calgary (our second largest market), there were 32 days with precipitation in July and August compared to 23 days in the prior year. The poor weather impacted our beer sales in Alberta and overall customer count, which are sensitive to weather in the summer months.
  - Sales at our stores located in Edmonton and Calgary have been impacted in Q3 2016 by the economic slowdown that has persisted in Alberta, however, the resource and rural markets of Alberta continued to face a heightened level of pressure from these factors with same-store sales declines in these resource and rural regions of between 10% and 15% depending on the market.
  - Our sales in British Columbia increased compared to the same quarter in the prior year as a result of both increased customer count due to a shift in marketing strategy in several sub-

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[1] *See the 'Non-IFRS Financial Measures' section of this MD&A*
[2] *Weather data obtained from the Alberta Climate Information Service (http://agriculture.alberta.ca/acis)*

regions of the province, and an increase in average basket size due to improved in-store execution, merchandising and customer service.

- U.S. same-store sales decreased by $0.5 million or 1.2%.
    - Same-store sales in Alaska were approximately unchanged from the same quarter in the prior year. While many stores had sales that increased compared to the prior year, the region had three stores that were impacted by road construction affecting access to the store locations for much of the quarter.
    - Same-store sales in Kentucky declined compared to the same quarter in prior year. In the current quarter, a nearby county moved from dry (no retail sales of alcohol) to wet (retail sale of alcohol permitted) which significantly impacted one of our large format stores in Kentucky due to close proximity to the affected county. We also observed a higher level of competitive pressure in the Lexington and Louisville markets. In response, we are continuing to adjust our pricing and promotional strategies to compete more effectively in these markets, and are evaluating renovating certain of our key store locations.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $7.8 million for the three months ended September 30, 2016, representing an increase of $0.6 million or 9.0% from the prior year (Q3 2015 - $7.2 million). We continued to experience sales growth due to the addition of new licensee customer accounts over the past year, which were offset by declines in sales to existing customers due to the economic slowdown in Alberta.
- Sales for the Other Canadian stores have increased $3.8 million compared to the prior year, primarily as a result of the sales from the six new stores opened contributing more than the lost contribution from the four stores closed since July 1, 2015, also taking into account the impact on sales from three of our stores that are in close proximity to the new and closed stores. In addition, our Fort McMurray stores (not included in same-stores as a result of the forest fires in that region earlier this year) had modest sales increases compared to the same quarter in the prior year due to the construction and clean-up activity to remediate the damage from the forest fires. We were able to re-open our stores quickly which assisted in capturing increased market share from competitors that were slower to re-open.
- Sales for Other U.S. stores have increased by $10.4 million compared to 2015, primarily as a result of the Birchfield acquisition (two new high volume retail liquor stores in New Jersey).

Gross Margin

For the three months ended September 30, 2016, gross margin was $53.0 million, up $3.2 million or 6.3% from $49.8 million for the same period last year. The increase in our gross margin was primarily attributable to the margin contribution from the newly acquired Birchfield stores and the margin increase from new stores net of store closures ($3.1 million), a positive change in foreign exchange on translation of the U.S dollar denominated gross margin to Canadian dollars ($0.5 million), the increase in our Canadian wholesale sales ($0.2 million), and improvement in our gross margin rate excluding the impact of Birchfield Ventures ($0.3 million). The increases in gross margin were offset by the margin impact of the decline in same store sales as discussed above ($0.9 million).

Gross margin as a percentage of sales for the period has decreased to 25.4% (Q3 2015 – 25.7%), which was primarily attributable to the addition of the newly acquired Birchfield stores, which operate a high volume model with slightly lower gross margins. The impact of including Birchfield in our Q3 2016 gross margin was a decline of 36 basis points in our gross margin rate. Excluding the impact of Birchfield, our gross margin rate moderately increased in the remainder of our business due to a lower mix of beer sales (which typically generates a lower gross margin rate compared to wine and spirits) compared to the same quarter in the prior year.

Operating and Administrative Expenses

Operating and administrative expenses for the three months ended September 30, 2016 were $40.3 million, up $1.4 million or 3.6% from $38.9 million a year earlier.

- The increase primarily related to the increased costs associated with running our nine new stores opened since July 1, 2015 net of six store closures ($1.3 million), the addition of operating and administrative costs of Birchfield in the quarter, an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars ($0.3 million), and rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($0.2 million).
- These increases were partially offset by decreases in operating costs associated with running our same stores ($0.5 million) and a decrease in head office administrative expenses ($1.4 million) compared to the prior year as a result of management implementing our plan to adjust overhead to reflect the economic conditions being experienced in Alberta as discussed in our analysis of same-store sales above.

Operating Margin

Operating margin for the three months ended September 30, 2016 increased by $1.7 million to $12.6 million or 6.0% as a percentage of sales (Q3 2015 – 5.6%). The increase in operating margin was primarily due to the increase in gross margin more than offsetting the increase in operating costs as discussed above.

In the current quarter, given the softened economy experienced in Alberta, we focused on carefully controlling our in-store labour, marketing and administrative spend, which resulted in our achieving a higher operating margin percentage than the prior year.

Amortization

Amortization expense of $3.2 million for the third quarter of 2016 was up $0.3 million from the prior year (Q3 2015 - $2.9 million). Additional amortization in the current year relates to the new stores opened subsequent to July 1, 2015 and the acquisition of Birchfield.

Finance Costs

Finance costs have increased by $0.7 million to $2.7 million (Q3 2015 - $2.0 million). We completed the acquisition of Birchfield in the first quarter of 2016 which was funded by advances under our credit facility, which increased our long-term debt balance and finance costs.

Net loss on foreign exchange from financing activities

The $0.4 million loss on foreign exchange from financing activities (Q3 2015 - $0.3 million loss) relates to an increase in foreign exchange rates on the borrowings in USD in the quarter to fund the working capital requirements of our U.S. operations.

Fair value adjustments

Fair value adjustments are comprised of unrealized losses recorded on the non-controlling interest put option liability of $0.1 million (Q3 2015 – $nil) and a purchase option of $0.3 million (Q3 2015 – $nil) 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 $0.1 million (Q3 2015 – insignificant gain).

Income Taxes

In the third quarter of 2016, we recorded an income tax expense of $1.4 million for an effective rate of 24% (Q3 2015 - $1.5 million expense, and an effective rate of 27%).

Our estimated effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2016 compared to 2015, and also will be impacted in the current year due to the acquisition of Birchfield.

Net Earnings

For the three months ended September 30, 2016, net earnings of $4.6 million were recorded, which is a $0.4 million increase from Q3 2015 (Q3 2015 – $4.2 million). The increase in earnings is due to an increase in operating margin and decrease in income tax expense as discussed above, which was offset by increased finance costs, fair value adjustments, and amortization.

Normalized for the other adjusting items in the prior year (see 'Non-IFRS Measures' of this MD&A for a summary of adjusting items), adjusted net earnings in the current year were $4.6 million, which remained unchanged compared to the prior year.

Nine Months ended September 30, 2016 Operating Results Compared to Nine Months ended September 30, 2015 Operating Results

Sales

Total sales increased by $57.9 million or 10.9% to $590.1 million for the nine months ended September 30, 2016 (2015 - $532.2 million). The increase is primarily the result of the sales contribution from the Birchfield acquisition, increase in same-store sales, new store expansion in the United States and Canada offsetting store closures (three new stores opened in the United States and two stores acquired, ten new stores opened and one acquired in Canada, compared to seven stores closed in these regions since January 1, 2015), and a $17.6 million positive change in foreign exchange on the translation of U.S. dollar denominated sales to Canadian dollars.

Same-Store Sales[3]

- Canadian same-store sales decreased by $3.0 million, or 0.9%.
    - We exited the second quarter of 2016 roughly flat on a year-to-date basis for same-store sales in Canada, with the impact of economic pressure being faced in the Alberta markets, primarily our rural and resource markets, being offset by an increase in same-store sales in British Columbia.
    - The impact of poor weather in Alberta primarily resulted in our same-store sales in Canada being down 2.1% for the third quarter of 2016 as previously discussed in this MD&A, which resulted in our same-store sales in Canada being down 0.9% on a year-to-date basis.
- U.S. same-store sales increased by $0.4 million or 0.4%.
    - Same-store sales in Alaska increased compared to the same period in 2015 as a result of product inflation and an increase in our levels of promotional activity in these markets, whereas same-store sales in Kentucky remained relatively flat. Our same-store sales in Kentucky have been on a downward trend so far this year as a result of a County moving from dry to wet and increased competitive pressure, as discussed earlier in this MD&A. We are continuing to adjust our pricing and promotional strategies to compete more effectively in these markets, and we are evaluating completing renovations of key store locations.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $22.1 million for the nine months ended September 30, 2016, representing an increase of $1.5 million or 7.3% from the prior year (2015 - $20.6 million). Our sales increased due to the addition of new licensee customer accounts over the past year, which were partly offset by a decline in sales to existing customers in rural and resource markets, in particular the Fort McMurray region, which was under an evacuation order for a significant portion of time in the second quarter of 2016 due to a forest fire.
- Sales for the Other Canadian stores have increased $8.3 million compared to the prior year, primarily as a result of the sales from the ten new stores opened and one acquired contributing more than the lost contribution from the five stores closed since January 1, 2015, also taking into account the sales increases from the three stores in close proximity to the closed stores. Offsetting this increase was the decline in sales from the seven Fort McMurray stores being closed for a significant portion of time in the second quarter of 2016 due to a forest fire.

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

- Sales for Other U.S. stores have increased by $33.1 million compared to 2015, primarily as a result of the Birchfield acquisition. The remainder was as a result of the three stores opened in Kentucky more than offsetting the sales decline in the two stores in close proximity and the closed stores in Alaska and Kentucky since January 1, 2015.

Gross Margin

For the nine months ended September 30, 2016, gross margin was $149.1 million, up $12.3 million or 9.0% from $136.8 million for the same period last year. The increase in our gross margin was primarily attributable to the margin contribution from the newly acquired Birchfield stores and the margin increase from new stores net of store closures ($9.2 million), the increase in our Canadian wholesale sales ($0.6 million), and a positive change in foreign exchange on translation of the U.S dollar denominated gross margin to Canadian dollars ($4.0 million). The increases in gross margin were offset by margin decline from our same-stores sales decrease ($1.1 million), and the impact of the decline in our gross margin rate ($0.4 million).

Gross margin as a percentage of sales for the period has decreased to 25.3% (2015 – 25.7%), which was attributable to the addition of the newly acquired Birchfield stores, which operate a high volume model with slightly lower gross margins. The impact of including Birchfield in our nine month period gross margin was a decline of 25 basis points in our gross margin rate. We have been mindful of our pricing strategy in the other regions of the Company to ensure our products remained priced appropriately considering the economic slowdown being experienced in Alberta and Alaska while not significantly impacting our gross margin rate.

Operating and Administrative Expenses

Operating and administrative expenses for the nine months ended September 30, 2016 were $122.0 million, up $10.2 million or 9.1% from $111.8 million a year earlier.

- The increase primarily related to operating costs associated with running our new stores opened since January 1, 2015 net of store closures ($4.7 million), the addition of operating and administrative costs of Birchfield in the period, an increase in the foreign exchange on translation of U.S. dollar denominated store level operating expense and head office administrative expenses to Canadian dollars ($3.1 million), and rent escalations related to the renewal of long-term lease arrangements in the past twelve months ($1.4 million).
- These increases were partially offset by decreases in operating costs associated with running our same stores ($1.5 million) and a decrease in head office administrative expenses ($1.8 million) compared to the prior year as a result of management implementing our plan to adjust overhead to reflect the economic conditions being experienced in Alberta as discussed in our analysis of same-store sales above.

Operating Margin

Operating margin for the nine months ended September 30, 2016 increased by $2.1 million to $27.1 million or 4.6% as a percentage of sales (2015 – $25.0 million or 4.7% as a percentage of sales). Adjusted operating margin for the nine months ended September 30, 2016 increased by $1.4 million to $28.3 million. This increase was primarily due to the acquisition of Birchfield in Q1 2016.

Amortization

Amortization expense of $9.6 million for the first nine months of 2016 was up $1.5 million from the prior year (2015 - $8.1 million). Additional amortization in the current year related to the new stores opened subsequent to January 1, 2015, the acquisition of Birchfield, and accelerated amortization recorded for store closures. The Company also recorded a gain of $0.2 million relating to a sale-leaseback transaction that occurred in Q1 2015, which reduced amortization expense in the prior year.

Finance Costs

Finance costs have increased by $2.0 million to $7.9 million (2015 - $5.9 million). In Q1 2016, we completed the acquisition of Birchfield which was funded through our credit facilities and increased our borrowings and finance costs. We completed a $55.6 million issuance of common shares in late 2014 which was applied to reduce long-term debt, resulting in reduced finance expense in 2015. The combination of these two factors resulted in an increase in long-term debt compared to the prior year, resulting in an increase in finance costs compared to the same period last year.

Net loss (gain) on foreign exchange from financing activities

The $1.7 million gain on foreign exchange from financing activities (2015 - $0.5 million loss) relates to an increase in the value of the Canadian dollar relative to the US dollar on an increased level of borrowings in USD in the period to fund the working capital requirements of our U.S. operations.

Fair value adjustments

Fair value adjustments are comprised of unrealized losses recorded on the non-controlling interest put option liability of $0.3 million (2015 – $nil), the purchase option of $0.8 million (2015 – $nil) for the remaining 49% of Birchfield Ventures not owned by the Company, and the interest rate swap of $0.1 million (2015 - $0.1 million).

Income Taxes

In the first nine months of 2016, we recorded an income tax expense of $2.3 million for an effective rate of 23% (2015 - $4.0 million expense, inclusive of a one-time expense of $1.3 million due to a change in Alberta corporate tax rates, for an effective rate of approximately 38%).

Our estimated effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2016 compared to 2015, and also will fluctuate in the current year due to the acquisition of Birchfield.

Net Earnings

For the nine months ended September 30, 2016, net earnings of $7.8 million were recorded, representing an increase of $1.4 million or 21.7% (2015 – $6.4 million). The increase in earnings is due to the increase in operating margin and a decrease in income tax expense as discussed above, which was offset by increased finance costs, fair value adjustments, and amortization.

Normalized for the increase in income tax expense discussed above and other adjusting items (see 'Non-IFRS Measures' of this MD&A for a summary of adjusting items), adjusted net earnings were $8.7 million, a decline of $0.4 million compared to the prior year.

5. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

(expressed in thousands)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Cash provided by operating activities	23,013	7,097	15,775	693
Cash used in investing activities	(2,423)	(3,738)	(31,102)	(20,125)
Cash provided by (used in) financing activities	(22,844)	(4,867)	15,961	18,992
Effect of exchange rate on changes in cash	44	241	(428)	227
Net increase (decrease) in cash	(2,210)	(1,267)	206	(213)

Operating activities

For the three months ended September 30, 2016, cash provided by operating activities was $23.0 million, a $15.9 million increase from $7.1 million provided for the same period in the prior year. For the nine months ended September 30, 2016, cash provided by operating activities was $15.8 million, a $15.1 million increase from $0.7 million provided for the same period in the prior year. For both periods, the significant increase in cash provided by operating activities was primarily a result of a decline in our overall same-store inventory levels compared to the prior year. Management has been focused on increasing inventory turns and strategically managing working capital levels.

Investing activities

For the three months ended September 30, 2016, cash used in investing activities was $2.4 million, a $1.3 million decrease from $3.7 million used for the same period in the prior year.

Cash used for the purchase of property and equipment for the three months ended September 30, 2016 of $2.4 million (Q3 2015 - $3.5 million) primarily related to assets acquired for the construction of new stores and renovations. There are currently fewer stores under construction in 2016 compared to the same period in 2015.

For the nine months ended September 30, 2016, cash used in investing activities was $31.1 million, an $11.0 million increase from $20.1 million used for the same period in the prior year.

- Cash used for the purchase of property and equipment for the nine months ended September 30, 2016 of $9.5 million (Q3 2015 - $17.8 million) primarily related to assets acquired for the construction of new stores and renovations, and the settlement in Q1 2016 of accounts payable and accrued liabilities at December 31, 2015 related to property and equipment additions in 2015. There are currently fewer stores under construction in 2016 compared to the same period in 2015.
- Total cash consideration to acquire the 51% interest in Birchfield was $15.0 million USD, or $20.9 million CAD.
- Cash used for the purchase of intangible assets during the period was $0.7 million (Q3 2015 - $2.3 million) primarily related to capitalized software development costs to drive efficiencies in the Company's administrative processes.

Financing activities

For the three months ended September 30, 2016, cash used in financing activities was $22.8 million, compared to $4.9 million used in financing activities from the same period in 2015. This change primarily relates to higher operating cash flows generated in 2016 compared to the same period in 2015 being used to repay long-term debt, and a reduction of $4.5 million in cash dividends paid.

For the nine months ended September 30, 2016, cash provided by financing activities was $16.0 million, compared to $19.0 million from the same period in 2015. This change primarily relates to:

- Higher net repayments on long term debt as a result of the repayments made on the credit facility with proceeds from the debenture offering in Q3 2016. This is slightly offset by additional borrowing required due to the acquisition of Birchfield for cash consideration of $20.9 million (US$ 15 million) in Q1 2016.
- In Q1 2015, we generated proceeds of $5.7 million as a result of a sale-leaseback transaction related to our store in Fairbanks, Alaska.
- Reduction of $9.2 million in cash dividends paid.

Foreign currency translation gain on cash balances

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 September 30, 2016 resulting in an insignificant gain on cash held in foreign currency, and a $0.4 million loss in the nine months ended September 30, 2016.

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 November 9, 2016, there was approximately $19.9 million drawn on the credit facility. Pursuant to the terms of the credit facility, the Company has the ability to request an additional $CAD 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. 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 Company's convertible unsecured subordinated debentures due April 30, 2018 or January 31, 2022.

Funded debt to EBITDA ratio

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

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

Adjusted debt to EBITDAR

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

Fixed charge coverage ratio

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

As at September 30, 2016, the Company was in compliance with all financial covenants.

Ratio	**Covenant**	**As at September 30, 2016**
Funded debt to EBITDA	< 3.50:1.00	0.70
Adjusted debt to EBITDAR	< 5.00:1.00	3.48
Fixed charge coverage	> or = 1.00:1.00	1.25

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

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

On or after April 30, 2015 and prior to April 30, 2017, the 5.85% Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the

Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after April 30, 2017 and prior to the maturity date, the Company may, at its option, redeem the 5.85% 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.

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

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at November 9, 2016, the Company has undrawn credit of approximately $19.9 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 November 9, 2016, the fixed rate paid by the Company on the notional amount of the interest rate swap is 2.98% per annum after taking into account the applicable credit spread determined with reference to the credit facility. The Company is not using hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings.

Assuming an outstanding amount drawn on the credit facility of $19.9 million, with a notional $60.0 million subject to an interest rate swap, the following table presents a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at November 9, 2016:

(expressed in thousands)	*+ 1.00%*	*- 1.00%*
Increase (decrease) in interest expense	(401)	401
Increase (decrease) in net earnings	305	(305)

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; however, wholesale customer purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; primarily all receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

Foreign Exchange Risk

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

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. This exposure primarily relates to U.S. intercompany management fees and interest payments which totalled $5.8 million USD for the twelve month period ended September 30, 2016.

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

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

The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in accumulated other comprehensive income. The Company manages this exposure by funding significant investments in these subsidiaries in USD borrowings where possible. For the recent acquisition of Birchfield, the Company applied hedge accounting to a proportion of its U.S. dollar borrowings to hedge the net U.S. dollar investment in Birchfield.

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

Contractual Obligations

The table below sets forth, as of September 30, 2016, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, finance leases for a portion of our vehicles, software licenses and maintenance, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands)	2016	2017	2018	2019	2020	2021 and thereafter
Operating leases	8,356	32,694	29,665	25,827	22,521	74,934
Finance leases	62	255	272	280	68	-
5.85% Debentures	-	-	67,500	-	-	-
4.70% Debentures	-	-	-	-	-	67,500
Long-term bank indebtedness	-	-	-	30,534	-	-
Software licenses and maintenance	72	536	417	420	222	-
Total	8,490	33,485	97,854	57,061	22,811	142,434

6. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	As at September 30, 2016	As at December 31, 2015
Cash	3,996	3,790
Accounts receivable	3,540	6,020
Inventory	158,157	157,102
Total current assets	175,818	178,000
Property and equipment	63,336	64,781
Intangible assets	49,593	43,312
Goodwill	170,597	158,987
Total assets	470,877	455,554
Accounts payable and accrued liabilities	52,081	61,628
Dividends payable	1,006	2,470
Total current liabilities	56,054	64,795
Long-term debt	156,790	129,566
Total liabilities	230,984	199,818

The Company has a significant investment in working capital that is primarily due to the Company being required, consistent with other liquor retailers, to pay for inventory prior to receiving it in Alberta and British

Columbia. As we do not have traditional payment terms on our inventory, our working capital is higher in these regions compared to that in Kentucky, Alaska, and New Jersey where we generally have 30 day trade payment terms. At September 30, 2016, net working capital (current assets, excluding cash, less current liabilities) was $115.8 million, a $6.4 million increase from the prior year end (December 31, 2015 - $109.4 million). This increase is primarily attributable to a reduction in our accounts payable, as discussed further below.

Effective January 4, 2016, the Company acquired a 51% ownership interest in Birchfield Ventures LLC ("Birchfield") for USD $15 million and obtained the right to acquire the remaining 49% interest at pre-negotiated terms. The acquisition was funded using the Company's existing credit facilities. This acquisition increased our assets and liabilities as discussed further below.

The discussion below analyzes certain changes in the Company's consolidated financial position compared to December 31, 2015:

- Accounts receivable decreased $2.5 million to $3.5 million as at September 30, 2016 primarily due to a decrease in income taxes recoverable.

- Inventory increased by $1.1 million to $158.2 million as at September 30, 2016. This increase related primarily to the acquisition of Birchfield in 2016, which added $8.6 million to the Company's inventory. The increase was offset by a company-wide focus to reduced inventory levels at stores and at our warehouse, which resulted in a $7.5 million reduction in inventory levels for the Company excluding Birchfield.

- Accounts payable and accrued liabilities decreased by $9.5 million to $52.1 million as at September 30, 2016, primarily as a result of the timing of a large amount of accounts payable and accruals recorded as at December 31, 2015 being paid in Q1 2016. This included accounts payable and accruals for new stores constructed in Q4 2015 and inventory buys in the U.S. to replenish our stock subsequent to the holiday selling season. These decreases were offset by the addition of Birchfield in the period, which added $4.7 million of accounts payable and accrued liabilities.

- The carrying value of property and equipment was $63.3 million, a $1.5 million decrease from the prior year end (December 31, 2015 - $64.8 million). Additions during the period of $7.9 million (2015 - $18.7 million) were related to the construction costs for new stores which were under development in the period in Lethbridge, Alberta and Norwalk, Connecticut, store renovations, and maintenance capital expenditures. The acquisition of Birchfield in the current period added $1.2 million of property and equipment. Disposals during the period were $0.1 million (2015 - $5.5 million related to the disposition of property in Fairbanks, Alaska). Amortization during the period was $9.3 million (2015 - $7.9 million). Foreign exchange differences on property and equipment assets held in the U.S. resulted in a decrease in the carrying value of $1.2 million (2015 - $2.3 million increase).

- Long-term debt was $156.8 million at September 30, 2016, a $27.2 million increase from the prior year end (December 31, 2015 - $129.6 million). This increase is the result of additional debt required to finance the Birchfield acquisition, net of repayments that have occurred throughout the year as a result of higher operating cash flows.

As at September 30, 2016 and November 9, 2016, the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified under the heading Contractual Obligations.

7. Shareholders' Equity

At September 30, 2016, the Company had 27,638,422 common shares outstanding. The basic and diluted weighted average number of common shares outstanding for the three months ended September 30, 2016 were 27,625,069 and 27,769,013, respectively (compared to 27,346,024 and 27,366,041 for the comparative period). The basic and diluted weighted average number of common shares outstanding for the nine months ended September 30, 2015 were 27,575,878 and 27,671,476, respectively (compared to 27,302,204 and 27,332,574 for the comparative period). As at November 9, 2016, 27,646,380 common shares of the Company were issued and outstanding.

8. Dividends

Dividend Policy

Up to and including the dividend declared on February 12, 2016, which was paid on March 15, 2016 to shareholders on record on February 29, 2016, the Company paid a monthly dividend of $0.09 per Common Share. On March 9, 2016 the Company announced a reduction in its dividend to $0.03 per Common Share. Dividends are paid, if declared, on or about the 15th day of each month to Shareholders of record at the end of the previous month.

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

Dividend Reinvestment Plan

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

As at October 31, 2016, shareholders enrolled in the DRIP held approximately 2.7 million shares.

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

9. Related Party Transactions

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

During the nine months ended September 30, 2016, the Company incurred expenses in the normal course of business for professional fees of $44 thousand (2015 - $77 thousand) paid to a law firm of which a director of the Company is a partner and recognized professional fees of $34 thousand (2015 - $50 thousand) from this same firm in the carrying value of long-term debt. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms.

10. Financial Instruments

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

11. Business Overview

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

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

As of November 9, 2016, the Company operated 253 stores in Alberta, British Columbia, Alaska, Kentucky, New Jersey, and Connecticut comprised of 17 destination/large-format stores, 234 full liquor stores, and two wine only stores. Product selection is tailored to each location. Stores in Canada generally range in size from 2,000 to 5,000 square feet. Our U.S. stores are larger in size. The Company's stores in Alaska range in size from 1,400 to 14,000 square feet and we have one combined store and warehouse in excess of 40,000 square feet. Our Kentucky stores range in size from 2,700 to 30,000 square feet along with a flagship store of 44,000 square feet. Our New Jersey stores are destination/large format stores with areas of approximately 17,000 and 25,000 square feet, respectively. Our destination/large format store in Connecticut is approximately 20,000 square feet. Our two large Wine & Beyond stores, our destination/large format stores in Alberta, with areas of approximately 17,000 and 20,000 square feet, respectively, are the largest liquor retail stores in western Canada. We added a third Wine & Beyond store in Q4 2015, with a slightly smaller footprint than our existing Wine & Beyond stores.

The following provides a summary of the Company's locations as at November 9, 2016:

	January 1/16 to November 9/16				
	1-Jan-16	**Opened**	**Acquired[5]**	**Closed**	**9-Nov-16**
Alberta					
Edmonton[1]	83	-	-	-	83
Calgary[1]	45	-	-	(1)	44
Other[2]	52	1	-	(1)	52
	180	1	-	(2)	179
British Columbia					
Interior	11	-	-	(1)	10
Lower Mainland	13	-	-	-	13
Vancouver Island	11	-	-	-	11
	35	-	-	(1)	34
Alaska					
Anchorage	18	-	-	-	18
Other[3]	4	-	-	-	4
	22	-	-	-	22
Kentucky					
Lexington	6	-	-	-	6
Louisville	6	-	-	-	6
Other[4]	3	-	-	-	3
	15	-	-	-	15
New Jersey					
Lawrenceville	-	-	1	-	1
Woodbridge	-	-	1	-	1
	-	-	2	-	2
Connecticut					
Norwalk	-	1	-	-	1
	-	1	-	-	1
Total	**252**	**2**	**2**	**(3)**	**253**

Notes:

(1) *References to Edmonton and Calgary are to stores located in or near those urban centres.*

(2) *Other stores in Alberta by region: Northern (25), Southern (10), Central (15) and resort communities (two).*

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

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

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

Competitive Differentiation

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

Seasonality

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

Policy on Same-Store Sales Comparisons

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

12. Company Strategy

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

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

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

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

Business Strategy	Goals for 2016	2016 Progress
1. Enhance the Senior Leadership Team We have an opportunity to drive sales and further improve profitability of the current business, and further position the Company for growth in new markets by hiring certain key executives with deep retail experience in both Canada and the United States.	N/A – completed in 2015	N/A – completed in 2015
2. Invest in our People We have an opportunity to attract more customers to existing locations and increase sales per customer by improving our customer service. Our investments will include enhancing our hiring and retention strategies, the introduction of industry leading training programs, implementing competitive store level compensation and benefit programs, and a focus on providing our employees with career and performance management.	Program Expansion Deliver our sales, workforce management and store operational training programs to at least 90% of our store managers by the end of 2016. Enhance our current store level incentive program to continue to further align our store teams with our strategy related to preferred label products by adding further stretch goals to increase our preferred label penetration even further.	**Status:** **On target** We continue to deliver our sales, workforce management, and store operational programs to our store managers, and are on target to achieve our goal of having 90% of our store managers complete this program by end of 2016. We have also implemented enhancements to our store level incentive program which added further stretch goals to increase the penetration of our preferred label program.
3. Implement an Industry Leading Information Technology Platform We have an opportunity to build on our competitive position by implementing a new enterprise resource planning ("ERP") system that will drive new efficiencies into our organization, provide enhanced visibility into business operations that will drive down costs, and provide a scalable growth platform that will allow us to grow organically and smoothly integrate newly acquired business.	Deferred - Dependent on Market Conditions Continue to evaluate economic conditions throughout the year, and if they show a sustained improvement, develop a revised implementation schedule.	**Status:** **Delayed** In Q4 2015, we completed the blue-printing and design phase of the project, on-schedule and on-budget. To adjust to current economic conditions, the Company is revising its expectation to introduce a new enterprise resource planning system, which was previously expected to be implemented by the end of 2017. The implementation will be delayed and a revised schedule has not yet been set.
4. Invest in our Store Network We have an opportunity to attract more customers to existing locations and increase sales per customer through renovating and refreshing our existing stores, and by implementing a consistent store	Measured Growth - Dependent on Market Conditions Invest approximately $2.5 million on store refurbishments. This spend could adjust higher or lower depending on volatility of economic conditions in our key	**Status:** **On target** The Company has begun deploying the $2.5 million committed to store refurbishments. Three renovations were completed in the third quarter of 2016 and we anticipate having between 10-12 renovations completed prior to the end of 2016.

layout and design across our network to further enhance our brand with our customers.	markets. Continue to evaluate economic conditions throughout the year, and if they show a sustained improvement, develop a revised store renovation schedule.	
5. Increase Brand Awareness and Loyalty We will continue to increase our brand awareness and customer loyalty through investment in our store network, our marketing strategy, our digital marketing initiatives, and our brand advertising and public relations efforts.	Expansion Continue to enhance our customer relationship management strategy, and grow the number of customers enrolled in this program in 2016. Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.	**Status:** **On target** We continue to enhance our marketing and promotion strategies, with a focus on digital forms of advertising to increase our brand awareness and sign-ups in our customer relationship management program, the Celebration Members Club. Our merchants have remained focused on sourcing exclusive and control brands from our suppliers. We continue to introduce a selection of new items and have provided all of our store managers with training on how to merchandise and sell these items.
6. Increase Operating Margins We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure.	Expansion Continue to implement product assortment plans (i.e. planograms) into our store locations in 2016. Continue to increase selection and promotion of private label and control brands that customers enjoy and will only find in our stores.	**Status:** **On target** We are currently implementing product assortment plans into all new and renovated stores, and into a selection of our existing stores. Our merchants have been focused on sourcing exclusive and control brands from our suppliers. Control/exclusive brand sales as a percentage of their respective categories continue to grow.
7. Pursue Expansion We plan to strategically expand our business in existing markets in Canada and the United States, and into select new markets in the United States over the next several years. We believe that brand positioning and emphasis on in-store experience for our customers will have a strong appeal.	Measured Growth – Dependent on Market Conditions To adjust to current economic conditions, the Company expects to open four to seven new stores over the next 24 months. The Company will continue to monitor economic conditions and evaluate plans for 2017 new store constructions in due course. Management will continue to evaluate and assess potential store acquisitions for their ability to add accretive cash flow and create shareholder value.	**Status:** **On target** We completed the acquisition of Birchfield, operating two large format stores in New Jersey. We opened our first LQR MKT location in Norwalk, CT in October 2016, a new region for the Company In July 2016, we opened a new convenience format store in Lethbridge, Alberta. We have signed leases for two additional new stores in 2017 (Calgary, AB: Large format, Berlin, MA: Large format) and plan to relocate an existing convenience format store in British Columbia to a more desirable location (Q4 2016 or Q1 2017). We continue to evaluate plans for additional 2017 new store construction and await the results of our participation in the Request for Proposal process for new private retail licenses being granted in Saskatchewan.

13. Critical Accounting Estimates and Accounting Policies

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

i) Liability related to non-controlling interest put option

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

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

ii) Purchase option asset

Estimates and assumptions were used to calculate the value of the asset related to the Company's purchase option to acquire the remaining 49% of Birchfield for a fixed price in the first 18 months subsequent to January 4, 2016. Fair value was determined using a Black-Scholes option pricing model, and estimates and assumptions were made with respect to the strike price compared to current price of the option, and expected volatility of Birchfield's earnings. The asset will be remeasured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

iii) Consolidation of Birchfield

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

14. Non-IFRS Financial Measures

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

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

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

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
(expressed in thousands)	**2016**	**2015**	**2016**	**2015**
Operating margin	$12,661	$10,897	$27,101	$24,992
Adjusting items:				
Restructuring costs in right-sizing operating and administrative spend	-	-	696	-
Early termination of leases in conjunction with a store closure and the exit of a lease for a planned new store	-	-	354	-
Legal, professional and travel fees incurred in evaluating potential acquisitions	-	261	195	261
Payments to a former member of senior management team upon departure from the Company	-	-	-	675
Payments made to members of a regional operations team upon termination	-	-	-	220
Costs associated with implementing a new enterprise resource system	-	349	-	775
Total adjusting items	-	610	1,245	1,931
Adjusted operating margin	12,661	11,507	28,346	26,923

	Three months ended September 30,		Nine months ended September 30,	
(expressed in thousands)	**2016**	**2015**	**2016**	**2015**
Net earnings	$4,615	$4,169	$7,809	$6,416
Total adjusting items per above	-	610	1,245	1,931
Tax effect of adjusting items	-	(158)	(346)	(502)
Re-measurement of opening net deferred tax liabilities for change in Alberta corporate tax rate on July 1, 2015	-	-	-	1,290
Total adjusting items, after tax	-	452	899	2,719
Adjusted net earnings	4,615	4,621	8,708	9,135

	Three months ended September 30,		Nine months ended September 30,	
(expressed in thousands)	**2016**	**2015**	**2016**	**2015**
Cash provided by operating activities before changes in non-cash working capital	$10,691	$9,245	$17,005	$16,189
Total adjusting items per above	-	610	1,245	1,931
Cash provided by operating activities before changes in non-cash working capital and adjusting items	10,691	9,855	18,250	18,120

15. Risk Factors

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

16. Disclosure Controls and Procedures

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

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

The Chief Executive and Chief Financial Officers certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the three and nine months ended September 30, 2016. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three and nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

17. Outlook

The Company currently has approximately 70% of its retail stores located in the Province of Alberta, with an economy dependent on the strength of oil production, extraction, and oilfield services industries. The price of oil has increased throughout the year, with Brent Crude price of $49.06 USD/bbl at September 30, 2016 compared to lows of $27.88 USD/bbl on January 20, 2016. Nevertheless, the unemployment rate in Alberta has increased as the year progressed. Notwithstanding the offset from the strong performance of our store locations in British Columbia (13% of total store locations), Liquor Stores expects continued downward pressure on same-store sales in Canada in 2016 and into 2017 until unemployment levels and activity levels in core industries translate to a sustained improvement in Alberta and consumer confidence returns.

In the U.S., the Alaskan economy continues to be impacted by the volatility in crude oil prices and an increase in the unemployment rate. In Kentucky, we have faced a higher level of competitive pressure from grocers and new entrants, which we expect to continue. We are taking measures to counteract the impact of the foregoing through enhancements to our pricing and promotional activities, commencing store renovations in the Kentucky market and expanding our store network into additional U.S. jurisdictions.

Liquor Stores has been taking and will continue to take a measured approach to growth that will be scaled up or down dependent on market conditions. The goal is to advance the seven point plan initiatives to invest in our store network and pursue expansion, while ensuring that the Company has taken the appropriate measures to counteract economic and competitive pressures.

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

- Liquor Stores currently expects to open and/or acquire a minimum of three to six new stores over the next 24 months, at an estimated aggregate cost of between approximately $5 million to $10 million, depending on format (convenience vs. destination sized). We will also relocate an existing store in British Columbia to a superior, grocery-anchored site. We also plan to open a new large format store in Calgary, AB by Q1 2017, subject to construction timing. We have not yet finalized the timing of the planned opening of a large format store in Berlin, MA. The Company will continue to monitor economic conditions and critically evaluate potential new stores for 2017 and 2018.

- For 2016, Liquor Stores will invest approximately $2.5 million on store refurbishments. We have deployed approximately $0.7 million of this capital to September 30, 2016 in connection with three store renovations, and anticipate deploying the remaining $1.8 million early in the fourth quarter of 2016, completing 10 to 12 renovations in total for the year. We anticipate investing approximately $4 to $6 million on store refurbishments in 2017, but may adjust that amount higher or lower depending on the prevailing economic conditions. Results from the renovations completed in the previous twelve months have been very strong, with 10-25% sales increases since completion of the renovation in many of these locations including those completed in Alberta, notwithstanding the current economic headwinds and unusually rainy weather.

- In November of 2015, the Government of Saskatchewan announced changes that will result in an expanded private liquor retail system in Saskatchewan. On July 7, 2016, it was announced that a request for proposal process will occur for 50 private liquor retail opportunities across the province of Saskatchewan with schedules being released over July – September 2016. While the Company is participating in this process, the Government of Saskatchewan has not yet completed their evaluation of the responses to the request for proposal.

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

Management believes that this approach reflects the most efficient and effective use of our capital to continue to realize our strategic growth objectives in light of current economic conditions. Management will continue to carefully manage our allocation of capital and believes that its cash flow from existing operations, its current available credit and access to new capital are sufficient to finance the execution of the Company's growth objectives as outlined above.

18. Condensed Quarterly Information

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

	2016			2015				2014
	Sep 30	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**
Statement of Financial Position								
Cash	$ 3,996	$ 6,206	$ 4,276	$ 3,790	$ 2,790	$4,057	$ 11,360	$ 3,003
Total assets	470,877	487,483	483,696	455,554	562,400	546,351	545,810	525,865
Total current liabilities	56,054	58,766	56,410	64,795	52,522	44,458	45,872	51,124
Long-term debt	156,790	179,207	181,361	129,566	127,017	124,670	122,244	92,037
Total liabilities	230,984	253,483	251,694	199,818	198,145	186,244	182,466	161,107
Shareholders' equity	239,893	234,000	231,732	255,736	364,255	360,127	363,344	364,758
Non-controlling interest	3,812	4,268	3,969	77	15	60	(2)	106
Statement of Earnings								
# stores, end of period	252	253	254	252	247	247	246	243
Sales	208,760	209,273	172,034	214,166	194,186	190,606	147,426	196,722
Operating margin (1)	12,611	12,404	2,086	11,878	10,897	12,614	1,481	13,742
Net earnings (loss) attributable to owners of the parent	4,371	4,121	(1,743)	(105,897)	4,142	4,490	(2,322)	6,612
Net earnings (loss)	4,615	4,666	(1,472)	(105,808)	4,169	4,560	(2,313)	6,714
Basic earnings (loss) per share	$0.16	$0.15	($0.06)	($3.86)	$0.15	$0.16	($ 0.09)	$ 0.28
Dividends declared per share	$0.09	$0.09	$0.21	$0.27	$0.27	$0.27	$ 0.27	$0.27

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