LIQUOR STORES N.A. LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2017 and 2016

(Unaudited, expressed in thousands of Canadian dollars)

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	September 30, 2017 $	December 31, 2016 $
Assets			
Current assets:			
Cash		1,090	7,020
Accounts receivable		7,125	3,184
Inventory		133,942	155,425
Prepaid expenses and deposits		10,925	10,380
Derivative instrument		833	-
		153,915	176,009
Deferred tax assets		19,064	16,819
Purchase option		398	1,537
Property and equipment		64,401	63,674
Intangible assets		45,345	46,690
Goodwill		153,955	158,318
		437,078	463,047
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		58,230	67,402
Income taxes payable		2,411	399
Dividends payable	7	1,017	830
Derivative instrument		-	52
Current portion of long-term debt		413	323
		62,071	69,006
Long-term debt	3	143,281	135,838
Provisions	13	3,836	455
Deferred tax liabilities		4,619	8,037
Non-controlling interest put option		12,355	14,316
		226,162	227,652
Shareholders' equity			
Equity attributable to shareholders		207,364	230,889
Equity attributable to non-controlling interest		3,552	4,506
		210,916	235,395
		437,078	463,047

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Attributable to Shareholders of the Company							
	Share capital $	**Equity component of convertible debentures $**	**Contributed surplus $**	**Accumulated other comprehensive income $**	**Deficit $**	**Total $**	**Non-controlling interest $**	**Total equity $**
Opening balance – January 1, 2016	249,303	3,328	175,761	24,460	(197,193)	255,659	77	255,736
Net earnings for the period	-	-	-	-	6,749	6,749	1,060	7,809
Foreign currency translation adjustment	-	-	-	(5,800)	-	(5,800)	(293)	(6,093)
Comprehensive income (loss) for the period	-	-	-	(5,800)	6,749	949	767	1,716
Share-based payments	-	-	953	-	-	953	-	953
Settlement of share-based payments	279	-	(279)	-	-	-	-	-
Equity component of convertible debenture issuance	-	2,420	-	-	-	2,420	-	2,420
Dividends declared (note 7)	-	-	-	-	(10,749)	(10,749)	-	(10,749)
Dividend reinvestment plan issuance (note 7)	1,323	-	-	-	-	1,323	-	1,323
Initial recognition of non-controlling interest put liability	-	-	-	-	(14,474)	(14,474)	-	(14,474)
Acquisition of Birchfield Ventures LLC	-	-	-	-	-	-	4,854	4,854
Dividends declared by subsidiaries	-	-	-	-	-	-	(1,886)	(1,886)
Transactions with owners	1,602	2,420	674	-	(25,223)	(20,527)	2,968	(17,559)
Balance – September 30 , 2016	250,905	5,748	176,435	18,660	(215,667)	236,081	3,812	239,893
Opening balance – January 1, 2017	251,180	6,334	176,881	20,744	(224,250)	230,889	4,506	235,395
Net earnings (loss) for the period	-	-	-	-	(10,185)	(10,185)	1,182	(9,003)
Foreign currency translation adjustment	-	-	-	(5,195)	-	(5,195)	(314)	(5,509)
Comprehensive income (loss) for the period	-	-	-	(5,195)	(10,185)	(15,380)	868	(14,512)
Share-based payments	-	-	1,207	-	-	1,207	-	1,207
Settlement of share-based payments	529	-	(2,694)	-	-	(2,165)	-	(2,165)
Redemption of debenture (note 3)	-	(3,328)	2,997	-	-	(331)	-	(331)
Dividends declared (note 7)	-	-	-	-	(7,489)	(7,489)	-	(7,489)
Dividend reinvestment plan issuance (note 7)	633	-	-	-	-	633	-	633
Dividends declared by subsidiaries	-	-	-	-	-	-	(1,822)	(1,822)
Transactions with owners	1,162	(3,328)	1,510	-	(7,489)	(8,145)	(1,822)	(9,967)
Balance – September 30 , 2017	252,342	3,006	178,391	15,549	(241,924)	207,364	3,552	210,916

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2017 and 2016

(in thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Note	September 30, 2017 $	September 30, 2016 $	September 30, 2017 $	September 30, 2016 $
Sales		204,371	208,760	574,868	590,067
Cost of sales		152,452	155,793	426,964	440,996
Gross margin		51,919	52,967	147,904	149,071
Selling and distribution expenses		36,586	34,838	114,621	103,912
Administrative expenses	11	10,175	5,518	22,066	18,058
Operating profit before amortization		5,158	12,611	11,217	27,101
Amortization					
Property and equipment		3,576	2,920	9,191	8,905
Intangible assets		117	101	337	341
Loss (gain) on disposal of assets	15	(1,255)	187	(849)	365
Operating profit		2,720	9,403	2,538	17,490
Finance costs	4	2,156	2,710	8,919	7,862
Net loss (gain) on foreign exchange from financing activities		49	378	231	(1,669)
Fair value adjustments	5	(1,534)	282	(737)	1,152
Provision for impairment of goodwill and property and equipment	14	5,775	-	5,775	-
Earnings (loss) before income taxes		(3,726)	6,033	(11,650)	10,145
Income tax expense (recovery)	8	(890)	1,418	(2,647)	2,336
Net earnings (loss)		(2,836)	4,615	(9,003)	7,809
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net earnings:					
Currency translation difference on foreign subsidiaries		(3,614)	1,743	(6,930)	(7,329)
Net investment hedge	6	746	(300)	1,421	1,236
Comprehensive income (loss)		**(5,704)**	**6,058**	**(14,512)**	**1,716**
Net earnings (loss) attributable to					
Owners of the parent		(3,208)	4,371	(10,185)	6,749
Non-controlling interest		372	244	1,182	1,060
		(2,836)	4,615	(9,003)	7,809
Comprehensive income (loss) attributable to					
Owners of the parent		(5,915)	5,747	(15,380)	949
Non-controlling interest		211	311	868	767
		(5,704)	6,058	(14,512)	1,716
Earnings (loss) per share					
Basic	10	(0.12)	0.16	(0.37)	0.24
Diluted	10	(0.12)	0.16	(0.37)	0.24

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Liquor Stores N.A. Ltd.
Condensed Interim Consolidated Statements of Cash Flow
Three and Nine Months Ended September 30, 2017 and 2016
(in thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Note	September 30, 2017 $	September 30, 2016 $	September 30, 2017 $	September 30, 2016 $
Cash provided by (used in)					
Operating activities:					
Net earnings (loss) for the period		(2,836)	4,615	(9,003)	7,809
Adjustments to reconcile net income to net cash flows from operating activities:					
Amortization of property and equipment		3,576	2,920	9,191	8,905
Amortization of intangible assets		117	101	337	341
Amortization of financing charges	4	71	127	213	335
Loss (gain) on disposal of assets		(1,255)	187	(849)	365
Non-cash interest on convertible debentures	4	375	362	1,521	1036
Loss on redemption of convertible debentures	4	-	-	1,196	-
Unrealized foreign exchange gain (loss)		46	299	175	(1,980)
Provision for impairment of goodwill and property and equipment	14	5,775	-	5,775	-
Fair value adjustments	5	(1,534)	282	(737)	1,152
Net increase in long-term provisions	13	8	-	3,841	-
Deferred income tax		(918)	1,387	(6,861)	(1,911)
Settlement of share-based awards previously recognized in contributed surplus		(2,112)	-	(2,112)	-
Equity-settled share-based payments		117	411	1,207	953
Cash provided by operating activities before changes in non-cash working capital		1,430	10,691	3,894	17,005
Net change in non-cash working capital items	12	16,585	12,322	8,351	(1,230)
		18,015	23,013	12,245	15,775
Investing activities:					
Purchase of property and equipment		(8,360)	(2,423)	(14,479)	(9,522)
Purchase of intangible assets		(225)	-	(612)	(668)
Acquisition, net of cash acquired		-	-	-	(20,912)
		(8,585)	(2,423)	(15,091)	(31,102)
Financing activities:					
Proceeds from (repayment of) long-term debt	3	(8,585)	(83,976)	73,023	(35,602)
Net proceeds from (repayment of) convertible unsecured subordinated debentures	3	-	64,800	(67,500)	64,800
Deferred financing fees paid on loans and borrowings		-	(468)	-	(468)
Dividends paid	7	(2,290)	(2,227)	(6,852)	(11,066)
Dividends paid to non-controlling interest by subsidiaries		(615)	(973)	(1,638)	(1,703)
		(11,490)	(22,844)	(2,967)	15,961
Foreign exchange gain (loss) on cash held in foreign currency		(56)	44	(117)	(428)
Increase (decrease) in cash		(2,116)	(2,210)	(5,930)	206
Cash – Beginning of period		3,206	6,206	7,020	3,790
Cash - End of period		1,090	3,996	1,090	3,996

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 101, 17220 Stony Plain Road, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ" and "LIQ.DB.B".

The Company's principal activity is the retailing of wines, beers and spirits. As at September 30, 2017, the Company operated 250 (2016 - 252) retail liquor stores, of which 177 (2016 - 179) were in Alberta, 33 (2016 - 34) were in British Columbia, 22 (2016 - 22) were in Alaska, 15 (2016 - 15) were in Kentucky, two (2016 - two) were in New Jersey and one (2016 – none) was in Connecticut. Of the stores operated, 190 (2016 - 195) were acquired and 60 (2016 - 57) were developed by the Company.

These condensed interim consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on November 9, 2017.

2 Basis of preparation and significant accounting policies

a) These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, for the year ended December 31, 2016.

The preparation of condensed interim consolidated financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

The Company's operations are seasonal in nature. Accordingly, sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a higher level of earnings in the third and fourth quarters. This business seasonality results in quarterly performance that is not necessarily indicative of the year's performance.

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company and there have been no changes to critical accounting estimates or judgements, other than as related to the impairments described in note 14, made from those as described in its consolidated financial statements as at and for the year ended December 31, 2016.

b) New accounting pronouncements

i) Financial Instruments

IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company is currently finalizing an evaluation of its financial assets and liabilities and is expecting the following from adoption of the new standard:

- The Company does not expect the new guidance to affect the classification and measurement of the Company's financial assets or liabilities;
- The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. The Company has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9. The Company is still considering whether it will designate any additional accounting hedges upon the adoption of IFRS 9 for the Company's other derivatives not currently designated as hedging instruments.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. Based on the assessments undertaken to date, the Company does not expect the impact to be significant.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Accordingly, at this stage, the Company does not expect IFRS 9 to have a material effect on its financial statements.

ii) Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue, IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after January 1, 2018. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the group's financial statements however no areas of change have been identified at this stage that would require any significant changes in the Company's revenue recognition or measurement. Additional financial statement disclosures are expected to change the nature and extent of the Company's disclosures regarding revenue.

(in thousands of Canadian dollars)

3 Long-term debt

Long-term debt comprises the following:

	Maturity date	September 30, 2017 $	December 31, 2016 $
Credit facility advance	September 30, 2019	71,591	-
5.85% debentures	April 30, 2018	-	66,197
4.70% debentures	January 31, 2022	74,032	73,430
Finance lease liability	November 27, 2019 to November 30, 2021	1,174	993
		146,797	140,620
Unamortized deferred financing costs:			
Credit facility		(285)	(497)
Debentures		(2,818)	(3,962)
		143,694	136,161
Less: Current portion of finance lease liability		(413)	(323)
		143,281	135,838

In April 2012, Liquor Stores issued $67,500 of convertible unsecured subordinated debentures bearing interest at a rate of 5.85% per annum payable semi-annually in arrears on April 30 and October 31 of each year, with a maturity date of April 30, 2018 ("the 5.85% debentures").

On May 3, 2017, Liquor Stores redeemed the entire $67,500 of the 5.85% debentures, prior to their maturity date, in accordance with the terms of the trust indenture governing the 5.85% debentures. Of the amount paid, $65,982 million was recorded as a reduction in the liability component of the 5.85% debentures, a non-cash loss on early redemption of $1,196 was recorded as finance costs, $331 was recorded as a decrease in the equity component of the debentures, and $2,997 was reclassified from the equity component of the debentures to contributed surplus.

The payment for the early redemption was allocated to the liability and equity components of the 5.85% debentures based on their relative fair values on the redemption date. The fair value of the liability component was estimated by discounting the remaining contractual cash flows of the 5.85% debentures at a discount rate comprised of a one year Bank of Canada bond yield plus an appropriate credit spread. The fair value of the equity component was estimated as the residual difference between the aggregate market value of the 5.85% debentures on the redemption date and the estimated fair value of the liability component.

(in thousands of Canadian dollars)

4 Finance costs

Finance costs comprise the following:

	Three months ended September 30, 2017 $	Three months ended September 30, 2016 $	Nine months ended September 30, 2017 $	Nine months ended September 30, 2016 $
Interest expense				
Long-term debt[(i)]	862	1,343	2,124	3,846
Convertible debenture[(ii)]	1,294	1,367	5,599	4,016
Loss on redemption of convertible debentures	-	-	1,196	-
	2,156	2,710	8,919	7,862

i) Included in interest expense on long-term debt for the three and nine months ended September 30, 2017 was amortization of deferred financing costs of $71 and $213, respectively (2016 - $127 and $335).

ii) Interest expense on the convertible debentures for the three and nine months ended September 30, 2017 of $1,294 and $5,599 (2016 - $1,367 and $4,016) represents coupon interest of $919 and $4,078, (2016 – $1,005 and $2,980) and $375 and $1,521, respectively (2016 – $362 and $1,036) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

5 Fair value adjustments

Fair value adjustments comprise the following unrealized losses (gains):

	Fair Value Hierarchy	Three months ended September 30, 2017 $	Three months ended September 30, 2016 $	Nine months ended September 30, 2017 $	Nine months ended September 30, 2016 $
Interest rate swap	Level 2	(554)	(98)	(885)	114
Non-controlling interest put option	Level 3	(1,135)	92	(944)	277
Purchase option	Level 2	155	288	1,092	761
		(1,534)	282	(737)	1,152

(in thousands of Canadian dollars)

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair value of the interest rate swap is calculated as the net present value of the future cash flows expected to arise on the variable and fixed rate tranches, determined using applicable yield curves at each measurement date. The fair value of the non-controlling interest put option and purchase options are calculated using the methods as described in the financial statements for the year-ended December 31, 2016.

6 Hedge of a net investment in foreign operation

The Company is applying hedge accounting to foreign currency differences arising between the $USD functional currency of the Company's 51% ownership interest in Birchfield Ventures LLC ("Birchfield") and the $CAD functional currency of the Company. The Company has therefore designated a portion of the principal amount outstanding of the $USD borrowings made by the Company as a net investment hedge of the net assets of Birchfield. The Company's investments in other subsidiaries are not hedged.

No ineffectiveness was recognized in the current period from the net investment hedge.

7 Dividends

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Dividends declared	2,500	2,487	7,489	10,749
Dividends paid				
Dividends paid in cash	2,290	2,227	6,852	11,066
Dividends paid in shares	209	258	633	1,323

8 Income tax

Income tax is recognized based on management's estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual effective tax rate for 2017 is 23%.

(in thousands of Canadian dollars)

9 Share capital

a) Authorized:

An unlimited number of voting common shares are authorized to be issued.

b) Issued and outstanding:

	#	$
Balance – January 1, 2016	27,449,891	249,303
Shares issued under dividend reinvestment plan	168,789	1,323
Shares issued on settlement of equity based compensation awards	19,742	279
Balance – September 30, 2016	27,638,422	250,905
Balance – January 1, 2017	27,664,070	251,180
Shares issued under dividend reinvestment plan	66,142	633
Shares issued on settlement of equity based compensation awards	53,891	529
Balance – September 30, 2017	27,784,103	252,342

10 Earnings (loss) per share

	Three months ended September 30,		Nine months ended September 30,	
	2017 $	**2016** $	**2017** $	**2016** $
Net earnings (loss) attributable to owners of the parent	(3,208)	4,371	(10,185)	6,749
	2017 #	**2016** #	**2017** #	**2016** #
Weighted average number of common shares outstanding – Basic	27,767,672	27,625,069	27,729,415	27,575,878
Effect of dilutive securities				
Equity-settled share-based payment awards	-	143,944	-	95,598
Weighted average number of common shares outstanding – Diluted	27,767,672	27,769,013	27,729,415	27,671,476
	2017 $	**2016** $	**2017** $	**2016** $
Basic earnings (loss) per share	(0.12)	0.16	(0.37)	0.24
Diluted earnings (loss) per share	(0.12)	0.16	(0.37)	0.24

For the three and nine-months ended September 30, 2017, potential shares issuable in exchange for all equity-settled share based payment awards have been excluded in the diluted earnings per share calculation as their effect would have been anti-dilutive. The potential shares issuable in exchange for convertible debentures were not included in the diluted earnings per share calculation for the three and nine months ended September 30, 2017 due to their anti-dilutive effect.

(in thousands of Canadian dollars)

11 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Professional fees[i]				
Recognized in administrative expenses	-	19	-	44
Included in the initial carrying value of long-term debt		34		34
	-	53	-	78

[i] A director of the Company was a partner in a law firm to which the Company incurred professional fees for legal services in the prior year. The individual ceased to be a director of the Company on June 20, 2017.

b) Included in administrative expenses in the three and nine months ended September 30, 2017 is an aggregate expense of $4,747 related to the departure of the Company's former President and Chief Executive Officer, Executive Vice President and Chief Operating Officer, US, and Senior Vice President, Human Resources. These expenses were included in corporate and other reconciling items in the operating segment disclosure in note 16.

12 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Accounts receivable	(549)	785	(1,766)	5,321
Inventory	16,013	13,775	16,707	6,721
Prepaid expenses and deposits	773	771	(667)	1,091
Accounts payable and accrued liabilities	1,017	(3,534)	(7,935)	(16,383)
Income tax payable	(669)	525	2,012	2,020
	16,585	12,322	8,351	(1,230)

(in thousands of Canadian dollars)

Interest and income taxes paid (received) are included in cash provided by operating activities in the Statements of Cash Flows.

	Three months ended September 30,		Nine months ended September 30,	
	2017 $	2016 $	2017 $	2016 $
Interest paid	791	1,216	1,911	5,469
Income taxes paid (received)	901	(466)	2,275	(680)

13 Provisions

Three months ended September 30, 2017

	Opening balance $	Exchange differences $	Additions $	Payments $	Accretion $	Closing balance $
Provisions	4,758	(196)	-	(153)	22	4,431
Less: Current portion of provision						(595)
Long-term provision						3,836

Nine months ended September 30, 2017

	Opening balance $	Exchange differences $	Additions $	Payments $	Accretion $	Closing balance $
Provisions	838	(396)	4,351	(428)	66	4,431
Less: Current portion of provision						(595)
Long-term provision						3,836

The Company has recognized a remeasurement to provisions of $4,351 in 2017 related to an adjustment of the unfavourable lease on an unopened store located in Berlin, Massachusetts. This provision represents the full remaining lease liability with no offsetting income. The current portion of the provision has been recorded in accounts payable and accrued liabilities.

(in thousands of Canadian dollars)

14 Impairment of assets

a) Goodwill

Management noted an indication that goodwill may have been impaired as at September 30, 2017 within the Birchfield Cash Generating Unit ("CGU") grouping. This was based on actual results in the year and decline in management's projections for the future financial performance of this goodwill CGU grouping due to a significant increase in competition and continued decline in financial performance that occurred during the third quarter of 2017. As such, the Company performed an impairment test on the Birchfield goodwill as at September 30, 2017. The carrying amount of the goodwill allocated to the Birchfield CGU grouping as at September 30, 2017, prior to recognizing impairment losses for the period, was $13,076.

Key assumptions used for the fair value calculations of the Birchfield CGU grouping were as follows:

	September 30, 2017	**October 1, 2016**
Weighted average sales growth rate	0.0%	2.0%
Terminal growth rate	0.5%	2.4%
Discount rate	12.0%	12.2%

Management determined forecasted growth rates based on past performance and its expectations for market trends. Growth rates applied to expenditures in the forecast ranged from 1.5% to 2.0%. The discount rates used reflect specific risks relating to the CGU grouping.

During the three months ended September 30, 2017, the Company recorded a $3,282 impairment charge to the Birchfield CGU grouping (included in US operating segment). The impairment charge was allocated entirely to reduce goodwill of the CGU grouping. The impairment loss was recognized due to a change in management's forecasted sales and profitability as a result of increased competition in the areas that the stores allocated to this CGU operate in.

The recoverable amounts were based on fair value less costs of disposal (FVLCD) using discounted cash flows (DCF) methodology. The significant assumptions applied in the goodwill impairment test are described below:

- Cash flows: Estimated cash flows are based on budgeted earnings before interest, taxes, depreciation and amortization (EBITDA). The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecast volume changes, growth rates, and inflation rates.

- Discount rate: The weighted average cost of capital (WACC) was estimated based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields.

- Terminal value growth rate: Five years of cash flows have been included in the DCF models. Maintainable debt-free net cash flow beyond the forecast period is estimated to approximate the 2022 cash flows increased by a terminal growth rate of 0.5% and is based on the industry's expected growth rates, forecast inflation rates, and management's experience.

b) Property and equipment

Management noted an indication that an individual store within the USA South CGU grouping may have been impaired as at September 30, 2017. This was based on actual results in the year and decline in management's projections for the future financial performance of this location due to persistent poor financial performance of the location.

The Company completed an impairment test on the specific store location using a discounted cash flow methodology. The recoverable amounts were based on FVLCD using DCF methodology. The significant assumptions applied in the impairment test are described below:

- Cash flows: Estimated cash flows are based on budgeted EBITDA. The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecast volume changes, growth rates, and inflation rates. Management determined forecasted growth rates of sales based on past performance and its expectations of future performance for this location. Growth rates applied to expenditures in the forecast ranged from 1.5% to 2.0%.

- Discount rate: The WACC was estimated to be 11.2% and is based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields.

- Terminal value growth rate: Five years of cash flows have been included in the DCF models. Maintainable debt-free net cash flow beyond the forecast period is estimated to approximate the 2022 cash flows increased by a terminal growth rate of 2.0% and is based on the industry's expected growth rates, forecast inflation rates, and management's experience.

The Company recorded an impairment charge of $2,493 related to this individual store location in the three months ended September 30, 2017 upon completion of the impairment test (included in US operating segment).

15 Sale of assets

On September 28, 2017, the Company completed a transaction with a third party whereby the Company sold store fixtures, a wine-only liquor license and net working capital for a store location in British Columbia for gross proceeds of $2,309, which were ultimately received subsequent to September 30, 2017. The Company has recorded a gain on sale of $1,406 in the Statement of Earnings.

16 Operating segments

The Company has two reportable segments: Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. The Canada and US segments operate retail liquor stores in their respective jurisdictions.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before amortization, and is included in the internal management reports that are reviewed regularly by the Company's President and Chief Executive Officer (the Company's chief operating decision maker, or "CODM") and follow the organization, management and reporting structure of the Company. Operating profit before amortization is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating profit before amortization to earnings before income taxes, an earnings measure used in the Company's consolidated Statement of Earnings and Comprehensive Income, has been included in the table below.

Operating profit before amortization is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, operating profit before amortization may not be comparable to similar measures presented by other issuers. Users are cautioned that operating margin should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

(in thousands of Canadian dollars)

	Three months ended September 30, 2017			
	Canadian Operations $	US Operations $	Corporate and Other Reconciling Items $	Consolidated $
Sales to external customers	138,264	66,107	-	204,371
Operating profit before amortization	12,577	2,756	(10,175)	5,158
Property and equipment amortization				3,576
Intangible asset amortization				117
Loss (gain) on disposal of assets				(1,255)
Finance costs				2,156
Net loss (gain) on foreign exchange from financing activities				49
Fair value adjustments				(1,534)
Provision on impairment of goodwill and property and equipment				5,775
Loss before income taxes				(3,726)
Other information				
Expenditures for additions to				
Property and equipment(i)	4,637	20		4,657
Intangible assets(i)	225	-		225
Total assets at September 30, 2017(i)	315,814	121,264		437,078

	Three months ended September 30, 2016			
	Canadian Operations $	US Operations $	Corporate and Other Reconciling Items $	Consolidated $
Sales to external customers	140,174	68,586	-	208,760
Operating profit before amortization	14,425	3,704	(5,518)	12,611
Property and equipment amortization				2,920
Intangible asset amortization				101
Loss (gain) on disposal of assets				187
Finance costs				2,710
Net loss (gain) on foreign exchange from financing activities				378
Fair value adjustments				282
Earnings before income taxes				6,033
Other information				
Expenditures for additions to				
Property and equipment(i)	1,069	1,390	-	2,459
Intangible assets(i)	-	-	-	-
Total assets at December 31, 2016(i)	323,845	147,032	-	470,877

(i) Total corporate assets are not regularly reported to the CODM but rather, a split between US and Canadian assets is provided. The disclosure above reflects what is regularly provided to the CODM.

(in thousands of Canadian dollars)

	Nine months ended September 30, 2017			
	Canadian Operations $	**US Operations $**	**Corporate and other reconciling Items $**	**Consolidated $**
Sales to external customers	379,395	195,473	-	574,868
Operating profit before amortization	30,688	2,595	(22,066)	11,217
Property and equipment amortization				9,191
Intangible asset amortization				337
Loss (gain) on disposal of assets				(849)
Finance costs				8,919
Net loss (gain) on foreign exchange from financing activities				231
Fair value adjustments				(737)
Provision for impairment of goodwill and intangible assets				5,775
Loss before income taxes				(11,650)
Other information				
Expenditures for additions to				
Property and equipment(i)	12,958	1,974		14,932
Intangible assets(i)	612	-		612
Total assets at September 30, 2017(i)	315,814	121,264		437,078

	Nine months ended September 30, 2016			
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	389,107	200,960	-	590,067
Operating profit before amortization	34,301	10,858	(18,058)	27,101
Property and equipment amortization				8,905
Intangible asset amortization				341
Loss (gain) on disposal of assets				365
Finance costs				7,862
Net loss (gain) on foreign exchange from financing activities				(1,669)
Fair value adjustments				1,152
Earnings before income taxes				10,145
Other information				
Expenditures for additions to				
Property and equipment(i)	10,978	7,729	-	18,707
Intangible assets(i)	2,158	132	-	2,290
Total assets at December 31, 2016(i)	323,845	147,032	-	470,877

(i) Total corporate assets are not regularly reported to the CODM but rather, a split between US and Canadian assets is provided. The disclosure above reflects what is regularly provided to the CODM.