LIQUOR STORES N.A. LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2018 and 2017

(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	March 31, 2018 $	December 31, 2017 $
Assets			
Current assets:			
Cash		61,166	2,155
Cash held in escrow	8	34,500	-
Accounts receivable		4,600	19,168
Inventory		90,373	84,333
Prepaid expenses and deposits		8,757	8,240
Interest rate swap derivative		882	898
Assets held for sale	3	2,757	2,860
		203,035	117,654
Deferred tax assets		11,203	8,119
Property and equipment		51,544	49,534
Intangible assets		37,300	35,576
Goodwill		145,519	145,519
		448,601	356,402
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		40,428	47,639
Income taxes payable		703	1,400
Dividends payable	6	3,125	2,501
Subscription receipt liability	8	34,162	-
Derivative warrant liabilities	8	2,630	-
Current portion of long-term debt		414	407
Liabilities directly associated with assets held for sale	3	1,193	1,450
		82,655	53,397
Long-term debt		72,332	101,903
Deferred tax liabilities		7,672	7,317
		162,659	162,617
Shareholders' Equity			
Equity attributable to shareholders		285,940	193,700
Equity attributable to non-controlling interest		2	85
		285,942	193,785
		448,601	356,402

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 comprehen-sive income $	Deficit $	Total $	Non-controlling interest $	Total equity $
Opening balance – January 1, 2017	251,180	6,334	176,881	20,744	(224,250)	230,889	4,506	235,395
Net (loss) earnings for the period	-	-	-	-	(4,910)	(4,910)	124	(4,786)
Foreign currency translation adjustment	-	-	-	(677)	-	(677)	(47)	(724)
Comprehensive (loss) earnings for the period	-	-	-	(677)	(4,910)	(5,587)	77	(5,510)
Share-based payments	-	-	469	-	-	469	-	469
Settlement of equity-based payments	455	-	(455)	-	-	-	-	-
Dividends declared (note 6)	-	-	-	-	(2,492)	(2,492)	-	(2,492)
Dividend reinvestment plan issuance (note 6)	217	-	-	-	-	217	-	217
Dividends declared by subsidiaries	-	-	-	-	-	-	(607)	(607)
Transactions with owners	672	-	14	-	(2,492)	(1,806)	(607)	(2,413)
Balance – March 31, 2017	251,852	6,334	176,895	20,067	(231,652)	223,496	3,976	227,472
Opening balance – January 1, 2018	252,413	3,006	178,499	11,734	(251,952)	193,700	85	193,785
Net (loss) earnings for the period	-	-	-	-	(2,118)	(2,118)	13	(2,105)
Foreign currency translation adjustment	-	-	-	1,089	-	1,089	-	1,089
Comprehensive earnings (loss) for the period	-	-	-	1,089	(2,118)	(1,029)	13	(1,016)
Private placement issuance, net of transaction costs and tax (note 8)	96,150	-	-	-	-	96,150	-	96,150
Share-based payments	-	-	50	-	-	50	-	50
Settlement of equity-based payments	64	-	(64)	-	-	-	-	-
Dividends declared (note 6)	-	-	-	-	(3,125)	(3,125)	-	(3,125)
Dividend reinvestment plan issuance (note 6)	194	-	-	-	-	194	-	194
Dividends declared by subsidiaries	-	-	-	-	-	-	(96)	(96)
Transactions with owners	96,408	-	(14)	-	(3,125)	93,269	(96)	93,173
Balance – March 31, 2018	348,821	3,006	178,485	12,823	(257,195)	285,940	2	285,942

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

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Loss

Three Months Ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Note	March 31, 2018 $	March 31, 2017 $
			(Restated, note 3)
Sales		125,814	127,759
Cost of sales		93,843	93,905
Gross margin		31,971	33,854
Selling and distribution expenses		29,047	27,631
Administrative expenses		5,213	4,722
Operating (loss) profit before amortization		(2,289)	1,501
Amortization			
Property and equipment		2,803	2,340
Intangible assets		104	52
Operating loss		(5,196)	(891)
Finance costs	4	1,582	2,522
Net (gain) loss on foreign exchange from financing activities		(41)	97
Fair value adjustments	5	(4,259)	45
Loss before income taxes		(2,478)	(3,555)
Income tax expense (recovery)			
Current	7	1,683	4,180
Deferred	7	(2,335)	(4,809)
		(652)	(629)
Net loss from continuing operations		(1,826)	(2,926)
Net loss from discontinued operations		(279)	(1,860)
Net loss		(2,105)	(4,786)
Net (loss) earnings attributable to:			
Equity shareholders		(2,118)	(4,910)
Non-controlling interest		13	124
		(2,105)	(4,786)
Loss per share from continuing operations:			
Basic and diluted		(0.06)	(0.11)
Total loss per share:			
Basic and diluted		(0.07)	(0.18)

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

Liquor Stores N.A. Ltd.

Condensed Interim Consolidated Statements of Comprehensive (Loss) Income
Three Months Ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Note	**March 31, 2018 $**	**March 31, 2017 $**
			(Restated, note 3)
Net loss for the period		(2,105)	(4,786)
Other comprehensive (loss) income			
Items that may be reclassified subsequently to net earnings:			
Continuing operations:			
Currency translation difference on foreign subsidiaries		1,641	(501)
Discontinued operations:			
Currency translation difference on foreign subsidiaries		(552)	(415)
Net investment hedge		-	192
Comprehensive loss		(1,016)	(5,510)
Comprehensive (loss) income attributable to:			
Equity shareholders		(1,029)	(5,587)
Non-controlling interest		13	77
		(1,016)	(5,510)

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 Months Ended March 31, 2018 and 2017
(in thousands of Canadian dollars)

	Note	**March 31, 2018** $	**March 31, 2017** $
Cash provided by (used in)			
Operating activities:			
Net loss for the period		(2,105)	(4,786)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Amortization of property and equipment		2,803	2,951
Amortization of intangible assets		104	99
Amortization of financing charges	4	71	71
Non-cash interest on convertible debentures	4	351	690
Accretion expense	4	72	-
Unrealized foreign exchange (gain) loss		(36)	63
Fair value adjustments	5	(4,259)	586
Deferred income tax		(2,335)	(5,540)
Equity-settled share-based payments		50	469
Cash used in operating activities before changes in non-cash working capital		(5,284)	(5,397)
Net change in non-cash working capital items	11	(10,420)	(13,322)
		(15,704)	(18,719)
Investing activities:			
Purchase of property and equipment		(2,760)	(2,739)
Purchase of intangible assets		(1,167)	(238)
Net cash proceeds received on sale of discontinued operations		8,259	-
		4,332	(2,977)
Financing activities:			
Issuance of common shares, net of share issuance costs	8	102,442	-
Proceeds from (repayment of) long-term debt		(29,957)	20,407
Dividends paid	6	(2,307)	(2,275)
Dividends paid to non-controlling interest by subsidiaries		(96)	(436)
		70,082	17,696
Foreign exchange gain (loss) on cash held in foreign currency		301	(38)
Increase (decrease) in cash		59,011	(4,038)
Cash – Beginning of quarter		2,155	7,020
Cash – End of quarter		61,166	2,982
Discontinued operations	3		

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 March 31, 2018, the Company operated 229 (2017 - 252) retail liquor stores, of which 173 (2017 - 178) were in Alberta, 33 (2017 - 34) were in British Columbia, 22 (2017 - 22) were in Alaska, none (2017 - 15) were in Kentucky, none (2017 - two) were in New Jersey and one (2017 – one) was in Connecticut. Of the stores operated, 169 (2017 - 194) were acquired and 60 (2017 - 58) were developed by the Company.

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.

These condensed interim consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on May 8, 2018.

2 Basis of preparation and significant accounting policies

a) Statement of compliance and significant accounting policies

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, 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

b) Changes in accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company as described in its consolidated financial statements as at and for the year ended December 31, 2017, and there have been no changes to those policies with the exception of the policies described below:

i. Cash held in escrow

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

ii. Subscription receipts

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

iii. Financial instruments

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

Classification of financial assets and financial liabilities

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

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

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

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39. The ECL model applies to the Company's trade receivables from wholesale customers. As at March 31, 2018, 98% of the Company's trade receivables were outstanding for less than 60 days. The expected credit loss on the Company's trade receivables was $20, or 0.3%, as at March 31, 2018.

Modification of financial liabilities

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

Hedge accounting

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

iv. Revenue from Contracts with Customers

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

Disaggregation of revenue:

The Company has two streams of revenue:

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

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

The following table details the Company's sales by revenue stream and segment:

	Three months ended March 31, 2018		
	Canadian Operations $	**US Operations $**	**Consolidated $**
Retail sales	97,276	21,633	118,909
Wholesale sales	6,905	-	6,905
Sales from continuing operations	104,181	21,633	125,814

Other considerations:

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

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

v. Other narrow scope amendments / interpretations

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

vi. Recent accounting pronouncements not yet adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Company and will have an impact on future periods:

a. IFRS 16, *Leases* (effective January 1, 2019)

The new standard is described in our 2017 financial statements. We continue to assess the impact of this standard on our consolidated financial statements and we are progressing with the implementation of the standard. As at the date of these interim financial statements, there have been no significant changes to the disclosure related to the implementation of this standard that was included in our 2017 financial statements. We intend to disclose the estimated financial effects of the adoption of IFRS 16 in our 2018 annual audited consolidated financial statements.

c) Significant estimates and judgments

The preparation of condensed interim consolidated financial statements requires management to make judgments, 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 those 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, 2017, with the exception of the following new significant estimates and judgments made in the current interim period:

i. Derivative warrant liabilities

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

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

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

3 Discontinued operations and assets held for sale

a) Overview

In 2017, the Company acted on the plan approved by its Board of Directors to exit the lower 48 U.S. states, which formed part of its U.S. Operations operating segment, by disposing or committing to dispose of its assets and operations in these regions. It is expected that the disposal plan will be fully completed in 2018. The following actions were taken by the Company to enact this plan:

- On November 17, 2017, the Company's 15 retail locations in Kentucky were sold to a third party.
- On November 30, 2017, the Company sold its 51% interest in Birchfield back to the non-controlling interest.
- The Company's plans to open a store in Massachusetts were abandoned, and the Company terminated its lease in February 2018.
- The Company previously announced that it is currently in discussions with a third party about the sale of its store in Norwalk, Connecticut. The sale is expected to close in 2018.

The results of the above disposal group have been classified as discontinued operations in the Consolidated Statements of Loss and related note disclosures based on management's determination that the operations in the lower 48 states constituted a major component of the Company's operations. The comparative Consolidated Statements of Loss and related note disclosures have been restated to remove the results of the discontinued operations from continuing operations.

For the components of the disposal group not sold prior to March 31, 2018, the remaining assets and liabilities have been presented as assets or liabilities held for sale in the Consolidated Statements of Financial Position as they continue to be marketed and are available for sale in their current condition.

These transactions and their financial statement impact are further detailed below in notes b) through d).

b) Results of discontinued operations

A reconciliation of the major classes of line items constituting net loss and comprehensive loss from discontinued operations, net of tax, as presented in the Consolidated Statements of Loss and Comprehensive Loss is as follows:

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Sales	1,926	34,660
Cost of sales	1,479	26,880
Gross margin	**447**	**7,780**
Selling and distribution expenses	699	8,217
Administrative expenses	27	310
Operating loss before amortization	**(279)**	**(747)**
Amortization		
Property and equipment	-	611
Intangible assets	-	47
Operating loss	**(279)**	**(1,405)**
Finance costs	-	645
Fair value adjustments	-	541
Loss before income taxes	**(279)**	**(2,591)**
Income tax recovery	-	(731)
Loss from discontinued operations	**(279)**	**(1,860)**
Other comprehensive loss	(552)	(223)
Comprehensive loss	**(831)**	**(2,083)**

The net cash flows provided by (used in) the discontinued operations were as follows:

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Net cash (used in) provided by discontinued operations – operating activities	2,544	(12,919)
Net cash provided by discontinued operations – investing activities	8,259	225
Net cash used in discontinued operations – financing activities	-	(341)
Total cash provided by (used in) discontinued operations	**10,803**	**(13,035)**

c) Assets held for sale

In 2017, the Company entered into negotiations with a third party regarding the sale of its Norwalk, Connecticut store. The assets are measured at the lower of their carrying value and fair value less cost to sell. The fair value measurement of these assets held for sale have been categorized in Level 2 in the fair value hierarchy based on observable market inputs, specifically offers from third party buyers for the anticipated transaction. This transaction is expected to close in 2018.

	March 31, 2018 $	**December 31, 2017 $**
Cash	173	109
Accounts receivable	3	9
Inventory	2,561	2,665
Prepaid expenses and deposits	20	77
Assets held for sale	**2,757**	**2,860**
Accounts payable and accrued liabilities	1,193	1,450
Liabilities directly associated with assets held for sale	**1,193**	**1,450**

d) Abandoned operation

Liquor Stores Massachusetts

In 2017, the Company abandoned its planned operations in Massachusetts and recorded a provision of $2,463 for the onerous lease. A settlement was reached with the landlord in February 2018 for this amount.

4 Finance costs

Finance costs comprise the following:

	Three months ended March 31, 2018 $	2017 $
		(Restated, note 3)
Interest expense (income)		
Long-term debt[(i)]	259	(55)
Convertible debentures[(ii)]	1,251	2,577
Accretion expense (note 8)	72	-
	1,582	2,522

i) Included in interest expense on long-term debt was amortization of deferred financing costs of $71 (2017 - $71).

ii) Interest expense on the convertible debentures of $1,251 (2017 - $2,577) represents coupon interest of $900 (2017 – $1,887) and $351 (2017 – $690) 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 recognized in the period comprise the following:

	Fair Value Hierarchy	Three months ended March 31, 2018 $	2017 $
			(Restated, note 3)
Interest rate swap	Level 2	16	45
Derivative warrant liabilities	Level 2	(4,275)	-
Contingent consideration on sale of Kentucky	Level 3	-	-
		(4,259)	45

Financial instruments recognized on the Consolidated Statements of Financial Position 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 values of the derivative warrant liabilities are calculated using the methods as described in note 8.

The fair value of the contingent consideration is calculated based on the net present value of the probability-weighted forecast of future sales of the Kentucky assets sold. Management determined that the current fair value of the contingent consideration was negligible based on projected future sales of the Kentucky assets.

6 Dividends

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Dividends declared	3,125	2,492
Dividends paid		
Dividends paid in cash	2,307	2,275
Dividends paid in shares	194	217

Dividends were declared on March 15, 2018 in the quarterly amount of $0.09 per common share and will be paid on April 13, 2018 to the holders of common shares as at the close of the record date of March 29, 2018. Dividends are paid mid-month following the month of declaration.

7 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 2018 is 26.3%.

8 Share capital

a) Authorized:

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

b) Issued and outstanding:

	#	$
Balance – January 1, 2017	27,664,070	251,180
Shares issued under dividend reinvestment plan	22,159	217
Shares issued on settlement of equity based compensation awards	45,611	455
Balance – March 31, 2017	27,731,840	251,852
Balance – January 1, 2018	27,791,562	252,413
Shares issued under private placement[i] (Note 8c)	6,900,000	96,150
Shares issued under dividend reinvestment plan	17,697	194
Shares issued on settlement of equity based compensation awards	8,660	64
Balance – March 31, 2018	34,717,919	348,821

i) Proceeds on shares issued under private placement is comprised of the net proceeds on issuance of common shares of $97,889, less the reduction to share capital from the issuance of subscription receipts of $1,739 as described in note 8c.

c) Aurora Private Placement:

On February 4, 2018, the Company entered into a contract which closed on February 14, 2018 to issue 6,900,000 common shares through a private placement to Aurora Cannabis ("Aurora") at a price of $15.00 per common share for total gross proceeds of $103,500, representing approximately 19.9% of the Company's common shares. In addition, Aurora has subscribed for 2,300,000 subscription receipts at a price of $15.00 per subscription receipt for aggregate gross proceeds of $34,500, which would increase Aurora's ownership to approximately 25% of the Company's common shares.

The Company has also issued to Aurora, two classes of share purchase warrants:

- 10,130,000 warrants ("sunshine warrants") at an exercise price of $15.75 per underlying common share to allow Aurora to increase its equity interest in the Company to approximately 40%; and

- Up to 1,750,000 warrants ("pro rata warrants") exercisable by Aurora at an exercise price of $15.00 contingent upon the conversion of any of the outstanding 4.70% convertible unsecured subordinated debentures of the Company, to allow Aurora to maintain its pro rata equity interest in the Company.

The subscription receipts and warrants are contingent on approval from the Company's shareholders (other than Aurora, its associates, and affiliates) at the next annual general meeting ("AGM") and the satisfaction of other escrow release conditions and subject to other customary closing conditions and approvals.

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

The $138,000 in total gross proceeds from the issuance and subscription have been allocated between the common shares, subscription receipts, and warrants issued based on the methods described below. Directly attributable transaction costs amounting to $1,113 were allocated between the common shares, subscription receipts, and warrants issued as follows:

Common shares

Proceeds of $98,477 were allocated to the common shares issued, and transaction costs amounting to $790 and a deferred tax recovery of $202 have been recorded resulting in a net addition to share capital of $97,889.

Subscription receipts

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

The subscription receipts have been initially measured and recorded at fair value, and were reduced by an allocation for the sunshine and pro rata warrants. At the time of subscription, proceeds of $32,618 from the private placement were allocated to the subscription receipts, and transaction costs of $267 were deducted from the value of the subscription receipts on initial recognition. The subscription receipt liability has been recognized at an amortized cost of $34,090 (gross proceeds of $34,500, less a discount of $143 and transaction costs of $267), with the difference in fair value and amortized cost of $1,739 recorded as a reduction to share capital. If the release conditions for the escrow are met and the common shares are issued, the amount of the liability will be reclassified to share capital.

Sunshine warrants

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

period accounted through profit and loss. The fair value of these warrants is determined using the Black-Scholes pricing model with the following assumptions:

	February 14, 2018	**March 31, 2018**
Volatility	26.0%	29.0%
Risk-free interest rate	1.705%	1.637%
Dividend yield	3.01%	3.67%
Probability of approval at AGM	95%	95%

A fair value of $4,160 was recognized at the time of issuance, and transaction costs of $34 were recognized immediately in administrative expenses.

If the ability to exercise the sunshine warrants is approved at the next AGM, the holder will receive a fixed number of common shares for each warrant when exercised, thus the warrants meet equity classification criteria under IFRS and will be remeasured to fair value and reclassified to contributed surplus net of tax at this time. The holder may exercise the warrants any time before August 14, 2019. As the warrants are exercised, the value of the warrants recorded in contributed surplus on the date of exercise is included in share capital along with the proceeds from exercise. If the warrants expire, the value of the warrants recorded in contributed surplus will be reclassified to the Company's deficit.

If the sunshine warrants are not approved at the next AGM or approval under the Competition Act (Canada) is not obtained, they will be immediately cancelled.

<u>Pro rata warrants:</u>

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

Under IFRS, these warrants are to be initially accounted for as a derivative liability measured at fair value with subsequent changes in fair value each reporting period accounted through profit and loss. The fair value of these warrants is determined using the Black-Scholes option pricing model with the following assumptions:

	February 14, 2018	**March 31, 2018**
Volatility	30.0%	30.0%
Risk-free interest rate	2.025%	1.913%
Dividend yield	3.01%	3.67%
Probability of approval at AGM	95%	95%
Probability of convertible debenture conversion	5%	5%

A fair value of $2,745 was recognized at the time of issuance of the pro rata warrants, and transaction costs of $22 were recognized immediately in administrative expenses.

As these warrants are exercised, the fair value of the recorded derivative warrant liability on the date of exercise is included in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in warrant liability is recognized in profit or loss.

If the pro rata warrants are not approved at the next AGM or customary closing conditions and approval under the Competition Act (Canada) is not obtained, they will be immediately cancelled.

9 Loss per share

	Three months ended March 31, 2018 $	2017 $
Loss attributable to continuing operations	(1,839)	(2,937)
Loss attributable to discontinued operations	(279)	(1,973)
Loss attributable to owners of the parent	(2,118)	(4,910)

	2018 #	2017 #
Weighted average number of common shares outstanding - Basic	31,256,569	27,676,433
Effect of dilutive securities		
Equity-settled share-based payment awards	-	-
Weighted average number of common shares outstanding - Diluted	31,256,569	27,676,433

Basic and diluted loss per share	2018 $	2017 $
Continuing operations	(0.06)	(0.11)
Discontinued operations	(0.01)	(0.07)
Attributable to common shareholders	(0.07)	(0.18)

For the periods ended March 31, 2018 and March 31, 2017, potential shares issuable in exchange for all equity-settled share-based payment awards and convertible debentures have been excluded in the diluted earnings per share calculation as their effect would have been anti-dilutive. For the period ended March 31, 2018, the subscription receipts and warrants have been excluded in the diluted earnings per share calculation as their issuance is contingent on obtaining approval at the next AGM and satisfying other customary closing conditions and approvals (note 8).

10 Share-based payments

On March 23, 2018, the Company granted 1,015,000 performance awards ("PSUs") to employees that entitle them to common shares after three years of service if the Company's common shares meet certain pre-determined 30-day volume weighted average trading price targets at December 31, 2020. If none of the price targets are met at December 31, 2020, a prorated number of common shares will be awarded if the Company's common shares meet the pre-determined 30-day volume weighted average trading price targets at the end of any of the calendar years between January 1, 2018 and December 31, 2020 (the "Performance Period").

The PSUs do not earn fractional awards for dividends paid during the vesting period. No common shares are issuable under the PSUs if the 30-day volume weighted average trading price of the common shares does not reach a minimum of $12.00 at the end of any of the calendar years during the Performance Period.

Fair values of the PSU awards were determined using a Monte Carlo simulation approach with the following key assumptions used to value the awards granted:

Expected life	3-year vesting period
Expected share price volatility of the Company	29.0-35.0%
Risk-free interest rate	1.86%
Dividend yield	3.63%

The fair value of the PSU awards granted on March 23, 2018 was determined to be $3,502. Compensation expense for equity-settled awards is recognized evenly over the cliff-vesting period by increasing contributed surplus based on the number of awards expected to vest for the PSUs.

11 Supplementary disclosure of cash flow information

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

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Accounts receivable	6,446	472
Inventory	(5,853)	(355)
Prepaid expenses and deposits	(495)	(1,107)
Assets held for sale	186	-
Accounts payable and accrued liabilities	(9,712)	(15,558)
Income taxes payable	(697)	3,226
Liabilities directly associated with assets held for sale	(295)	-
	(10,420)	(13,322)

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

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Interest paid	2,099	519
Income taxes paid	2,380	954

12 Operating segments

The Company has two reportable segments: Canadian Operations and U.S. Operations. Prior to the Company's exit from the lower 48 states, the discontinued operations detailed in note 3 were included in the U.S. Operating segment. Segmentation is based on differences in the regulatory environments of Canada and the U.S. and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. The Canada and U.S. segments operate retail liquor stores in their respective jurisdictions. The comparative figures have been restated to remove the discontinued operations from the results from continuing operations.

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 (loss) before amortization is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating profit (loss) before amortization to earnings before income taxes, an earnings measure used in the Company's interim Consolidated Statements of Loss and Comprehensive Loss, 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 profit before amortization should not be construed as an alternative to earnings before income taxes 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.

	Three months ended March 31, 2018			
	Canadian Operations $	US Operations $	Corporate and Other Reconciling Items $	Consolidated $
Sales to external customers	104,181	21,633	-	125,814
Operating profit (loss) before amortization	2,033	891	(5,213)	(2,289)
Property and equipment amortization				2,803
Intangible asset amortization				104
Finance costs				1,582
Net gain on foreign exchange from financing activities				(41)
Fair value adjustments				(4,259)
Loss before income taxes				(2,478)
Other information				
Expenditures for additions to				
Property and equipment[(i)]	4,576	92	-	4,668
Intangible assets[(i)]	1,517	-	-	1,517
Total assets at March 31, 2018[(i)]	394,010	54,591	-	448,601

	Three months ended March 31, 2017			
	Canadian Operations $	US Operations $	Corporate and Other Reconciling Items $	Consolidated $
				Restated (note 3)
Sales to external customers	105,538	22,221	-	127,759
Operating profit before amortization	5,504	719	(4,722)	1,501
Property and equipment amortization				2,340
Intangible asset amortization				52
Finance costs				2,522
Net gain on foreign exchange from financing activities				97
Fair value adjustments				45
Loss before income taxes				(3,555)
Other information				
Expenditures for additions to				
Property and equipment[(i)]	3,114	512	-	3,626
Intangible assets[(i)]	238	-	-	238
Total assets at December 31, 2017[(i)]	299,083	57,319	-	356,402

(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.