ALCANNA inc.

(formerly Liquor Stores N.A. Ltd.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine months ended September 30, 2018 and 2017

(Unaudited, expressed in thousands of Canadian dollars)

Alcanna Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	September 30, 2018 $	December 31, 2017 $
Assets			
Current assets:			
Cash		60,150	2,155
Accounts receivable		5,138	19,168
Inventory		100,299	84,333
Prepaid expenses and deposits		11,074	8,240
Interest rate swap derivative		824	898
Assets held for sale	3	2,548	2,860
		180,033	117,654
Deferred tax assets		8,645	8,119
Property and equipment		68,903	49,534
Intangible assets		37,628	35,576
Goodwill		145,519	145,519
		440,728	356,402
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		47,376	47,639
Income taxes payable		-	1,400
Dividends payable	6	3,337	2,501
Derivative warrant liabilities	8	2,013	-
Current portion of long-term debt		484	407
Liabilities directly associated with assets held for sale	3	1,155	1,450
		54,365	53,397
Long-term debt		72,952	101,903
Deferred tax liabilities		3,181	7,317
		130,498	162,617
Shareholders' Equity			
Equity attributable to shareholders		310,236	193,700
(Deficit) equity attributable to non-controlling interest		(6)	85
		310,230	193,785
		440,728	356,402
Subsequent event	13		

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

Alcanna Inc.

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	-	-	-	-	(10,185)	(10,185)	1,182	(9,003)
Foreign currency translation adjustment	-	-	-	(5,195)	-	(5,195)	(314)	(5,509)
Comprehensive (loss) income for the period	-	-	-	(5,195)	(10,185)	(15,380)	868	(14,512)
Share-based payments	-	-	1,207	-	-	1,207	-	1,207
Settlement of equity-based payments	529	-	(2,694)	-	-	(2,165)	-	(2,165)
Redemption of debenture	-	(3,328)	2,997	-	-	(331)	-	(331)
Dividends declared (note 6)	-	-	-	-	(7,489)	(7,489)	-	(7,489)
Dividend reinvestment plan issuance (note 6)	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
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	-	-	-	-	(7,492)	(7,492)	66	(7,426)
Foreign currency translation adjustment	-	-	-	1,192	-	1,192	-	1,192
Comprehensive income (loss) for the period	-	-	-	1,192	(7,492)	(6,300)	66	(6,234)
Private placement issuance of common shares[(i)] (note 8)	130,445	-	-	-	-	130,445	-	130,445
Private placement issuance of sunshine warrants[(i)] (note 8)	-	-	889	-	-	889	-	889
Share-based payments	-	-	708	-	-	708	-	708
Settlement of equity-based payments	225	-	(225)	-	-	-	-	-
Dividends declared (note 6)	-	-	-	-	(9,803)	(9,803)	-	(9,803)
Dividend reinvestment plan issuance (note 6)	597	-	-	-	-	597	-	597
Dividends declared by subsidiaries	-	-	-	-	-	-	(157)	(157)
Transactions with owners	131,267	-	1,372	-	(9,803)	122,836	(157)	122,679
Balance – September 30 , 2018	383,680	3,006	179,871	12,926	(269,247)	310,236	(6)	310,230

(i) Net of transaction costs and tax.

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

Alcanna Inc.
Condensed Interim Consolidated Statements of Loss
Three and Nine Months Ended September 30, 2018 and 2017
(in thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Note	**September 30, 2018 $**	**September 30, 2017 $**	**September 30, 2018 $**	**September 30, 2017 $**
			(Restated, note 3)		*(Restated, note 3)*
Sales		168,836	163,975	455,734	454,169
Cost of sales		126,878	120,821	341,790	333,712
Gross margin		41,958	43,154	113,944	120,457
Selling and distribution expenses		33,897	28,863	93,953	85,722
Administrative expenses		7,273	5,160	19,706	16,529
Restructuring charges		-	4,747	-	4,747
Operating profit before amortization		788	4,384	285	13,459
Amortization					
Property and equipment		3,786	2,897	9,494	7,678
Intangible assets		94	72	294	198
Gain on disposal of assets		-	(1,406)	-	(1,406)
Operating (loss) profit		(3,092)	2,821	(9,503)	6,989
Finance costs	4	1,209	1,560	3,952	7,093
Net loss on foreign exchange from financing activities		79	49	6	231
Net loss (gain) on fair value adjustments	5	1,019	(555)	(3,929)	(885)
(Loss) earnings before income taxes		(5,399)	1,767	(9,532)	550
Income tax (recovery) expense					
Current	7	-	28	1,683	4,208
Deferred	7	(1,422)	700	(4,191)	(4,161)
		(1,422)	728	(2,508)	47
Net (loss) earnings from continuing operations		(3,977)	1,039	(7,024)	503
Net loss from discontinued operations		(21)	(3,875)	(402)	(9,506)
Net loss for the period		(3,998)	(2,836)	(7,426)	(9,003)
Net (loss) earnings attributable to					
Equity shareholders		**(4,012)**	(3,208)	**(7,492)**	(10,185)
Non-controlling interest		**14**	372	**66**	1,182
		(3,998)	(2,836)	**(7,426)**	(9,003)
(Loss) earnings per share from continuing operations:					
Basic and diluted		**(0.11)**	0.04	**(0.20)**	0.01
Total loss per share:					
Basic and diluted		**(0.11)**	(0.11)	**(0.21)**	(0.37)

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

Alcanna Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three and Nine Months Ended September 30, 2018 and 2017
(in thousands of Canadian dollars)

		Three months ended		**Nine months ended**	
	Note	**September 30, 2018 $**	**September 30, 2017 $**	**September 30, 2018 $**	**September 30, 2017 $**
			(Restated, note 3)		*(Restated, note 3)*
Net loss for the period		(3,998)	(2,836)	(7,426)	(9,003)
Other comprehensive (loss) income					
Items that may be reclassified subsequently to net earnings:					
Continuing operations					
Currency translations difference on foreign subsidiaries		(1,077)	(3,950)	1,762	(7,503)
Discontinued operations	3				
Currency translations difference on foreign subsidiaries		323	336	(570)	573
Net investment hedge		-	746	-	1,421
Comprehensive loss for the period		(4,752)	(5,704)	(6,234)	(14,512)
Comprehensive (loss) income attributable to					
Equity shareholders		(4,766)	(5,915)	(6,300)	(15,380)
Non-controlling interest		14	211	66	868
		(4,752)	(5,704)	(6,234)	(14,512)

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

Alcanna Inc.

Condensed Interim Consolidated Statements of Cash Flows
Three and Nine Months Ended September 30, 2018 and 2017
(in thousands of Canadian dollars)

	Note	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Cash provided by (used in)					
Operating activities:					
Net loss for the period		(3,998)	(2,836)	(7,426)	(9,003)
Adjustments to reconcile net income to net cash flows from operating activities:					
Amortization of property and equipment		3,786	3,576	9,494	9,191
Amortization of intangible assets		94	117	294	337
Amortization of financing charges		71	71	213	213
Gain on disposal of assets		-	(1,255)	-	(849)
Non-cash interest on convertible debentures		363	375	1,071	1,521
Loss on redemption of convertible debentures	4	-	-	-	1,196
Accretion expense		-	-	132	-
Unrealized foreign exchange gain (loss)		13	46	(39)	175
Provision for impairment of goodwill and property and equipment		-	5,775	-	5,775
Fair value adjustments	5	1,019	(1,534)	(3,929)	(737)
Increase in provisions		-	8	-	3,841
Deferred income tax		(1,422)	(918)	(4,191)	(6,861)
Settlement of share-based awards previously recognized in contributed surplus		-	(2,112)	-	(2,112)
Equity-settled share-based payments		355	117	708	1,207
Cash provided by (used in) operating activities before changes in non-cash working capital		281	1,430	(3,673)	3,894
Net change in non-cash working capital items	11	81	16,585	(14,599)	8,351
		362	18,015	(18,272)	12,245
Investing activities:					
Purchase of property and equipment		(14,927)	(8,360)	(28,552)	(14,479)
Purchase of intangible assets		(317)	(225)	(2,013)	(612)
Net cash proceeds received on sale of discontinued operations		-	-	8,259	-
		(15,244)	(8,585)	(22,306)	(15,091)
Financing activities:					
Issuance of common shares, net of share issuance costs	8	-	-	136,942	-
(Repayment of) proceeds from long-term debt		(182)	(8,585)	(30,179)	73,023
Repayment of convertible debentures		-	-	-	(67,500)
Dividends paid	6	(3,154)	(2,290)	(8,363)	(6,852)
Dividends paid to non-controlling interest by subsidiaries		(41)	(615)	(157)	(1,638)
		(3,377)	(11,490)	98,243	(2,967)
Foreign exchange (loss) gain on cash held in foreign currency		(186)	(56)	330	(117)
(Decrease) increase in cash		(18,445)	(2,116)	57,995	(5,930)
Cash – Beginning of quarter		78,595	3,206	2,155	7,020
Cash – End of quarter		60,150	1,090	60,150	1,090
Discontinued operations	3				

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

1 Nature of the business

Alcanna Inc. (the "Company"), formerly Liquor Stores N.A. Ltd., 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 "CLIQ" and "CLIQ.DB".

The Company's principal activity is the retailing of wines, beers and spirits ("Liquor Operations"). As at September 30, 2018, the Company operated 227 (2017 - 250) retail liquor stores, of which 172 (2017 - 177) were in Alberta, 33 (2017 - 33) were in British Columbia, 21 (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.

The Company has advanced plans to develop and launch a retail cannabis business in jurisdictions where private retail is permitted. As at September 30, 2018, the Company did not have any cannabis retail stores in operation as it was not legal in Canada until October 17, 2018 (note 13a).

The Company's Liquor 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 November 8, 2018.

2 Basis of preparation and significant accounting policies

a) Statement of compliance and significant accounting policies

These interim 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:

(in thousands of Canadian dollars)

i. Financial instruments

Effective January 1, 2018, the Company adopted International Financial Reporting Standards ("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 significant 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 September 30, 2018, 99% of the Company's trade receivables were outstanding for less than 60 days. The expected credit loss on the Company's trade receivables was $24, or 0.6%, as at September 30, 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.

ii. 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 (note 12):

(1) Revenue generated from sales to liquor customers through retail stores and wholesale sales is recognized at the point of sale or the time of shipment; and

(2) Revenue generated from sales to cannabis customers through retail stores is recognized at the point of sale. There were no sales of cannabis recorded in the period as the Company did not have any cannabis retail stores in operation as at September 30, 2018.

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.

iii. 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.

iv. Recent accounting pronouncements not yet adopted

The International Accounting Standards Board ("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:

<u>IFRS 16, Leases (effective January 1, 2019)</u>

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 judgments 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:

<u>Derivative warrant liabilities</u>

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 are therefore measured at fair value.

Estimates and assumptions are used to calculate the value of the derivative warrant liabilities related to certain 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, the probability of shareholder approval and the 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 Condensed Interim Consolidated Statements of (Loss) Earnings.

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 Condensed Interim Consolidated Statements of (Loss) Earnings 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 Condensed Interim Consolidated Statements of (Loss) Earnings 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 September 30, 2018, the remaining assets and liabilities have been presented as assets or liabilities held for sale in the Condensed Interim 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).

(in thousands of Canadian dollars)

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 Condensed Interim Consolidated Statements of Loss and Comprehensive Loss is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Sales	2,579	40,396	6,806	120,699
Cost of sales	2,010	31,631	5,280	93,252
Gross margin	569	**8,765**	**1,526**	**27,447**
Selling and distribution expenses	577	7,723	1,840	28,899
Administrative expenses	13	268	88	790
Operating (loss) profit before amortization	**(21)**	**774**	**(402)**	**(2,242)**
Amortization				
Property and equipment	-	830	-	2,070
Intangible assets	-	45	-	139
Operating loss	**(21)**	**(101)**	**(402)**	**(4,451)**
Finance costs	-	596	-	1,826
Net (gain) loss on fair value adjustments	-	(979)	-	148
Provision for impairment of intangible assets	-	5,775	-	5,775
Loss before income taxes	**(21)**	**(5,493)**	**(402)**	**(12,200)**
Income tax recovery	-	(1,618)	-	(2,694)
Loss from discontinued operations	**(21)**	**(3,875)**	**(402)**	**(9,506)**
Other comprehensive income (loss)	323	1,082	(570)	1,994
Comprehensive income (loss) for the period	**302**	**(2,793)**	**(972)**	**(7,512)**

(in thousands of Canadian dollars)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018 $	2017 $	2018 $	2017 $
Net cash provided by (used in) discontinued operations – operating activities	443	(3,043)	2,721	(6,864)
Net cash (used in) provided by discontinued operations – investing activities	-	(166)	8,259	(476)
Net cash provided by (used in) discontinued operations – financing activities	-	(581)	-	(1,481)
Total cash provided by (used in) discontinued operations	**443**	**(3,790)**	**10,980**	**(8,821)**

c) Assets held for sale

The Company is currently in negotiations with third parties 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.

	September 30, 2018 $	December 31, 2017 $
Cash	74	109
Accounts receivable	-	9
Inventory	2,458	2,665
Prepaid expenses and deposits	16	77
Assets held for sale	**2,548**	**2,860**
Accounts payable and accrued liabilities	1,155	1,450
Liabilities directly associated with assets held for sale	**1,155**	**1,450**

d) Abandoned operation

Liquor Stores Massachusetts

The Company recorded a provision in 2017 related to an unfavourable lease for an unopened store location in Berlin, Massachusetts for $4,351, which was recorded in accounts payable and accrued liabilities. The Company later abandoned its planned operations to open the store, and reached a settlement with the landlord in February 2018 for $2,463.

(in thousands of Canadian dollars)

4 Finance costs

Finance costs for the three and nine months ended September 30, 2018 were $1,209 and $3,952, respectively (2017 restated - $1,560 and $7,093). Included in the nine month periods in the prior year was a loss on redemption of convertible debentures of $1,196.

5 Fair value adjustments

Fair value adjustments recognized in the period comprise the following:

		Three months ended September 30,		Nine months ended September 30,	
	Fair Value Hierarchy	**2018 $**	**2017 $**	**2018 $**	**2017 $**
			(Restated, note 3)		*(Restated, note 3)*
Interest rate swap	Level 2	(37)	(555)	74	(885)
Derivative sunshine warrant liabilities	Level 2	-	-	(3,271)	-
Derivative pro-rata warrant liabilities	Level 2	1,056	-	(732)	-
Contingent consideration on sale of Kentucky	Level 2	-	-	-	-
Loss (gain) on fair value adjustments		**1,019**	**(555)**	**(3,929)**	**(885)**

Financial instruments recognized on the Condensed Interim 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.

(in thousands of Canadian dollars)

6 Dividends

	Three months ended September 30,		Nine months ended September 30,	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Dividends declared	3,337	2,500	9,803	7,489
Dividends paid				
Dividends paid in cash	3,154	2,290	8,363	6,852
Dividends paid in shares	180	209	597	633

Dividends were declared on September 14, 2018 in the quarterly amount of $0.09 per common share and were paid on October 15, 2018 to the holders of common shares as at the close of the record date of September 28, 2017. 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	66,142	633
Shares issued on settlement of equity based compensation awards	53,891	529
Balance – September 30, 2017	27,784,103	252,342
Balance – January 1, 2018	27,791,562	252,413
Shares issued under private placement (note 8c)	9,200,000	130,445
Shares issued under dividend reinvestment plan	61,557	597
Shares issued on settlement of equity based compensation awards	22,048	225
Balance – September 30, 2018	37,075,167	383,680

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 an indirect wholly-owned subsidiary of Aurora

Cannabis Inc., 2095173 Alberta Ltd. ("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.

An additional 2,300,000 subscription receipts were issued on February 14, 2018, at a price of $15.00 per common share for aggregate gross proceeds of $34,500. The conversion of the subscription receipts into common shares was approved by the Company's shareholders (other than Aurora, its associates, and affiliates) at the May 9, 2018 annual general meeting ("AGM") and the satisfaction of other escrow conditions. Aurora's ownership interest as at September 30, 2018 was approximately 25% of the Company's common shares, and is a related party of the Company.

The Company has also issued to Aurora, two classes of common 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.

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 retail cannabis stores in Alberta and 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 and warrants issued based on the methods described below. Directly attributable transaction costs amounting to $1,113 were allocated between the common shares and warrants issued as follows:

<u>Common shares and subscription receipts</u>

Proceeds of $98,477 were allocated to the 6,900,000 common shares issued on February 14, 2018, and transaction costs amounting to $790 and a deferred tax recovery of $202 were recorded resulting in a net addition to share capital of $97,889.

The subscription receipts were 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. The subscription receipt liability was 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.

On May 9, 2018, escrow release conditions were satisfied and proceeds of $34,592 were released to the Company, which includes $92 in interest earned while the funds were held in escrow. Holders of the subscription receipts received one common share of the Company for each subscription receipt held. The subscription receipt liability of $34,500, the transaction costs amounting to $267, and a deferred tax recovery of $62 have been recorded resulting in a net addition to share capital of $34,295.

(in thousands of Canadian dollars)

Sunshine warrants

The Company's sunshine warrants satisfied the derivative liability classification on the date of issuance, as the number of common shares to be issued per warrant was to be adjusted to sustain the agreed upon ownership percentage up until approval was obtained from the Company's shareholders at the AGM and approval under the Competition Act (Canada) was obtained. Under IFRS, these warrants were 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 was determined using the Black-Scholes pricing model with the following assumptions:

	May 9, 2018	**March 31, 2018**
Volatility	29.0%	29.0%
Risk-free interest rate	1.761%	1.637%
Dividend yield	3.77%	3.67%
Probability of approval at AGM	95%[i]	95%

[i] The derivative warrant liability was remeasured to fair value immediately prior to the May 9, 2018 AGM.

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

The derivative warrant liability was remeasured to fair value immediately prior to the AGM, which was determined to be $889 (note 5). The ability to exercise the sunshine warrants was approved by the Company's shareholders at the AGM. The warrants met equity classification criteria under IFRS on this date, as the holder will receive a fixed number of common shares for each warrant when exercised, and the fair value was reclassified to contributed surplus.

Aurora 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. The sunshine warrants are held by Aurora, which is a related party of the Company.

Pro rata warrants

The Company's pro rata warrants satisfy derivative liability classification requirements as exercise of the warrants is contingent on the conversion of any of the outstanding 4.70% Debentures, which allow Aurora to maintain its pro rata ownership percentage of the Company. The additional condition to obtain approval to exercise the pro rata warrants from the Company's shareholders was satisfied at the May 9, 2018 AGM.

(in thousands of Canadian dollars)

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:

	September 30, 2018	**February 14, 2018**
Volatility	32.4%	30.0%
Risk-free interest rate	2.680%	2.025%
Dividend yield	3.35%	3.01%
Probability of approval at AGM	n/a	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 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. The pro rata warrants are held by Aurora, which is a related party of the Company.

(in thousands of Canadian dollars)

9 (Loss) earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
		(Restated, note 3)		*(Restated, note 3)*
(Loss) earnings attributable to continuing operations	(3,991)	1,006	(7,090)	390
Loss attributable to discontinued operations	(21)	(4,214)	(402)	(10,575)
Net loss attributable to owners of the parent	(4,012)	(3,208)	(7,492)	(10,185)
	2018 **#**	**2017** **#**	**2018** **#**	**2017** **#**
Weighted average number of common shares outstanding – Basic	37,067,910	27,767,672	34,815,245	27,729,415
Effect of dilutive securities				
Equity-settled share-based payment awards	-	151,432	-	328,531
Weighted average number of common shares outstanding – Diluted	37,067,910	27,919,104	34,815,245	28,057,946
	2018	**2017**	**2018**	**2017**
Basic and diluted (loss) earnings per share	**$**	**$**	**$**	**$**
Continuing operations	(0.11)	0.04	(0.20)	0.01
Discontinued operations	-	(0.15)	(0.01)	(0.38)
Attributable to common shareholders	(0.11)	(0.11)	(0.21)	(0.37)

For the three and nine month periods ended September 30, 2018, potential shares issuable in exchange for all equity-settled share-based payment awards have been excluded in the diluted earnings per share calculation. Convertible debentures and warrants have been excluded in the diluted earnings per share calculation for the three and nine month periods ended September 30, 2018 and 2017 as their effect would have been anti-dilutive.

10 Share-based payments

The Company granted 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.

(in thousands of Canadian dollars)

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:

	Range Assumption
Expected life	3-year vesting period
Expected share price volatility of the Company	29.0-35.0%
Risk-free interest rate	1.86-2.30%
Dividend yield	3.63-3.95%

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. The 2018 PSU grants comprise the following:

Grant Date	Units Granted	Value Granted ($)
March 23, 2018	1,015,000	3,502
June 5, 2018	105,000	279
July 10, 2018	70,000	162
September 21, 2018	45,000	113
	1,235,000	4,056

11 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,	
	2018 $	2017 $	2018 $	2017 $
Accounts receivable	(1,087)	(549)	5,907	(1,766)
Inventory	(537)	16,013	(15,332)	16,707
Prepaid expenses and deposits	(324)	773	(2,810)	(667)
Assets held for sale	263	-	401	-
Accounts payable and accrued liabilities	1,932	1,017	(1,030)	(7,935)
Income taxes payable	-	(669)	(1,400)	2,012
Liabilities directly associated with assets held for sale	(166)	-	(335)	-
	81	16,585	(14,599)	8,351

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

	Three months ended September 30,		Nine months ended September 30,	
	2018 $	2017 $	2018 $	2017 $
Interest paid	1,694	791	3,617	1,911
Income taxes paid	829	901	4,120	2,275

12 Operating segments

As at September 30, 2018, the Company operated within two reportable business segments: Liquor Operations and Cannabis Operations. Each segment is a distinct unit that offers different products and services, has separate management structures, and their own marketing strategies and brands. Segmentation is based on differences in the regulatory environments of Liquor and Cannabis and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Corporate and other reconciling items include corporate administrative functions.

Previously, the Company disclosed its two reportable business segments as Canadian Liquor Operations and U.S. Liquor Operations. The Company has changed the reportable business segments on a retrospective basis as a result of: (i) the reduction in the size and geographic spread of its U.S. Liquor Operations with the disposition of its Kentucky and New Jersey stores locations in late 2017, and its intention to dispose of its store location in Connecticut and (ii) as a result of the passage of federal legislation in Canada, Bill C-45 "The Cannabis Act", on June 19, 2018, which set out the legislation for legalized retailing, use and consumption of recreational cannabis and the Company's advanced plans to develop and launch a retail cannabis business in jurisdictions where private retail is permitted. The Company's Liquor Operations are within Canada and the U.S., whereas the Company's Cannabis Operations are solely in Canada. There have been no changes to how the Company identifies Cash Generating Units ("CGUs") for the purposes of testing non-financial assets for impairment.

Results previously reported for the Canadian Liquor Operations and U.S. Liquor Operations segments have been combined in the prior period comparative figures to form the Liquor Operations segment. The operating loss before amortization of the Company's Cannabis Operations in the three months ended March 31, 2018 was $90. No significant costs were incurred in 2017 in the Company's Cannabis Operations segment.

Financial information regarding the results of each reportable business 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 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 Condensed Interim Consolidated Statement of (Loss) Earnings and Comprehensive (Loss) 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 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.

(in thousands of Canadian dollars)

	Three months ended September 30, 2018			
	Liquor Operations $	**Cannabis Operations** $	**Corporate and Other Reconciling Items** $	**Consolidated** $
Sales to external customers	168,836	-	-	168,836
Operating profit (loss) before amortization	9,797	(2,071)	(6,938)	788
Property and equipment amortization				3,786
Intangible asset amortization				94
Finance costs				1,209
Net loss (gain) on foreign exchange from financing activities				79
Fair value adjustments				1,019
Loss before income taxes				(5,399)
Other information				
Expenditures for additions to				
Property and equipment	6,652	5,201	438	12,291
Intangible assets			328	328

	Three months ended September 30, 2017			
	Liquor Operations $	**Cannabis Operations** $	**Corporate and Other Reconciling Items** $	**Consolidated** $
				(Restated, note 3)
Sales to external customers	163,975	-	-	163,975
Operating profit (loss) before amortization	14,291	-	(9,907)	4,384
Property and equipment amortization				2,897
Intangible asset amortization				72
Loss (gain) on disposal of assets				(1,406)
Finance costs				1,560
Net loss (gain) on foreign exchange from financing activities				49
Fair value adjustments				(555)
Earnings before income taxes				1,767
Other information				
Expenditures for additions to				
Property and equipment	4,536	-	121	4,657
Intangible assets			225	225

(in thousands of Canadian dollars)

	Nine months ended September 30, 2018			
	Liquor Operations $	Cannabis Operations $	Corporate and other reconciling Items $	Consolidated $
Sales to external customers	455,734	-	-	455,734
Operating profit (loss) before amortization	22,404	(4,498)	(17,621)	285
Property and equipment amortization				9,494
Intangible asset amortization				294
Finance costs				3,952
Net loss (gain) on foreign exchange from financing activities				6
Fair value adjustments				(3,929)
Loss before income taxes				(9,532)
Other information				
Expenditures for additions to				
Property and equipment	22,682	5,326	1,047	29,055
Intangible assets			2,024	2,024

	Nine months ended September 30, 2017			
	Liquor Operations $	Cannabis Operations $	Corporate and Other Reconciling Items $	Consolidated $
				(Restated, note 3)
Sales to external customers	454,169	-	-	454,169
Operating profit (loss) before amortization	34,735	-	(21,276)	13,459
Property and equipment amortization				7,678
Intangible asset amortization				198
Loss (gain) on disposal of assets				(1,406)
Finance costs				7,093
Net loss (gain) on foreign exchange from financing activities				231
Fair value adjustments				(885)
Loss before income taxes				550
Other information				
Expenditures for additions to				
Property and equipment	14,097	-	835	14,932
Intangible assets			612	612

(in thousands of Canadian dollars)

Geographic information

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Sales from continuing operations	**$**	**$**	**$**	**$**
Canada	140,958	138,264	379,926	379,395
U.S.	27,878	25,711	75,808	74,774

	September 30, 2018	December 31, 2017
Non-current assets	**$**	**$**
Canada	237,176	215,595
U.S.	23,519	23,153

13 Subsequent events

a) Cannabis

On October 17, 2018, the Company opened its first five (5) retail cannabis stores in Alberta, Canada. The Company is operating its retail cannabis stores under its newly created Nova Cannabis brand.

As at September 30, 2018, cannabis operations had capital commitments of $2.5 million and lease commitments for a total of 33 cannabis retail locations. The future minimum lease payments under non-cancellable operating leases for cannabis retail premises are as follows:

	$
Not later than one year	4,673
Later than one year and not later than five years	18,394
Later than five years	10,373
	33,440

b) Long-Term Debt

As at September 30, 2018, the Company has drawn $nil on its credit facility which has a maturity date of September 30, 2019. Subsequent to September 30, 2018, the Company and a syndicate group of lenders agreed to amend the credit facility with the primary purpose to:

- Decrease the total size of the credit facility to a total of $50 million from $165 million plus $15 million USD at the Company's request to reduce standby charges since the facility is not currently being drawn upon;
- Add the 'retailing of cannabis' as a permitted use of proceeds under the credit facility effective October 17, 2018 in connection with the Company opening its first five cannabis retail locations in Alberta;

- Reduce the number of lenders in the syndicate from five to two to reflect the size of the facility and as a result of certain lenders not providing their consent for the 'retailing of cannabis' as a permitted use of proceeds under the credit facility; and
- Include a covenant waiver period whereby commencing on September 30, 2018 the Company shall not be required to comply with the financial covenants of the credit facility so long as no amounts have been drawn on the credit facility.

As at September 30, 2018, the Company had a forward-starting interest rate swap expiring December 14, 2019 to fix the effective interest rate on a notional $60 million of principal debt with an interest rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. Subsequent to September 30, 2018, the Company terminated this interest rate swap agreement for a realized gain of $0.8 million.