ALCANNA inc.

(formerly Liquor Stores N.A. Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended September 30, 2018

Dated as at November 8, 2018

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1. Basis of Presentation

This Management's Discussion and Analysis ("**MD&A**") provides a comparison of Alcanna Inc.'s (the "**Company**" or "**Alcanna**", formerly known as Liquor Stores N.A. Ltd.) performance for the three and nine months ended September 30, 2018 with the three and nine months ended September 30, 2017. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2018 and 2017 (the "**interim financial statements**"), the audited consolidated financial statements for the years ended December 31, 2017 and 2016, the annual MD&A for the year ended December 31, 2017, and the Annual Information Form dated March 28, 2018, each of which is available on SEDAR at www.sedar.com**.** The information in this MD&A is current to November 8, 2018, unless otherwise noted.

In this MD&A, unless the context otherwise requires, all references to "we", "us", "our", "Alcanna", and "the Company" refer to Alcanna Inc. and its subsidiaries, and all references to "Management" refer to the directors and executive officers of the Company.

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

Effective November 18, 2017, the Company sold its Kentucky operations consisting of 15 retail liquor stores. On November 30, 2017, the Company sold its 51% indirect interest in Birchfield Ventures LLC ("**Birchfield**"), which consisted of two retail liquor stores in New Jersey. The Company decided to not open its Massachusetts operation (one unopened location, lease terminated in February 2018) and entered into negotiations to sell its one retail store location in Norwalk, Connecticut. Collectively, the Company has classified these operations as discontinued operations, and further information on the operating results of these operations and financial impact of the sales can be found in note 3 of the interim financial statements. Accordingly, the operating results for the Company in this MD&A are presented on the basis of the Company's continuing operations only, unless otherwise noted.

Throughout this MD&A references are made to non-IFRS financial measures, including same-store sales, operating (loss) profit before amortization, operating (loss) profit before amortization as a percentage of sales, adjusting items, adjusted operating (loss) profit before amortization, adjusted net (loss) earnings from continuing operations, and adjusted basic and diluted (loss) earnings per share from continuing operations. A description of these measures and their limitations are discussed under the heading "Non-IFRS Financial Measures", along with a reconciliation to the nearest IFRS financial measure.

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

2. Business Update and Outlook

In the third quarter of 2018, Alcanna continued transitioning from a declining business with a weak balance sheet pursuing a failed US expansion to a growth-focussed company with the financial strength to regain market share and pursue new growth opportunities in both liquor and cannabis. Alcanna has continued to invest heavily in assets and people to be in a position to capture that growth and enhance shareholder value over the next two to three years.

In the second and third quarters of 2018, Alcanna began to make the large investments required to create and build a solid foundation for our new cannabis retail business. As a result of these investments, the Company was well positioned for legalization on October 17, 2018 in our key market of Alberta where we obtained licenses for and opened five (5) of the first seventeen (17) cannabis retail locations granted by the provincial regulator. In the first nineteen days of legal cannabis sales, from Wednesday October 17, 2018 until close of business Sunday November 4, 2018, Alcanna's NOVA Cannabis brand stores recorded combined sales of approximately $3.7 million. We intend to open the maximum thirty-seven (37) cannabis retail locations allowed for any one operator in Alberta by mid 2019.

We also continued our initiatives to aggressively regain lost market share in our core liquor business. The launch of our first ten (10) discount stores, Deep Discount Liquor, has been successful with our sales in these stores increasing more than 110% over the prior year during the quarter. We have used tactical price programs, which have lowered gross margin percentages, combined with innovative use of preferred label and other measures to capture significant market share from our competitors.

Alcanna announced on November 8, 2018, in conjunction with its third quarter earnings press release, that it has entered into a non-binding letter of intent ("**LOI**") with a discount liquor store operator in Alberta, Ace Liquor Corporation ("**Ace**"), to form a new partnership in the discount liquor store business. Alcanna and Ace expect to enter into definitive agreements with the transaction closing in early 2019 subject to customary closing conditions, including receipt of all necessary third party and regulatory consents and approvals. The proposed partnership – Canadian Liquor Retailers Alliance ("**the Alliance**") – is anticipated to include all of Ace's current 12 locations and 3 additional locations under construction. The Alliance is anticipated to also acquire 50 retail stores from a subsidiary of Alcanna and which we anticipate the majority of which will be converted to the "Ace Liquor Discounter" brand. The LOI provides that Tank Vander, CEO of Ace, will become CEO of the Alliance and Donald Bobey, currently Vice President, Merchandising at Alcanna will become President and COO. The initial ownership of the Alliance partnership units is expected to be approximately 72% held directly or indirectly by Alcanna and 28% held by Ace.

The proposed material terms of the transaction are contained in the LOI; however, the definitive agreements have not been finalized, and these agreements will be subject to obtaining the necessary approvals and consents. Accordingly, there is no assurance that definitive agreements in connection with the proposed transaction will be agreed to nor that the transaction will be completed. The completion of the transaction will require, amongst other things, the approval of the transfer of liquor licenses to the Alliance by the applicable regulatory authorities, transfers of interests in leases as applicable; some of which will require third party consents, approval by Alcanna's lenders and other regulatory approvals as the case may be.

Alcanna has been seeking new locations to expand our highly profitable Wine and Beyond brand. We have signed or are in negotiations to allow for a further six (6) to nine (9) locations in Alberta within 2 years. We have commitments for sites in Lethbridge and St. Albert (part of the greater Edmonton region), Alberta, which are scheduled to open in Q2 2019 and late Q3 2019, respectively. We anticipate opening 4 additional Wine and Beyond locations in Calgary between mid 2019 and mid 2020 as well locations in Red Deer, Grand Prairie and

Fort McMurray. The current Wine and Beyond stores average approximately 4 times the revenue of a Liquor Depot and produce approximately 5 times the EBITDA. We believe that these stores have the largest product selection in Canada and offer an unparalleled customer experience to that offered elsewhere in Alberta or across Canada.

With the new government in Ontario permitting private retail of cannabis starting April 1, 2019 and having announced in its Speech from the Throne in July 2018 that it may permit the private retail of certain alcohol in Canada's largest province, Alcanna is well-positioned now having built up an infrastructure of people and expertise to be able to enter that market as legislation and regulations permit. We have been actively identifying retail cannabis locations since June 8, 2018, the day after the Ontario provincial election.

Accomplishing these goals will necessitate a period of significant capital investment which will affect short-term financial and operational results. The Company is committed to making prudent investments and taking advantage of its financial and operational strength to focus on long-term growth and share price appreciation.

New Company Name – New Direction: Alcanna Inc.

Shareholders approved changing the name of the Company from Liquor Stores N.A. Ltd. to Alcanna Inc. at the Annual and Special General Meeting held on May 9, 2018 (the **"AGM"**). Alcanna Inc. better reflects the Company's new strategic direction through the expansion of the Company's business into two divisions, alcohol and cannabis. The change in the name also signals a departure from the Company's previous history and the launch of a newly transformed business.

Funding Growth

On February 14, 2018, Alcanna issued 6,900,000 Common Shares through a private placement to an indirect wholly-owned subsidiary of Aurora Cannabis Inc., 2095173 Alberta Ltd. (the "**Investor**") at a price of $15.00 per Common Share for total gross proceeds of $103.5 million (the "**Aurora Financing**"), representing approximately 19.9% of the Company's Common Shares. In addition, the Investor subscribed for 2,300,000 subscription receipts at a price of $15.00 per subscription receipt for aggregate gross proceeds of $34.5 million. 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 AGM and as a result the Investor's ownership increased to approximately 25% of the Common Shares.

The Company has also issued to Aurora two classes of Common Share purchase warrants, which were approved at the AGM by the Company's shareholders:

- 10,130,000 sunshine warrants at an exercise price of $15.75 per Common Share to allow the Investor to increase its equity interest in the Company to approximately 40%; and

- Up to 1,750,000 pro rata warrants exercisable by the Investor at an exercise price of $15.00 per Common Share contingent upon the conversion of any of the outstanding 4.70% convertible unsecured subordinated debentures due January 31, 2022 (the "**4.70% Debentures**"), to allow the Investor to maintain its pro rata equity interest in the Company.

Pursuant to the related Investor Rights Agreement and subject to applicable law, the Company has committed to use a portion of the net proceeds from the Aurora Financing 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 construction of new stores.

Restore our position as a market leader in retail alcohol sales

The Company is implementing several initiatives to drive sales, improve profitability and ultimately regain market share lost to new competitors in recent years. A summary of these initiatives can be found in the Company's MD&A for the year ended December 31, 2017, dated March 14, 2018.

The following is a business update on certain of the key initiatives:

- On April 9, 2018, the Company announced Paul Reid as its new President and Chief Operating Officer of its Liquor division. Mr. Reid most recently was Vice President, Corporate Retail Operations at FGL Sports, a subsidiary of Canadian Tire, where he was responsible for $1.2 billion in sales from 216 corporate retail stores and 13,000 sales associates for the Sport Chek, Nevada Bob's Golf, Atmosphere, and Hockey Experts banners. Mr. Reid started with Sport Chek as a part-time associate while pursuing his post-secondary education and progressed up the organization over 27 years. He was involved with all aspects of retail excellence including Field Operations, Marketing, Store Operations, Customer Service, Communications, Business Analytics and Digital Store Experience. Amongst many other recognition, Mr. Reid was the recipient of the FGL Sports President's, Game Changer, and Leadership Awards.

  The key factors in selecting Mr. Reid were his breadth of retail experience, particularly in Alberta and Western Canada, his team-focused approach to retail and customer service, and that he embodies the culture-shift the Company is implementing.

- The Company is focused on improving the Liquor Depot brand image by accelerating the pace of renovating its Alberta and British Columbia store locations. Thirty-four (34) store renovations were initiated or completed in the first three quarters of 2018.

- On March 22, 2018, the Company launched a discount liquor store banner, *Deep Discount Liquor*. Ten (10) under-performing liquor stores were converted to Deep Discount Liquor in March and April 2018, and the use of this brand will initially be limited to a small number of strategic locations in close proximity to existing competitors who operate at a low price, low margin discount pricing strategy. The early results of this strategy have been positive in terms of driving increased market share with sales and customer traffic both increasing on average over 110% during Q3 2018 compared to the prior year.

- In Q2 and Q3 2018, the Company ramped up its strategy to secure new Wine and Beyond locations in Alberta and other jurisdictions where private liquor retail is permitted or may be permitted in the near future. We believe that our Wine and Beyond stores, which range in size from 10,000 to 20,000 square feet, have the largest product selection in Canada and offer an unparalleled customer experience to that offered in other jurisdictions. We anticipate that all future Wine and Beyond stores will maintain the strong financial returns as our first five stores.

Launch a market leading retail cannabis business

The Company, through its Nova Cannabis branded stores, is focused on developing a market leading cannabis business to be in the best possible position to obtain as many retail licenses as possible within the regulatory framework. At the same time, the Company will concentrate on building our brand in a reasoned and measured way. The Company's focus for the cannabis brand is on long term value creation over three to five years. The Company plans on making the investments in people, assets, product knowledge and customer experience and loyalty to ensure we build a profitable business over the long term.

On June 19, 2018, Canadian federal legislation, Bill C-45 "The Cannabis Act", was passed and sets out the legislation for legalized retailing, use and consumption of recreational cannabis which started on October 17, 2018.

The province of Alberta and the major municipalities in the province have implemented their cannabis regulations governing the licensing and operation of retail cannabis stores. Seventeen (17) cannabis retail locations in Alberta received final approval to be a licensed retailer from the Alberta Gaming, Liquor and Cannabis Commission ("**AGLC**") as at October 17, 2018 of which Alcanna received five (5). We believe we are well positioned to receive license approval from the AGLC and the necessary develop permits from the municipalities to open the maximum thirty-seven (37) cannabis retail locations allowed for any one operator in Alberta by mid 2019.

The opportunity for Alcanna to profitably open stores in British Columbia and Ontario is uncertain at this time as certain provincial and municipal regulations and processes for applying for retail cannabis licenses and development and/or building permits has not yet been announced.

Planned Initiatives	Status
Invest in a strong leadership team for cannabis to supplement the existing infrastructure in place at the Company.	*Completed*: • Key leadership positions for our Cannabis business have been filled.
Obtain superior cannabis store locations by leveraging the Company's strong financial position, well-established reputation with landlords and extensive real estate network. We have proven ourselves to be a market leading and responsible retailer of controlled substances like alcohol and will use these strengths to position the Company as the lessee of choice for landlords looking to lease potential new cannabis locations. We will also leverage, where possible and strategic, existing liquor stores to convert into retail cannabis stores.	*In-Progress*: • We have secured a sufficient number of sites in Alberta to ensure that we are able to open the maximum number of cannabis retail locations allowed by AGLC during the first year of legalization (37). • The timing of opening these locations will be subject to obtaining development and/or building permits from the various municipalities in the province. The major municipalities in Alberta have implemented their own rules and processes to obtain a development permit.
Ensure store management and associates are well trained and highly knowledgeable by leveraging the deep cannabis product knowledge and training programs from the licensed producers (where allowed by provincial regulation).	*In-Progress:* • We have successfully recruited all of the store managers for the store locations that we have opened and anticipate opening during the remainder of Q4 2018 and are in progress to hire all the necessary sales associates for the stores opening during the remainder of Q4 2018. All store employees must obtain their Qualified Cannabis Worker certificate from the Alberta government and receive our training programs (a total of approximately 80 hours of education) before we will allow them to work in our stores.
Develop a market leading brand and store design by leveraging the Company's knowledge of consumer behavior and preferences of the core markets of Alberta and B.C., supplemented with external brand development experts with significant consumer experience qualifications.	*Completed* • Our store design has been completed and used in the first five stores we opened on October 17, 2018. We believe that our store design has been a key differentiator compared to our competitors. The store design will evolve as we adapt to consumer preferences and habits.

	• Federal and Provincial legislation and regulations have restricted the ability of all cannabis retailers to market and promote their stores/products externally. However, we did receive significant interest from investors, market participants and media coverage (TV, radio, newspapers, magazine, digital) with respect to the grand opening week, which assisted in marketing our brand, NOVA Cannabis, to the public.
Be 'first to market' by operating 'best in class' retail cannabis stores from day one that are focused on executing a customer service and education culture. The Company has significant experience in building, opening and operating mass market stores selling controlled substances that it believes many of its competitors will not possess.	*Completed*: • We opened 5 of the 17 stores allowed in Alberta on October 17, 2018 and recorded sales of $3.7 million in the first nineteen days of legalization.
Continue to be a strong partner for Provincial regulators by ensuring that the Company's unparalleled 25-year track record for regulatory compliance in the responsible retail sales of alcohol continues for the retail sale of cannabis. We have industry-leading internal programs and controls to meet our goal of 100% compliance in each of our stores to ensure the retail cannabis industry is developed in the Company's core markets with a focus on social responsibility and safety.	*Completed*: • We received 5 of the first 17 interim licenses to retail cannabis from the AGLC and have developed what we believe is an industry leading compliance program to meet and exceed the requirements of the AGLC.

Expected Capital Investment of the Strategic Plan

The Company expects to make the following capital investments as part of its implementation of its strategic plan:

- Targeting, subject to applicable provincial licensing and municipal regulations, 37 cannabis retail locations to open in Alberta between October 17, 2018 and mid 2019 at an aggregate capital cost of $20 million to $25 million, plus aggregate inventory investments of $10 million to $12 million.

- Opening up to 4 new Wine and Beyond locations in Alberta in 2019 at an aggregate capital cost of $8 million to $11 million, plus aggregate inventory investments of $7 million to $10 million. Should any other jurisdiction in Canada permit the private retailing of alcohol, such as Ontario, we would anticipate aggressively opening stores in that jurisdiction should the rules to do so be favourable to the Company.

- As at September 30, 2018 we had thirty-four (34) renovations of existing liquor stores completed or in progress. We are planning a further 3-5 liquor store renovations to be completed in Q4 2018 at an aggregate capital cost of $1 million to $2.5 million. We have changed our targeted number of liquor store renovations in 2018 and 2019 as we believe that there may be opportunities to redeploy this capital into other jurisdictions where the capital may obtain higher rates of return on our investment, such as Ontario where the opportunity may arise to open both liquor and cannabis retail locations.

- The Alliance (see the Business Update section of this MD&A for further discussion) anticipates renovating the majority of the 50 stores it will acquire from a subsidiary of Alcanna and converting these stores to the "Ace Liquor Discounter" brand by the end of Q2 2019 at an aggregate capital cost of between $5.5 million and $6.5 million.

- Completing the implementation of a new enterprise resource planning ("**ERP**") system that will improve business operations, enhance inventory management and procurement to further reduce capital invested in inventory, enhance internal data management, create significant insight into customer shopping behavior, and provide a scalable growth platform. The implementation cost is estimated to be between $5 million to 7 million over the next 12 months and the Company is targeting implementation in mid-2019 for liquor. We implemented this new system as our ERP for the Company's cannabis operations, which went live on October 17, 2018.

Outlook

The Company's strategic focus is clear – to regain our place as a market leader in retail alcohol sales, grow our liquor brands with an emphasis on Wine and Beyond and our newly announced Canadian Liquor Retail Alliance, and establish ourselves as a socially-responsible market leader in retail cannabis sales.

We are dramatically transforming the Company. As with any successful transformation the focus is on long-term shareholder value. To sacrifice those objectives for short-term results would be both irresponsible and eventually costly.

The Company's financial position is strong, and we will use that strength to its best advantage. Our objective is to turn a strong balance sheet into an equally strong income statement in a transformed business. The Liquor Stores N.A. Ltd. business model had to change, and it is changing. More than just the name itself, Alcanna is a dynamic growth-oriented business.

- In our ten (10) Deep Discount Liquor locations, we have recalibrated pricing to a lower gross margin percentage for these locations to win back market share lost to discount competitors. The goal is to maximize sales for these locations and it is working well.

- We intend to reduce gross margin as a percentage of sales in 2018 and into early 2019 as compared to 2017 as we become more competitive on select traffic driving promotions, with the objective of driving sales and regaining market share in our core business.

- We will incur very significant upfront costs to: develop and launch a cannabis brand; build an executive and operational management team for the cannabis business; and invest in the hiring and training of a workforce to operate the cannabis store locations. While we will leverage the existing administrative operation in place for liquor retail to the extent possible (i.e. IT, accounting and other administrative services), we will invest in the infrastructure required to build a market leading cannabis brand and retail operations team focused on executing and maintaining that brand. We also expect to incur rent costs for leased premises to secure favorable real estate locations and operating losses in the near term as we build our brand and market share. We anticipate these aggregate costs to be approximately $4.0 million to $4.5 million per quarter in Q4 2018 and Q1 2019.

- As we build out our cannabis retail brand across multiple locations, our focus will be on attracting and retaining as many cannabis customers as possible. Our goal will be to win market share and increase the size of the legal cannabis market through efforts to make the cannabis retail experience as immersive, educational and welcoming as possible and as regulations permit. We will make substantial investments in the staffing and ongoing training of store associates and management, create a pricing strategy that is cognizant of black-market pricing, and in-store assortment that we expect will be market leading. As such, we expect that early profitability from these locations will be limited, similar to when we open new liquor stores. However, our long-term profitability from these stores is anticipated to be significant.

3. Performance Overview

The following table summarizes highlights of the Company's financial performance for the three months ended September 30, 2018 and 2017:

	Three months ended September 30,					
	2018		2017		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[5]	130,089	77.1%	127,707	77.9%	2,382	1.9%
Other Canadian stores [1]	2,881	1.7%	2,039	1.2%	842	41.3%
Canadian wholesale	7,988	4.7%	8,518	5.2%	(530)	-6.2%
Total Canadian store sales	140,958	83.5%	138,264	84.3%	2,694	1.9%
U.S. same-stores (US$)[5]	21,332	12.6%	19,941	12.1%	1,391	7.0%
Other US stores [2]	-	0.0%	585	0.4%	(585)	-100.0%
Foreign exchange on U.S. store sales	6,546	3.9%	5,185	3.2%	1,361	26.3%
Total U.S. store sales	27,878	16.5%	25,711	15.7%	2,167	8.4%
Total sales	168,836	100.0%	163,975	100.0%	4,861	3.0%
Gross margin	41,958	24.9%	43,154	26.3%	(1,196)	-2.8%
Selling and distribution expenses	33,897	20.1%	28,863	17.6%	5,034	17.4%
Administrative expenses	7,273	4.3%	5,160	3.1%	2,113	40.9%
Restructuring charges	-	0.0%	4,747	2.9%	(4,747)	-100.0%
Operating profit before amortization [5]	788	0.5%	4,384	2.7%	(3,596)	-82.0%
Adjusted operating profit before amortization [5]	2,859	1.7%	9,131	5.6%	(6,272)	-68.7%
Net (loss) earnings from continuing operations	(3,977)	-2.4%	1,039	0.6%	(5,016)	-482.8%
Adjusted net (loss) earnings from continuing operations [5]	(2,451)	-1.5%	8,267	5.0%	(10,718)	-129.6%
Basic and diluted (loss) earnings per share from continuing operations	(0.11)		0.04		(0.15)	-375.0%
Basic and diluted adjusted (loss) earnings per share from continuing operations [5]	(0.07)		0.30		(0.37)	-123.3%

The following table summarizes highlights of the Company's financial performance for the nine months ended September 30, 2018 and 2017:

	Nine months ended September 30,					
	2018		2017		Variance	
(Cdn $000's unless otherwise noted)	$	%	$	%	$	%
	(unaudited)		(unaudited)			
Sales						
Canadian same-stores[5]	342,944	75.3%	343,476	75.6%	(532)	-0.2%
Other Canadian stores [3]	14,078	3.1%	11,534	2.5%	2,544	22.1%
Canadian wholesale	22,904	5.0%	24,385	5.4%	(1,481)	-6.1%
Total Canadian store sales	379,926	83.4%	379,395	83.5%	531	0.1%
U.S. same-stores (US$)[5]	57,999	12.7%	55,611	12.2%	2,388	4.3%
Other US stores [4]	803	0.2%	1,672	0.4%	(869)	-52.0%
Foreign exchange on U.S. store sales	17,006	3.7%	17,491	3.9%	(485)	-2.8%
Total U.S. store sales	75,808	16.6%	74,774	16.5%	1,034	1.4%
Total sales	455,734	100.0%	454,169	100.0%	1,565	0.3%
Gross margin	113,944	25.0%	120,457	26.5%	(6,513)	-5.4%
Selling and distribution expenses	93,953	20.6%	85,722	18.9%	8,231	9.6%
Administrative expenses	19,706	4.3%	16,529	3.6%	3,177	19.2%
Restructuring charges	-	0.0%	4,747	1.0%	(4,747)	-100.0%
Operating profit before amortization [5]	285	0.1%	13,459	3.0%	(13,174)	-97.9%
Adjusted operating profit before amortization [5]	6,792	1.5%	19,639	4.3%	(12,847)	-65.4%
Net (loss) earnings from continuing operations	(7,024)	-1.5%	503	0.1%	(7,527)	-1496.4%
Adjusted net (loss) earnings from continuing operations [5]	(2,228)	-0.5%	9,755	2.1%	(11,983)	-122.8%
Basic and diluted (loss) earnings per share from continuing operations	(0.20)		0.01		(0.21)	-2100.0%
Basic and diluted adjusted (loss) earnings per share from continuing operations [5]	(0.07)		0.34		(0.42)	-120.0%

Notes:

(1) *Sales for Other Canadian stores for the three months ended September 30, 2018 and 2017 include those of three new stores opened, eight stores closed and one wine-only store in British Columbia sold to a third party subsequent to June 30, 2017.*

(2) *Sales for Other U.S. stores for the three months ended September 30, 2018 and 2017 include one store closure subsequent to June 30, 2017.*

(3) *Sales for Other Canadian stores for the nine months ended September 30, 2018 and 2017 include those of three new stores opened, ten stores closed, two stores in British Columbia relocated to more desirable locations, and one wine-only store in British Columbia sold to a third party subsequent to January 1, 2017.*

(4) *Sales for Other U.S. stores for the nine months ended September 30, 2018 and 2017 include one store closed subsequent to January 1, 2017.*

(5) *Same-store sales, operating profit before amortization, adjusted operating profit before amortization, adjusted net (loss) earnings from continuing operations, and basic and diluted adjusted (loss) earnings per share from*

continuing operations are non-IFRS measures that do not have standardized meaning prescribed by IFRS. For more information and a reconciliation of non-IFRS measures to the closest IFRS measure see the 'Non-IFRS Financial Measures' section of this MD&A.

Third Quarter 2018 Operating Results Compared to Third Quarter 2017 Operating Results

Sales

Total sales were $168.8 million in the third quarter of 2018, an increase of 3.0% versus $164.0 million in Q3 2017, attributable to:

<u>Same-Store Sales</u>

- The 1.9% increase in Canadian same-store sales compared to the same period last year was attributable to the launch of the Company's discount liquor banner in late March and April 2018, and to increased sales from the Company's Wine and Beyond banner.
- Same-store sales in Alaska increased compared to Q3 2017 by 7.0% as a result of two stores that were renovated in mid-2017 and continued improvements to customer service and overall execution in our stores.

<u>Other Sales</u>

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $8.0 million for the three months ended September 30, 2018 vs. $8.5 million in the prior year. This decline was primarily driven by a decrease in activity in our bar and restaurant customers.
- Sales for the Other Canadian stores have increased by $0.8 million compared to the same period in the prior year primarily due to the opening of a new Wine and Beyond location in Calgary, AB in September 2017, which contributed more than the lost contribution from the eight stores closed and the one that was sold since June 30, 2017.

<u>Foreign exchange</u>

- The impact of foreign exchange on the Company's U.S. store sales resulted in a $1.4 million positive adjustment in $USD sales being converted to $CAD compared to Q3 2017 as a result of the strengthening in the U.S dollar compared to the Canadian dollar.

Gross Margin

Gross margin as a percentage of sales for the period was deliberately reduced by two initiatives undertaken by the Company: (i) the launch of a discount liquor store banner, *Deep Discount Liquor*, in ten strategic locations in close proximity to existing competitors who operate low price, low margin discount pricing strategy; and (ii) to gain market share in Alberta by being more competitive on select traffic driving promotions in our other store banners.

Gross margin for the period was $42.0 million versus $43.2 million for the same period last year.

Selling and distribution expenses

Selling and distribution expenses for the three months ended September 30, 2018 were $33.9 million, up $5.0 million from $28.9 million a year earlier. The Company's selling and distribution expenses increased primarily as a result of the impact of an increase in the minimum wage in Alberta and British Columbia, increases in leasing costs for existing locations and a $2.5 million investment made to secure strategic cannabis retail store locations, build out the Company's new cannabis operations team and other costs associated with launching the Company's retail cannabis business.

Administrative expenses

Administrative expenses for the three months ended September 30, 2018 were $7.3 million, an increase of $2.2 million from $5.1 million a year earlier, primarily due to investments to support the Company's new cannabis division.

Restructuring charges

The restructuring charges of $4.7 million incurred in the prior period related to the closure of the Company's U.S. head office in Kentucky and termination of its U.S. based executives and management. No such expenses were incurred in the current year.

Operating profit before amortization

Operating profit before amortization for the three months ended September 30, 2018 was $0.8 million versus $4.4 million in the prior year. The decrease in our operating profit was due to the decrease in gross margin and increase in selling and distribution expenses and administrative costs as discussed above.

Adjusted operating profit before amortization for the three months ended September 30, 2018 decreased by $6.3 million, to $2.9 million with the impact of the investments in the cannabis business, and the prior year incremental costs for the contested annual shareholders meeting removed.

Amortization of property, equipment and intangible assets

Amortization expense on property, equipment and intangible assets of $3.9 million for the third quarter of 2018 increased by $0.9 million compared to the same period in the prior year (Q3 2017 - $3.0 million). The increase in amortization in the current year related primarily to higher accelerated amortization for stores being renovated or closed this year, and due to increased amortization expense on new stores opened and renovated during the past twelve months.

Finance Costs

Finance costs for the third quarter of 2018 decreased by $0.4 million to $1.2 million (Q3 2017 - $1.6 million). The decrease related to lower average long-term debt balances compared to the same period due to the Company's strengthened cash position from the proceeds received from the Aurora Financing. No amounts are currently drawn on the Company's operating line of credit, contributing to the decrease.

Net loss on foreign exchange from financing activities

During the three months ended September 30, 2018, the Company recorded a $0.1 million loss on foreign exchange from financing activities (2017 – less than $0.1 million).

Fair value adjustments

Fair value adjustments in the third quarter of 2018 are comprised of a loss recorded on the derivative warrant liabilities ($1.1 million), as a result of the increase in our Common Share price. The loss was offset by an less than $0.1 million unrealized gain recorded for an interest rate swap (Q3 2017 - $0.6 million gain).

Income Taxes

In the third quarter of 2018, we recorded an income tax recovery of $1.4 million for an effective tax rate of 26.3% (Q3 2017 - $0.7 million expense). Our annual effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2018 compared to 2017.

Net (loss) earnings from continuing operations

For the three months ended September 30, 2018, a net loss from continuing operations of $4.0 million was recorded (Q3 2017 – net earnings of $1.0 million). The decrease in net earnings is due to the decrease in operating profit before amortization, increase in amortization and increase in gains on fair value adjustments discussed further above, which was offset by the decrease in finance costs. On a per share basis, basic loss per share from continuing operations was $0.11 for Q3 2018 (Q3 2017 – $0.04 basic gain per share).

Normalized for other adjusting items (see 'Non-IFRS Financial Measures' of this MD&A for a summary of adjusting items), adjusted net loss was $2.5 million, a decline of $10.7 million from $8.3 million in the same period in the prior year.

Nine months ended September 30, 2018 Operating Results Compared to Nine months ended September 30, 2017 Operating Results

Sales

Total sales were $455.7 million for the nine months ended September 30, 2018 versus $454.2 million in the prior period, attributable to:

- A decline in overall industry liquor sales in the Alberta market. However, the Company believes based on information from vendors and market intelligence that decline in our sales was less than declines experienced by its competitors and the market in general.
- During the period a number of store renovations were underway;
- These decreases were offset by the launch of the Company's discount liquor banner in late March and April 2018, which positively impacted same-store sales compared to the same period last year; and
- Same-store sales in Alaska increased compared to the prior year by 4.3% as a result of two stores that were renovated in mid-2017 as a result of continued improvements to customer service and overall execution in our stores.

Other Sales

- Canadian wholesale sales, which include sales to licensee customers in Alberta (restaurants, lounges, hotels, etc.), were $22.9 million for the nine months ended September 30, 2018 compared to $24.4 million in the prior period. This decline was primarily driven by a decrease in activity in our bar and restaurant customers.
- Sales for the Other Canadian stores have increased $2.5 million compared to the same period in the prior year due to the opening of a new Wine and Beyond location in Calgary, AB in September 2017, along with strong performance from the two relocated stores in British Columbia more than offsetting the sales decline from closed stores.

Gross Margin

Gross margin as a percentage of sales for the period was deliberately reduced by three initiatives undertaken by the Company: (i) to gain market share in Alberta by being more competitive on select traffic driving promotions; (ii) to clear out aging and slow-moving inventory items; and (iii) to launch a discount liquor store banner, *Deep Discount Liquor*, in ten (10) strategic locations in close proximity to existing competitors who operate low price, low margin discount pricing strategy.

Gross margin as for the period was $113.9 million, versus $120.5 million for the same period last year.

Selling and distribution expenses

Selling and distribution expenses for the nine months ended September 30, 2018 were $94.0 million, up $8.3 million from $85.7 million a year earlier. The increase in selling and distribution expenses related primarily to the increase in the minimum wage in Alberta and British Columbia, increases in leasing costs for existing locations and a $4.5 million investment made to secure strategic cannabis retail store locations, build out the Company's new cannabis operations team and other costs associated with launching the Company's retail cannabis business.

Administrative expenses

Administrative expenses for the nine months ended September 30, 2018 were $19.7 million, an increase of $3.3 million from $16.5 million a year earlier, primarily due to investments being made to support the Company's new cannabis division and recruitment costs related to the hiring of new senior leaders for the Company.

Restructuring charges

The restructuring charges of $4.7 million incurred in the prior period related to the closure of the Company's U.S. head office in Kentucky and termination of its U.S. based executives and management. No such expenses were incurred in the current year.

Operating profit before amortization

Operating profit before amortization was $0.3 million compared to a $13.5 million profit in the prior year. The decrease in operating profit was primarily due to the decrease in gross margin and increase in selling and distribution expenses and administrative costs as discussed above.

Adjusted operating profit before amortization for the nine months ended September 30, 2018 decreased by $12.8 million, to a $6.8 million profit with the impact of the investments in cannabis and liquor businesses, and prior year incremental costs for the contested annual shareholders meeting removed.

Amortization of property, equipment and intangible assets

Amortization expense of $9.8 million for the first nine months of 2018 increased by $1.9 million from the same period in the prior year (2017 - $7.9 million). The increase in amortization in the current period related primarily to higher accelerated amortization for stores being renovated or closed this year, and due to increased amortization expense on new stores opened and renovated during the past twelve months.

Finance Costs

Finance costs have decreased by $3.1 million to $4.0 million for the nine months ended September 30, 2018 (2017 - $7.1 million) related to the $1.2 million of non-cash finance costs recorded on the early redemption of the 5.85% debentures in 2017; a similar charge was not incurred in the current period. The remainder of the decrease related to lower average long-term debt balances compared to the same period due to the Company's strengthened cash position from the proceeds received from the Aurora Financing. No amounts are currently drawn on the Company's operating line of credit, contributing to the decrease.

Fair value adjustments

Fair value adjustments in the third quarter of 2018 are comprised of gains recorded on the derivative warrant liabilities ($4.0 million), as a result of the decline in our Common Share price from the time that the warrants were issued. The gains were offset by an unrealized loss recorded for an interest rate swap of $0.1 million (Q3 2017 - $0.9 million gain).

Income taxes

In the first nine months of 2018, the Company recorded an income tax recovery of $2.5 million (2017 – insignificant expense) for an effective rate of 26.3%.

The Company's estimated effective rate of tax will fluctuate based on the estimated proportion of income/loss attributable to each jurisdiction that the Company operates in for 2018 compared to 2017.

Net (loss) earnings from continuing operations

For the nine months ended September 30, 2018, a net loss of $7.0 million was recorded, representing an increased loss of $7.5 million compared to the same period in the prior year (2017 – $0.5 million net earnings). The increase in net loss is due to the decrease in operating profit and increase in amortization expense, which was offset by the gain on derivative warrant liabilities and reduction in finance costs discussed above. On a per share basis, loss per share was $0.20 for the nine months ended September 30, 2018 (2017 – $0.01 earnings per share).

Normalized for other adjusting items (see 'Non-IFRS Financial Measures' of this MD&A for a summary of adjusting items), adjusted net loss was $2.2 million, a decline of $12.0 million from $9.8 million adjusted net earnings in the same period in the prior year.

4. Liquidity and Capital Resources

Summary of Consolidated Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
(expressed in thousands)	**2018**	**2017**	**2018**	**2017**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in) operating activities	362	18,015	(18,272)	12,245
Cash used in investing activities	(15,244)	(8,585)	(22,306)	(15,091)
Cash (used in) provided by financing activities	(3,377)	(11,490)	98,243	(2,967)
Effect of exchange rate on changes in cash	(186)	(56)	330	(117)
Net (decrease) increase in cash	(18,445)	(2,116)	57,995	(5,930)

Operating activities

(expressed in thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in) operating activities	362	18,015	(18,272)	12,245
Less, cash provided by (used in) operating activities, discontinued operations	443	(8,818)	2,721	(12,639)
Net (decrease) increase in cash	(81)	26,833	(20,993)	24,884

For the three months ended September 30, 2018, cash provided by operating activities from continuing operations was $0.4 million, a $17.6 million decrease from $18.0 million cash provided in the same period in the prior year. The decrease primarily related to a decline in operating profit before amortization[1] compared to Q3 2017, as discussed previously in this MD&A, and a reduction in inventory during the comparative period.

For the nine months ended September 30, 2018 cash used in operating activities from continuing operations was $18.3 million, an increase of $30.5 million from $12.2 million cash provided in the same period in the prior year. The decrease primarily related to a decline in operating profit before amortization[1] compared to the same period in the prior year, as discussed previously in this MD&A, and an investment in inventory.

Investing activities

For the three months ended September 30, 2018, cash used in investing activities was $15.2 million, a $6.6 million increase from $8.6 million cash used in investing activities for the same period in the prior year primarily related to assets acquired for the construction of new stores, renovation activity, and investments in the ERP which has increased compared to the same period in the prior year.

For the nine months ended September 30, 2018, cash used in investing activities was $22.3 million, a $7.2 million increase from $15.1 million used in investing activities for the same period in the prior year. The increased spend in assets acquired for the construction of new stores, renovation activity, and investments in the ERP was partially offset by the $8.3 million in receivables collected in the first quarter of 2018 related to the disposition of its Kentucky and New Jersey locations (2017 - $nil).

Financing activities

For the three months ended September 30, 2018, cash used in financing activities was $3.4 million, compared to $11.5 million cash used from the same period a year ago. Financing activities in the current period primarily related to $3.2 million used for dividends to shareholders (Q3 2017 - $2.9 million) and a $0.2 million repayment of long-term debt (Q3 2017 - $8.6 million)

For the nine months ended September 30, 2018, cash provided from financing activities was $98.2 million, compared to $3.0 million cash used from the same period a year ago. In the period, the Company issued Common Shares, net of share issuance costs as part of the Aurora Financing (see the "Business Update and Outlook" section of this MD&A) for cash proceeds of $137.0 million (Q3 2017 - $nil), had cash used for the repayment of long-term debt of $30.2 million (Q3 2017 - $5.5 million in proceeds from long-term debt), and $8.4 million in cash used for return of capital to shareholders (Q3 2017 - $6.9 million).

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

Foreign currency translation (loss) gain on cash

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

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

The resulting unrealized exchange gains and losses from these translation adjustments are included as a separate component of shareholders' equity in accumulated other comprehensive income. The effect of exchange rate changes on cash balances held in foreign currencies is separately reported as part of the reconciliation of the change in cash balances for the period. The U.S. dollar experienced increases and decreases against the Canadian dollar at times during the three and nine months ended September 30, 2018, and based on the timing and level of cash held in U.S. dollars, the Company has recorded a $0.2 million loss on cash held in foreign currency in the three months ended September 30, 2018 (Q3 2017 – insignificant loss) and a $0.3 million gain in the nine months ended September 30, 2018 (2017 - $0.1 million loss).

Credit Facilities and Subordinated Debentures

Subsequent to September 30, 2018, the Company and a syndicate group of lenders agreed to amend the credit facility available to the Company which has a maturity date of September 30, 2019. The primary purpose of the amendment was 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 wanting to provide 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.

At November 8, 2018, there was nothing drawn on the credit facility and the Company was in a positive net cash position from the Aurora Financing (see "Business Update and Outlook" section in this MD&A).

The Company's credit facility is subject to a number of financial covenants. Under the terms of the Company's credit facility, the following ratios are monitored: funded debt to EBITDA, adjusted debt to EBITDAR and fixed coverage ratio. There are no financial covenants attributable to the 4.70% Debentures.

Funded debt to EBITDA ratio

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

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

Adjusted debt to EBITDAR

Adjusted debt is defined under the amended and restated credit facility as the Company's debt plus seven times aggregate rent expense. EBITDAR is defined as EBITDA plus aggregate rent expense.

Fixed charge coverage ratio

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

Effective September 30, 2018, the Company was not in compliance with the fixed charge coverage ratio and therefore had initiated the covenant waiver period whereby the Company was not required to comply with the financial covenants of the credit facility as no amounts were drawn on the credit facility. Due to the anticipated growth and investments in the Company's cannabis and liquor operations, Alcanna intends to negotiate a new credit facility along with the relevant covenants with its banking syndicate or pursue other financing alternatives by the end of the first quarter of 2019, to have sufficient liquidity with which to continue to execute its growth strategies. Alcanna's strong relationship with its banking syndicate, no draws on its credit facility, and the fact that the Company's unsecured subordinated debentures do not mature until 2022 leave it well positioned to favourably conclude these negotiations. The Company's covenants are as set forth below:

Ratio	**Covenant**	**As at September 30, 2018**
Funded debt to EBITDA	< 3.50:1.00	0.06
Adjusted debt to EBITDAR	< 5.00:1.00	4.95
Fixed charge coverage	> or = 1.05:1.00	0.83

The funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed, including acquired stores.

4.70% Debentures

On September 29, 2016 the Company issued $67.5 million principal amount of 4.70% Debentures and on October 4, 2016 the Company issued an additional $10.1 million principal amount of 4.70% Debentures upon exercise of the over-allotment option of the underwriters for a total aggregate principal amount of $77.6 million. The 4.70% Debentures are due January 31, 2022 and bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year. The 4.70% Debentures are convertible at any time at the option of the holders into Common Shares at a conversion price of $14.60 per share (the **"Conversion Price"**).

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

Liquidity Risk

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

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Company has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Company from being able to fund operating and liquidity needs in the near term. As at November 8, 2018, the Company has approximately $45 million in cash available to finance operating requirements, growth opportunities and for general corporate purposes.

Interest Rate Risk and Sensitivity

The Company's indebtedness in respect of its credit facility bears interest at floating rates. The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company had previously entered into an interest rate swap effective on December 14, 2015 and expiring December 14, 2019, to fix the effective interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. The Company does not use hedge accounting for this swap, and accordingly, its fair value is recorded on the statement of financial position, with changes in fair value recorded in earnings. Subsequent to September 30, 2018, the Company terminated the interest rate swap agreement, as no amounts are currently drawn on the credit facility, for a realized gain of $0.8 million.

As no amounts are currently drawn on the credit facility, we have not performed a sensitivity analysis to changes in market interest rates on floating rate indebtedness and their potential annual impact on the Company as at November 8, 2018.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with a major Canadian chartered bank. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta; however, wholesale customer purchases represent less than 5% of the Company's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Company is not subject to significant concentration of credit risk with respect to its customers; primarily all receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales. The expected credit loss ("**ECL**") model is now being applied to the Company's trade receivables from wholesale customers, as discussed in "Critical Accounting Estimates and Accounting Policies" section of this MD&A.

Foreign Exchange Risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A portion of cash flows are realized in U.S. dollars and as such, fluctuations in the exchange rate between the Canadian dollar and U.S. dollar may have an effect on financial results. Refer to the Performance Overview section of this MD&A where we highlight the impact that translating our U.S. dollar denominated sales into Canadian dollars has had on the Company's consolidated sales.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings. This exposure primarily relates to U.S. intercompany management fees, interest payments and dividends which totalled US$3.0 million for the twelve months ended September 30, 2018.

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

Contractual Obligations

The table below sets forth, as of September 30, 2018, the contractual obligations of the Company due in the years indicated and relate to various premises operating leases, finance leases for a portion of the Company's vehicles, software licenses and maintenance, and the 4.70% Debentures.

(expressed in thousands)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Operating leases	8,486	31,587	28,816	26,033	21,361	55,704
Finance leases	70	404	198	123	-	-
4.70% Debentures	-	-	-	-	77,625	-
Software licenses and maintenance	309	-	-	-	-	-
Total	8,865	31,991	29,014	26,156	98,986	55,704

5. Analysis of Consolidated Financial Position

Selected accounts (Cdn $000's)	As at September 30, 2018	As at December 31, 2017
Cash	60,150	2,155
Accounts receivable	5,138	19,168
Inventory	100,299	84,333
Assets held for sale	2,548	2,860
Total current assets	180,033	117,654
Property and equipment	68,903	49,534
Intangible assets	37,628	35,576
Goodwill	145,519	145,519
Total assets	440,728	356,402
Accounts payable and accrued liabilities	47,376	47,639
Dividends payable	3,337	2,501
Derivative warrant liabilities	2,013	-
Liabilities directly associated with assets held for sale	1,155	1,450
Total current liabilities	54,365	53,397
Long-term debt	72,952	101,903
Total liabilities	130,498	162,617
Shareholders' equity	310,230	193,785

The Company is required, consistent with other liquor retailers, to pay for inventory prior to receiving it in Alberta and British Columbia. As we do not have traditional payment terms on the Company's inventory in those jurisdictions, the Company's long-term debt (which funds inventory purchases) and overall leverage is not directly comparable to retailers who have trade payment terms.

The discussion below analyzes certain changes in the Company's consolidated financial position compared to December 31, 2017:

- Cash increased by $58.0 million to $60.2 million as at September 30, 2018, primarily as a result of the funds received from the Aurora Financing received in the period (see the "Business Update and Outlook" section of this MD&A) net of the repayment of the Company's operating line of credit/long-term debt and cash used for investing activities.

- Accounts receivable decreased by $14.0 million to $5.1 million as at September 30, 2018, primarily as a result of the collection of sale proceeds from the sale of Birchfield ($4.4 million, received in full in February 2018) and from the sale of the 15 stores in Kentucky, and transitional support provided to the new owners of that business ($9.6 million, received in full in Q1 2018).

- Inventory increased by $16.0 million to $100.3 million as at September 30, 2018, primarily related to ramping up our inventory buys as we head into the holiday selling season and as a result of additional purchases to support the growth of our control and exclusive brands.

- The carrying value of property and equipment was $68.9 million, a $19.4 million increase from the prior year end (December 31, 2017 - $49.5 million). Additions during the period related primarily to store renovations, two new liquor store locations constructed in Edmonton and Medicine Hat, five new cannabis retail locations under construction as at September 30, 2018, and maintenance capital expenditures.

- Intangible assets increased by $2.1 million to $37.6 million as at September 30, 2018, which primarily related to additions related to the design and implementation of the ERP.

- Goodwill was $145.5 million as at September 30, 2018, consistent with the prior year end.

- Accounts payable and accrued liabilities of $47.4 million as at September 30, 2018 were consistent with the balance at December 31, 2017.

- The derivative warrant liabilities of $2.0 million arose from the Aurora Financing (see the "Business Update and Outlook" section of this MD&A).

<u>Subscription receipts</u>

The conversion of subscription receipts into Common Shares was contingent on approval from the Company's shareholders (other than Aurora, its associates, and affiliates) at the AGM and the satisfaction of other escrow release conditions.

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 $32.6 million from the private placement were allocated to the subscription receipts, and transaction costs of $0.3 million were deducted from the value of the subscription receipts on initial recognition. The subscription receipt liability has been recognized at an amortized cost of $34.1 million (gross proceeds of $34.5 million, less a discount of $0.1 million and transaction costs of $0.3 million), with the difference in fair value and amortized cost of $1.7 million recorded as a reduction to share capital.

On May 9, 2018, the subscription receipts were converted to Common Shares upon obtaining the required approval by shareholders, and the accreted subscription receipt liability of $34.5 million and a deferred tax recovery of $0.1 million on the initial transaction costs recorded was reclassified to share capital.

<u>Sunshine warrants</u>

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 annual meeting of shareholders 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.

A fair value of $4.2 million was recognized at the time of issuance of the sunshine warrants, and insignificant transaction costs were recognized immediately in administrative expenses.

The derivative warrant liability was remeasured to fair value immediately prior to the AGM. 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 of $0.9 million 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.

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 AGM.

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. A fair value of $2.8 million was recognized at the time of issuance of the pro rata warrants, and insignificant transaction costs 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.

- Long-term debt was $73.0 million at September 30, 2018, a $28.9 million decrease from the prior year end (December 31, 2017 - $101.9 million) as a result of using the funds received from the Aurora Financing received in the period (see the "Business Update and Outlook" section of this MD&A) to repay the Company's operating line of credit.

- Shareholders' equity increased by $116.5 million to $310.2 million as at September 30, 2018, primarily as a result of the issuance of Common Shares as part of the Aurora Financing (see the "Business Update and Outlook" section of this MD&A). This increase in shareholders' equity was offset by the net loss recorded and the dividends paid to shareholders during the period.

As at September 30, 2018 and November 8, 2018 the Company did not have any off-balance sheet arrangements in place, other than the operating leases identified above under the heading "Liquidity and Capital Resources – Contractual Obligations".

6. Shareholders' Equity

At September 30, 2018, the Company had 37,075,167 Common Shares outstanding. The basic and diluted weighted average number of Common Shares outstanding for the three months ended September 30, 2018 was 37,067,910 (compared to 27,767,672 and 27,919,104 for the comparative period for the basic and diluted weighted average number of Common Shares outstanding). The basic and diluted weighted average number of Common Shares outstanding for the nine months ended September 30, 2018 was 34,815,245 (compared to 27,729,415 and 28,057,946 for the comparative period for the basic and diluted weighted average number of Common Shares outstanding). As at November 8, 2018, 37,108,069 Common Shares were issued and outstanding.

7. Dividends

Dividend Policy

Effective for the fourth quarter of 2017, the Company changed the frequency of the dividend payments to quarterly. As such the dividends are now paid, if declared, to Shareholders of record as at the last day of the quarter, on or about the 15th day of the subsequent month. The dividend for the third quarter of 2018 of $0.09 was paid in October 2018.

The amount of future cash dividends, if any, will be subject to the discretion of the Board of Directors of Alcanna (the "**Board**") and may vary depending on a variety of factors and conditions existing from time to time, including the prevailing economic and competitive environment, Alcanna's results of operations and earnings, financial requirements for Alcanna's operations and the execution of its strategic plan, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, the satisfaction of solvency tests imposed by the *Canada Business Corporations Act* (the "**CBCA**") for the declaration and payment of dividends and other factors and conditions existing from time to time. Depending on these and various other factors, many of which are beyond the control of the Board, the Board may change the Company's dividend policy from time to time, and as a result, future cash dividends could be reduced or suspended entirely. The market value of the Common Shares may deteriorate if the Board reduces or suspends the amount of cash dividends that Alcanna pays in the future and such deterioration may be material. See the "*Risk Factors*" section of this MD&A.

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

The agreement governing Alcanna's credit facility contains provisions which restrict its ability to pay dividends to Shareholders in the event of the occurrence of certain events of default. The full text of the agreement governing Alcanna's credit facility is available on SEDAR at www.sedar.com. For additional information regarding the credit facility, see note 10 to the December 31, 2017 Annual Financial Statements and the "Liquidity and Capital Resources" section in this MD&A.

Dividend Reinvestment Plan

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

As at November 8, 2018, shareholders enrolled in the DRIP held approximately 2.0 million shares.

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

8. Related Party Transactions

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

As a result of the Aurora Financing as discussed in the “Business Update and Outlook” section of this MD&A, Aurora’s indirect ownership interest was approximately 25% of our Common Shares at September 30, 2018 and is therefore related party of the Company. The Company’s pro rata and sunshine warrants are indirectly held by Aurora.

The Company had no other related party transactions during the three and nine months ended September 30, 2018.

9. Business Overview

The Common Shares and 4.70% Debentures trade on the TSX under the symbols “CLIQ” and “CLIQ.DB”, respectively.

Liquor Retail

As of November 8, 2018, the Company owned and operated 172 retail liquor stores in Alberta, 33 stores in British Columbia, 21 stores in Alaska and one store in Connecticut that is currently in the process of being disposed of. The stores are comprised of 8 destination-format stores, 218 convenience format liquor stores and one wine only store.

Alcanna primarily operates under the brand name "Liquor Depot" for its convenience format locations in Alberta and British Columbia, which typically range in size from 2,000 to 5,000 square feet. While several of the locations in Alberta and British Columbia operate under the brand name “Liquor Barn” currently, the Company is actively rebranding these locations to “Liquor Depot” as these stores are renovated. The Company launched its first ten discount stores, which operate under the brand name “Deep Discount Liquor” and typically range in size from 2,000 to 5,000 square feet. The Company also operates five large format locations in Alberta under the brand name “Wine and Beyond” with significantly expanded product selection compared to the convenience format stores and range in size from 10,000 to 20,000 square feet. The Company’s stores in Alaska, which operate under the brand name “Brown Jug”, range in size from 1,400 to 14,000 square feet, with one combined store and warehouse premises being in excess of 40,000 square feet.

The following provides a summary of the Company's liquor retail locations as at November 8, 2018:

	January 1/18 to November 8/18			
	1-Jan-18	**Opened**	**Closed[(4) (5)]**	**8-Nov-18**
Alberta				
Edmonton[(1)]	82	1	(1)	82
Calgary[(1)]	43	-	(1)	42
Other[(2)]	50	1	(3)	48
	175	2	(5)	172
British Columbia				
Interior	10	-	-	10
Lower Mainland	12	-	-	12
Vancouver Island	11	-	-	11
	33	-	-	33
Alaska				
Anchorage	18	-	(1)	17
Other[(3)]	4	-	-	4
	22	-	(1)	21
Connecticut				
Norwalk	1	-	-	1
	1	-	-	1
Total	**231**	**2**	**(6)**	**227**

Notes:

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

(2) *Other stores in Alberta by region: Northern (23), Southern (11), Central (12) and resort communities (two).*

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

(4) *The stores closed in the Other Alberta include one store closed in Red Deer, one store closed in Slave Lake, and one store closed in Leduc, each case due to underperformance.*

(5) *One store in Alaska was closed due to underperformance.*

Approximately 99% (2017: 98%) of the retail sales in Alberta, 96% (2017: 96%) of the retail sales in British Columbia, and 88% (2017: 88%) of the retail sales in Alaska in the three months ended September 30, 2018 were derived from the sale of alcoholic products. Stores in British Columbia and Alaska are permitted to sell tobacco products, to varying extents, in addition to alcoholic products and related accessories. Approximately 9% (2017: 8%) of Alaska's retail sales in the three months ended September 30, 2018 were derived from tobacco products.

Cannabis Retail

The following provides a summary of the Company's cannabis retail locations as at November 8, 2018:

	October 17/18 to November 8/18		
	Opened October 17, 2018	**Opened**	**8-Nov-18**
Alberta			
Edmonton(1)	4	-	4
Calgary(1)	1	-	1
Other(2)	-	-	-
Total	5	-	5

Notes:

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

(2) Other refers to other regions in Alberta outside of the greater Edmonton and Calgary regions.

The Company intends to establish a retail cannabis business in jurisdictions that allow the retailing of cannabis through private enterprises, such as in Alberta, British Columbia and Ontario, through the conversion of existing retail outlets and the establishment of new cannabis retail outlets subject to necessary licenses and government approvals.

In Alberta, the Company opened five cannabis retail locations on October 17, 2018 and intends to open a total of thirty-seven (37), the maximum allowed to any one license holder as per the provincial regulations, by mid-Q2 2019. Alcanna believes that it is well-positioned to obtain the remaining thirty-two (32) retail cannabis licenses from the AGLC given its strong track record in liquor retail, which is also regulated by the AGLC.

In British Columbia, the provincial government will be opening cannabis stores through the British Columbia Liquor Distribution Branch and will be responsible for the wholesale distribution of products. The British Columbia Liquor Control & Licensing Branch will likely be responsible for licensing and compliance for private retail participants, similar to the current BC liquor system. The application process for private licenses in this jurisdiction has not yet commenced. The opportunity for Alcanna to profitably open stores in British Columbia is uncertain at this time as the provincial and municipal legislation and process for applying for retail cannabis licenses and development and/or building permits has not yet been announced.

In Ontario, the provincial government will be responsible for the wholesale distribution of products. The Liquor Control Board of Ontario will likely be responsible for licensing and compliance for private cannabis retail participants. The application process for private licenses in this jurisdiction has not yet commenced. The opportunity for Alcanna to profitably open stores in Ontario is uncertain at this time as the provincial and municipal legislation and process for applying for retail cannabis licenses and development and/or building permits has not yet been announced.

Seasonality

The retail liquor industry is subject to seasonal variations. The Company's sales are typically lowest in the first half of the year and increase in the latter half. In 2017, 21% (2016 - 21%) of annual sales occurred in the first quarter, 26% (2016 - 25%) in the second quarter, 26% (2016 - 26%) in the third quarter, and 27% (2016 - 28%) in the fourth quarter. The Company's working capital requirements are greatest in the second and third quarters as we increase inventory for the summer and the holiday seasons, respectively.

Policy on Same-Store Sales Comparisons

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

10. Critical Accounting Estimates and Accounting Policies

The Company's financial statements include estimates and assumptions made by Management in respect of operating results, financial conditions, contingencies, commitments and related disclosures. Actual results may vary from these estimates.

The Company has:

- continuously refined and documented its management and internal reporting systems to ensure that accurate and timely internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions, which are based on past experience and other factors that are deemed reasonable under the circumstances.

- hired employees and consultants who have the skills required to make such estimates and ensures that employees or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

- a mandate that includes ongoing development of procedures, standards and systems to allow staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's policies.

The Company's summary of significant accounting policies, estimates and critical judgments are contained in note 3 to the 2017 audited annual consolidated financial statements. The accounting policies applied by the Company as described in these interim financial statements are the same as those applied by the Company 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. 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 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.

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 de-recognition 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:

(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.

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

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 certain warrants issued as part of the Aurora Financing. 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 of the interim financial statements.

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

11. Non-IFRS Financial Measures

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

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

- Operating profit (loss) before amortization for purposes of disclosure under the headings "Performance Overview - Third Quarter 2018 Operating Results Compared to Third Quarter 2017 Operating Results" and "Performance Overview – Nine months ended September 30, 2018 Operating Results Compared to the Nine months ended September 30, 2017 Operating Results" in this MD&A has been derived by subtracting selling and distribution expenses and administrative expenses from gross margin. Operating profit before amortization as a percentage of sales is calculated by dividing operating profit before amortization by sales.

- Adjusted operating profit or loss before amortization represents operating profit before amortization adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the 'Performance Overview' section.

- Adjusted net earnings or loss from continuing operations is calculated as net earnings or loss from continuing operations less the tax effected adjusting items. The tax effect of the adjusting items is calculated by multiplying the adjusting items by the statutory rate of income tax of the applicable jurisdiction. Adjusted basic and diluted earnings or loss per share from continuing operations is calculated as adjusted net earnings or loss from continuing operations divided by basic or diluted weighted average number of Common Shares outstanding.

Management believes the presentation of same-store sales, operating profit (loss) before amortization, operating profit before amortization as a percentage of sales, adjusting items, adjusting operating profit before amortization, adjusted net earnings from continuing operations and adjusted basic and diluted earnings per share from continuing operations provides for useful information to investors and Shareholders as it provides increased transparency and predictive value of the Company's recurring financial results. Management uses adjusted operating profit before amortization to set targets and assess performance of the Company.

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

Refer below for a reconciliation of operating profit before amortization and net (loss) earnings to adjusted operating profit before amortization and adjusted net (loss) earnings:

	Three months ended September 30,		**Nine months ended September 30,**	
(expressed in thousands)	**2018**	**2017**	**2018**	**2017**
Operating profit before amortization	788	4,384	285	13,459
Adjusting items:				
Investments made in the new Cannabis Operations	2,071		4,498	
Non-recurring costs to achieve key strategic goals in the Liquor Operations			2,009	
Additional costs incurred in preparation for the contested 2017 annual shareholders meeting				1,433
Severance to former members of senior management upon departure from the Company		4,747		4,747
Total adjusting items	2,071	4,747	6,507	6,180
Adjusted operating profit before amortization	2,859	9,131	6,792	19,639

	Three months ended September 30,		**Nine months ended September 30,**	
(expressed in thousands)	**2018**	**2017**	**2018**	**2017**
Net (loss) earnings from continuing operations	(3,977)	1,039	(7,024)	503
Total adjusting items per above	2,071	4,747	6,507	6,180
Early redemption of 5.85% debentures				1,196
Impairment of goodwill and property and equipment		5,775		5,775
Fair value adjustment on non-controlling interest put option		(1,135)		(1,135)
Tax effect of adjusting items	(545)	(2,159)	(1,711)	(2,764)
Total adjusting items, after tax	1,526	7,228	4,796	9,252
Adjusted net (loss) earnings from continuing operations	(2,451)	8,267	(2,228)	9,755

12. Risk Factors

Other than the risks noted below, there have been no updates to the Company's Risk Factors. For further discussion, refer to the Company's Annual Information Form dated March 28, 2018 and the Company's annual MD&A for the year ended December 31, 2017.

Limited Operating History for Cannabis Division

The cannabis division of the Company has a limited history of operations in an emerging and rapidly changing area of business. The cannabis division of the Company is in the early stage of development. As such, the Company will be subject to many risks common to such enterprises, including: limitations with respect to personnel, financial and other resources and lack of revenues; risks that it may not develop its product and service offerings in a way that is profitable and meets customers' requirements or expectations; risks that its growth strategy may not be successful; risks that fluctuations in its operating results will be significant relative to its revenues; and risks relating to an evolving regulatory regime in various provinces. The Company's future growth will depend substantially on its ability to address these and the other risks described in this section.

Further Regulatory Risks in Provinces

Execution of the Company's retail cannabis strategy is contingent upon compliance with provincial and municipal regulatory requirements allowing it to be licensed for the retail sale of cannabis. In Ontario and British Columbia, parts of the regulatory regime have yet to be enacted by governmental authorities. Not obtaining necessary regulatory approvals for the location of retail stores, the sale of cannabis and other products expected to be distributed by the Company is a risk. The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, financial condition and operating results of the Company.

Supply Risks

The Company currently has no, nor is it permitted to have any, supply agreements for cannabis products. The provincial governments, or their agents, in British Columbia, Alberta and Ontario are the sole distributor of legal cannabis. The Company has the risk of only one supplier of cannabis for all its retail locations. Since October 17th, 2018, the date of legalization, various retail participants have experienced supply shortages in numerous provinces.

Target Market Difficult to Identify and Quantify

Because the cannabis industry is in a nascent stage there is a lack of information about the size of the market, spending patterns, product preferences and various consumer traits and habits. There can be no assurance that the Company's estimates and forecasts it uses for planning purpose are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. Additionally, the continued existence of the black market, and its impacts on legal cannabis, is difficult to quantify.

IP Risk Factors

There can be no assurance that the steps taken by Alcanna to protect its intellectual property rights will preclude competitors or others from alleging they have an interest in its brand names. Alcanna believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

13. Internal Controls over Financial Reporting, Disclosure Controls and Procedures

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

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

The Chief Executive and Chief Financial Officers have certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the three and nine months ended September 30, 2018. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three and nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

14. Condensed Quarterly Information

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

	2018			2017				2016
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Statement of Earnings								
# stores, end of period	227	230	229	231	250	251	252	253
Sales from continuing operations	168,836	161,084	125,814	167,192	163,975	162,435	127,759	170,300
Net earnings (loss) attributable to the owners of the parent from continuing operations	(3,991)	(1,260)	(1,839)	(1,122)	1,006	2,324	(2,937)	3,386
Net earnings (loss) attributable to owners of the parent	(4,012)	(1,362)	(2,118)	(20,342)	(3,208)	(2,067)	(4,910)	(6,094)
Basic and diluted earnings (loss) per share from continuing operations	(0.11)	(0.04)	(0.06)	(0.04)	0.04	0.08	(0.11)	0.11
Basic and diluted earnings (loss) per share	(0.11)	(0.04)	(0.07)	(0.73)	(0.11)	(0.07)	(0.18)	(0.22)

Quarterly sales in 2018 compared to 2017 and 2016 were affected by the following significant items:

- Sales in Q2 and Q3 2018 were positively impacted by the conversion of 10 existing stores to our new discount banner, Deep Discount Liquor.

- Easter shifted timing in 2018 where it started at the end of Q1 2018 compared to occurring in Q2 in 2017 and Q1 in 2016, which increased the Company's sales in Q1 2018 compared to Q1 2017 and increased the Company's sales in Q2 2017 compared to Q2 2018. The Easter shift caused an improvement in the sales trend of the Company in Q1 2018 and Q2 2017.

- The Company experienced poor weather in B.C. and Alberta in Q1 2018 compared to Q1 2017, and in Q2 2017 compared to Q2 2016, which caused a decline in beer sales compared to the prior year.

- Sales from the Company's seven Fort McMurray locations increased in Q2 2017 compared to Q2 2016, as these stores were closed for approximately one month due to forest fires that occurred in the region in Q2 2016. The Company's sales from these locations decreased in Q3 and Q4 2017 compared to those same periods in 2016 as a result of the rebuilding and restoration efforts (which caused a temporary increase in the population of Fort McMurray) during those periods that drove a higher level of sales in Q3 and Q4 2016.

- The Company's sales were negatively impacted in both 2018 and 2017 from a strengthening Canadian dollar compared to the U.S. dollar in the prior comparative year.

Quarterly net (loss) earnings in 2018 compared to 2017 and 2016 were affected by the following significant items:

- The overall declines in sales discussed above negatively impact the Company's net earnings (loss). Much of the Company's operating and administrative cost base is fixed and therefore largely does not scale up or down to match sales trends.

- The Company's operating costs were impacted throughout 2018 and 2017 by an increase in the minimum wage in compared to prior comparative year in Alberta and British Columbia.

- The Company's operating costs increased by approximately $2.3 million in Q2 2018 and $3.0 million in Q3 2018 as we build out a team and the necessary support for our new cannabis division.

- The Company incurred additional operating expenses in Q1, Q2 and Q3 2017 related to the opening of a new large format store in Norwalk, Connecticut in October of 2016. The Company also incurred costs in Q2 2017 to rebrand and relaunch this store location.

- The Company incurred less finance costs in Q1 2018 compared to Q1 2017 as a result of the Aurora Financing (see the "Business Update and Outlook" section of this MD&A). The Company incurred additional finance costs in Q1 and Q2 related to additional interest costs incurred from the issuance of a new series of subordinated debentures (the 4.70% Debentures) in Q4 2016, along with additional non-cash interest costs associated with the redemption of the previous 5.85% Debentures in May 2017.

- The Company incurred costs of approximately $4.7 million in Q3 2017 related to the termination of three U.S.-based executives of the Company.

- The Company sold a single wine-only location in British Columbia for a gain on sale of approximately $1.4 million in Q3 2017.

- The Company completed a store network optimization plan, which resulted in accelerated amortization being recorded for these stores in Q3 and Q4 2017, which increased amortization expense compared to 2016 for those same periods.

- The Company recorded a net reversal of previously recorded impairment charges of $1.6 million in Q4 2017, compared to a net impairment charge of $1.5 million in Q4 2016.

- The Company recorded a one-time re-measurement of the Company's remaining U.S. deferred tax assets and liabilities as a result of a significant reduction in the U.S. federal tax rate in Q4 2017.

For an explanation and analysis of quarterly results, refer to Management's Discussion and Analysis for each of the respective quarterly periods filed on SEDAR at www.sedar.com.

15. Forward Looking Statements

This MD&A contains forward-looking statements or information (collectively "**forward-looking statements**") within the meaning of the "safe harbour" provisions of applicable securities legislation. All statements and information, other than statements of historical fact contained in this MD&A, are forward-looking statements. In particular, this MD&A contains forward-looking statements, with respect to, without limitation, our future financial position, capital and liquidity, cash dividends, business strategy, proposed acquisitions and dispositions, the execution and impact of the Strategic Plan on the Company's business, results of operations and financial condition, retail cannabis strategy, plan to renovate existing liquor retails outlets, the Aurora Financing, budgets, government regulation and laws, projected costs, plans and objectives of or involving Alcanna. Shareholders and prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words and the negative thereof.

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to: risks relating to government regulation and changes thereto (whether by court decisions, citizen referenda, or otherwise); competition; the state of the economy including general economic conditions in Canada (including Alberta) and the U.S.; the unpredictability and volatility of the price of the Common Shares; restrictions on potential growth; restrictions on the potential growth of Alcanna as a consequence of the payment of cash dividends by Alcanna representing a substantial amount of its operating cash flow; availability of sufficient financial resources to fund the Company's capital expenditures; changes in commodity tax rates and government mark-ups; risks relating to future acquisitions and development of new stores; the ability of Management to execute the Strategic Plan; Alcanna's ability to locate and secure acceptable store sites and to adapt to changing market conditions; poor weather conditions; dependence on key personnel; labour costs, shortages and labour relations including Alcanna's ability to hire and retain staff at current wage levels and the risk of possible future unionization; supply interruption or delays; dependence on suppliers; limited operating history of the cannabis business, further regulatory risks from the provinces in the cannabis business, supply risk in the cannabis business, risk of infringement of intellectual property rights, reliance on information and control systems; income tax changes; leverage and restrictive covenants in agreements relating to current and future indebtedness of Alcanna; credit risks arising from operations; dilution and future sales of Common Shares; and the potential lack of an active trading market for the Common Shares and the 4.70% Debentures. The information contained in this MD&A, including the information set forth under the heading "Risk Factors", and as disclosed in other filings made by the Company with Canadian securities regulatory authorities and available on SEDAR at www.sedar.com, identifies additional factors that could affect the operating results and performance of Alcanna. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and

Alcanna assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities legislation.

16. Additional Information

Additional information relating to the Company, including our Annual Information Form, is available on SEDAR at www.sedar.com.