*Consolidated Financial Statements of*

# ROCKY MOUNTAIN LIQUOR INC

*December 31, 2016*

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## Management's Responsibility

To the Shareholders of Rocky Mountain Liquor Inc:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of members who are Directors or Officers of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 24, 2017

| *"Peter J. Byrne"* | *"Sarah Stelmack"* |
| --- | --- |
| Chief Executive Officer | Chief Financial Officer |

# Independent Auditors' Report

To the Shareholders of Rocky Mountain Liquor Inc:

We have audited the accompanying consolidated financial statements of Rocky Mountain Liquor Inc and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2016 and, December 31, 2015 and the consolidated statements of changes in shareholders' equity, comprehensive (loss) income, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Liquor Inc and its subsidiary as at December 31, 2016, December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Alberta

MNP LLP

April 24, 2017

Chartered Professional Accountants

# ROCKY MOUNTAIN LIQUOR INC

**Consolidated Statements of Financial Position**

| As at | Note | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT | | | |
| Cash and cash equivalents | | **786,285** | 862,726 |
| Accounts receivable | | **134,729** | 209,452 |
| Inventory | | **5,868,662** | 6,458,838 |
| Prepaid expenses and deposits | | **180,747** | 180,914 |
| Current portion of loans receivable | 5 | **13,755** | 13,085 |
| Income taxes recoverable | | **112,824** | 23,661 |
| | | **7,097,002** | 7,748,676 |
| NON-CURRENT | | | |
| LOANS RECEIVABLE | 5 | **59,464** | 73,219 |
| PROPERTY AND EQUIPMENT | 7 | **2,984,135** | 3,572,541 |
| GOODWILL | 8 | **6,677,262** | 11,099,633 |
| | | **16,817,863** | 22,494,069 |
| **LIABILITIES** | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | | **723,299** | 673,188 |
| Bank loan | 10 | **7,349,495** | 5,574,285 |
| Goods and services tax payable | | **38,441** | 37,632 |
| Current portion of convertible debentures | 11 | **-** | 8,258,477 |
| | | **8,111,235** | 14,543,582 |
| NON-CURRENT | | | |
| DEFERRED TAX LIABILITY | 9 | **-** | 160,065 |
| CONVERTIBLE DEBENTURE | 11 | **5,644,535** | - |
| | | **13,755,770** | 14,703,647 |
| **SHAREHOLDERS' EQUITY** | | | |
| Equity component of convertible debentures | 11 | **96,694** | 117,657 |
| Share capital | 13 | **4,667,442** | 4,682,551 |
| Contributed surplus | 14 | **1,004,483** | 979,412 |
| Retained earnings | | **(2,706,526)** | 2,010,802 |
| | | **3,062,093** | 7,790,422 |
| | | **16,817,863** | 22,494,069 |

| | |
|---|---|
| COMMITMENTS | 17 |
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*The accompanying notes form an integral part of these consolidated financial statements*

Approved on behalf of the board:

***Frank Coleman*** — **Chair, Board of Directors**

***Robert Normandeau*** — **Chair, Audit Committee**

## ROCKY MOUNTAIN LIQUOR INC

**Consolidated Statements of Changes in Shareholders' Equity**

| | Note | Equity component of convertible debenture | Share capital | Contributed surplus | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Opening balance as at Jan 1, 2015 | | 136,011 | 4,774,481 | 937,532 | 1,722,861 | 7,570,885 |
| Repurchase of debentures | 11 | (18,354) | - | - | - | (18,354) |
| Repurchase of shares | 13, 14 | - | (91,930) | 41,880 | - | (50,050) |
| Net comprehensive income for the year | | - | - | - | 287,941 | 287,941 |
| Balance at Dec 31, 2015 | | 117,657 | 4,682,551 | 979,412 | 2,010,802 | 7,790,422 |
| Repurchase of debentures | 11 | (3,901) | - | - | - | (3,901) |
| Repurchase of shares | 13, 14 | - | (15,109) | 8,009 | - | (7,100) |
| Partial redemption of convertible debenture | 11 | (17,062) | - | 17,062 | (240,383) | (240,383) |
| Net comprehensive (loss) income for the period | | - | - | - | (4,476,945) | (4,476,945) |
| Balance at Dec 31, 2016 | | 96,694 | 4,667,442 | 1,004,483 | (2,706,526) | 3,062,093 |

*The accompanying notes form an integral part of these consolidated financial statements*

# ROCKY MOUNTAIN LIQUOR INC

## Consolidated Statements of Comprehensive (Loss) Income

| | Note | **Dec 31, 2016** | Dec 31, 2015 |
|---|---|---|---|
| SALES | | **45,342,791** | 49,315,282 |
| COST OF SALES | 4 | **34,388,647** | 36,644,632 |
| | | **10,954,144** | 12,670,650 |
| OPERATING AND ADMINISTRATIVE EXPENSES | 15 | **10,272,819** | 10,641,265 |
| INCOME FROM OPERATIONS | | **681,325** | 2,029,385 |
| DEPRECIATION | 7 | **673,534** | 690,197 |
| OTHER EXPENSES (INCOME) | | | |
| Loss on disposal of property and equipment | 6, 7 | **366,367** | 95,815 |
| Gain on disposal of retail stores | 6 | **-** | (13,944) |
| Provision for impairment of goodwill | 8 | **4,422,371** | - |
| Gain on extinguishment of convertible debenture | 11 | **(1,111,833)** | - |
| Gain on repurchase of convertible debenture | 11 | **(42,213)** | (228,419) |
| Finance costs | 12 | **1,022,355** | 1,024,505 |
| Bad debt expense | 20 | **22,074** | 29,416 |
| Store closure expenses | | **116,250** | 41,945 |
| Other income | | **(60,141)** | (12,093) |
| | | **4,735,230** | 937,225 |
| (LOSS) INCOME BEFORE TAX | | **(4,727,439)** | 401,963 |
| INCOME TAXES | 9 | **(250,494)** | 114,022 |
| NET COMPREHENSIVE (LOSS) INCOME | | **(4,476,945)** | 287,941 |
| Basic income per share | 16 | **(0.08)** | 0.00 |
| Diluted income per share | 16 | **(0.08)** | 0.00 |
| Weighted average number of shares - basic | | **56,951,837** | 57,644,914 |
| Weighted average number of shares - diluted | | **56,951,837** | 57,644,914 |

*The accompanying notes form an integral part of these consolidated financial statements*

## ROCKY MOUNTAIN LIQUOR INC

**Consolidated Statements of Cash Flows**

| | Note | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net comprehensive (loss) income | | **(4,476,945)** | 287,941 |
| Items not affecting cash | | | |
| Depreciation | 7 | **673,534** | 690,197 |
| Loss on disposal of property and equipment | 6, 7 | **366,367** | 81,871 |
| Provision for impairment of goodwill | 8 | **4,422,371** | - |
| Gain on extinguishment of convertible debenture | 11 | **(1,111,833)** | - |
| Gain on repurchase of convertible debenture | 11 | **(42,213)** | (228,419) |
| Net accretive interest | 11 | **152,860** | 26,211 |
| Deferred tax expense | 9 | **(160,065)** | 33,931 |
| Amortization of convertible debenture issue costs | 11 | **-** | 83,027 |
| Change in fair value of interest rate swap | | **-** | (45,977) |
| Changes in non-cash working capital | 18 | **626,823** | (194,109) |
| Cash flow provided by operating activities | | **450,899** | 734,673 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 7 | **(453,095)** | (418,772) |
| Proceeds on disposal of property and equipment | 6, 7 | **1,600** | 80,800 |
| Cash flow used in investing activities | | **(451,495)** | (337,972) |
| FINANCING ACTIVITIES | | | |
| Repayment of loans receivable | 5 | **13,085** | 3,696 |
| Net proceeds from bank loan | 10 | **1,775,210** | 342,102 |
| Repurchase and redemption of convertible debenture | 11 | **(1,365,787)** | (698,581) |
| Transaction costs on restructuring convertible debenture | 11 | **(491,253)** | - |
| Repurchase of shares | 13 | **(7,100)** | (50,050) |
| Cash flow used in financing activities | | **(75,845)** | (402,833) |
| DECREASE IN CASH | | **(76,441)** | (6,132) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | | **862,726** | 868,858 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | | **786,285** | 862,726 |
| CASH FLOWS SUPPLEMENTARY INFORMATION | | | |
| Interest paid | | **825,922** | 973,502 |
| Income taxes paid | | **91,000** | 108,078 |

*The accompanying notes form an integral part of these consolidated financial statements*

## 1. NATURE OF OPERATIONS

Rocky Mountain Liquor Inc. (“Rocky Mountain Liquor” or “RML”) is incorporated under the Canada Business Corporations Act, and is a tier one issuer with its common shares listed on the TSX Venture Exchange (under the symbol “RUM”). The Company’s registered corporate office is located at 11478 149 Street, Edmonton, Alberta, T5M 1W7.

Rocky Mountain Liquor is the parent to a wholly owned subsidiary, Andersons Liquor Inc. (“Andersons”), acquired through a reverse takeover (“RTO”) on Dec 1, 2008.

As at Dec 31, 2016 Andersons operated 42 retail liquor stores in Alberta, selling beer, wine, spirits, ready to drink products, as well as ancillary items such as juice, ice, soft drinks and giftware as well as one convenience store.

These consolidated financial statements have been approved for issue by the Board of Directors on Apr 24, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

### Basis of consolidation

The consolidated financial statements include the accounts of Rocky Mountain Liquor and its wholly owned subsidiary, Andersons, resulting in the consolidated entity (the “Company”). Inter-company balances and transactions and any unrealized earnings and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

### Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

### Critical accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated statement of financial position are discussed below.

***Estimates:***

*Inventory*

Management has estimated the value of inventory based upon their assessment of the realizable amount less selling costs. No inventory has been identified as requiring a write down.

*Taxation*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in place at the time of the expected reversal.

*Impairment of goodwill*

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. Goodwill is tested for impairment at least annually to determine if their carrying amounts may not be recoverable. A discounted cash flow method is used to determine the cash generating units' ("CGU") value in use. The discounted cash flow model is for a period over five years and is based on calculations and projections from financial budgets prepared by management. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated in Note 8.

*Useful lives of property and equipment*

Management has estimated the useful lives of property and equipment as outlined further in this note based on their assessment of the time frame in which these assets will be used by the Company.

*Convertible debentures*

To determine the equity versus liability component of the convertible debentures issued, management engaged a valuator to aide in the measurement of the discount rate required for calculation of the equity component. Key assumptions used in determining fair value of financial instruments is discussed in Note 20.

*Share based compensation*

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions. Shares purchased in the employee share purchase plan are based on fair value at time of purchase.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Judgments:***

*Financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

*Cash-generating units* ("CGUs")

The determination of CGUs was based on management's judgment and was determined to be each retail location based on their independent cash inflows. Management monitors goodwill at a group of CGUs level as the synergies of multiple locations operating under a common regulatory environment are realized across all related retail locations. The Company's sole convenience store is monitored under its own CGU.

Revenue recognition

Revenue is generated through retail and licensee sales. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank accounts, and short term investments with maturity dates of three months or less when purchased.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the fair value of consideration paid. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the consideration paid over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain. Acquisition costs are expensed as incurred.

Inventory

Inventory is valued at the lower of cost or net realizable value with the cost being determined on a first-in, first-out basis.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Repairs and maintenance comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. These costs are expensed as incurred when they are determined not to add life to the asset.

Property and equipment is depreciated over estimated useful lives at the following rates and methods:

| | | |
|---|---|---|
| Buildings | 4% | declining balance method |
| Computer equipment | 30% | declining balance method |
| Computer software | 100% | declining balance method |
| Furniture and fixtures | 20% | declining balance method |
| Motor vehicles | 30% | declining balance method |
| Leasehold improvements | lease term and one renewal | straight line method |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount of an asset or CGU is the higher of fair value less costs of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date).

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's groups of CGU's expected to benefit from the synergies of the combination. Groups of CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

On disposal of a CGU or a portion of a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest income

Interest income is recognized on an effective interest basis.

Income taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized in other comprehensive (loss) income or directly in equity. Current tax is the expected payable on the taxable income for the year using rates enacted or substantively enacted at the year-end, and includes any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized and are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method whereby all options, warrants and equivalents are assumed if in-the-money, to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Share based compensation

Under its stock option plan, the Company accounts for equity settled share based payments using the Black-Scholes option-pricing model. Under this model, compensation costs attributable to options granted are measured at fair value at the date of grant. Any consideration received upon the exercise of a share based payment, along with the amount previously recorded as contributed surplus, is credited to share capital. The expense for share based payments is recognized over the vesting period of the award. When the awards vest in installments over the vesting period, each installment is accounted for as a separate arrangement. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined. For amounts that have been recognized related to awards not yet vested that are subsequently forfeited, the amounts recognized as expense and equity are reversed.

Borrowing costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the profit or loss in the period in which they are incurred.

Financial assets

Financial assets are classified into one of two categories:
- fair value through profit or loss ("FVTPL");
- loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents are classified as FVTPL and are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Accounts receivable and loans receivable that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at their fair value, less transaction costs and subsequently carried at amortized cost using the effective interest method less impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Effective interest method*

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of loans and receivables are reduced through the use of an allowance account. When loans and receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Derecognition of financial assets*

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Compound Financial Instruments

Compound financial instruments and convertible debentures convert units into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature. The equity component is recognized as the difference between the total proceeds and the fair value of the liability component. Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. The Company has classified accounts payable and accrued liabilities, convertible debentures and bank loan as other financial liabilities.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. When an existing liability is replaced by another from the same lender on substantial different terms, or the terms of an existing liability are substantially modified, such an exchange or substantial modification is treated as derecognition or extinguishment of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of loss and comprehensive loss.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The terms of an existing liability are substantially modified and accounted for as an extinguishment if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Significant accounting standards issued but not yet in effect

New standards have been issued but are not yet effective for the year beginning Jan 1, 2016, and accordingly, have not been applied in preparing these consolidated financial statements.

*Share Based Payment*
The IASB has published final amendments to IFRS 2 “Share Based Payment” (“IFRS 2”) that clarify the classification and measurement of share-based payment transactions. Amendments include guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments, how to account for modifications in terms and conditions, and classification of share-based payment transactions with net settlement features. This standard is effective for annual periods beginning on or after Jan 1, 2018 and must be applied retrospectively.

*Financial Instruments*
The IASB has completed a final version of IFRS 9, “Financial Instruments” (“IFRS 9”), which replaces IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard is effective for annual periods beginning on or after Jan 1, 2018 and must be applied retrospectively.

*Revenue from Contracts with Customers*
The IASB issued IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), which supersedes the IASB’s current revenue recognition and guidance including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. It provides a single principle-based five-step model to use when accounting for revenue arising from contracts with customers. This standard is effective for annual periods beginning on or after Jan 1, 2018.

*Leases*
The IASB issued IFRS 16, “Leases” (“IFRS 16”), which replaces IAS 17 “Leases”. It sets out the principles for recognition, measurement, presentation and disclosure of leases for lessees and lessors. IFRS 16 requires entities to recognize lease assets and lease obligations on the consolidated statement of financial position, removing the classification of leases as either operating or finance, treating them all as finance with limited exceptions for short term or low value leases. This standard is effective for annual periods beginning on or after Jan 1, 2019, with early adoption permitted if IFRS 15 has been adopted.

The Company is currently evaluating the impact of the new standards and amendments on its consolidated financial statements.

## 3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of $60,960 (2015 - $60,960), in respect of two (2015 – two) retail liquor stores, to a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market rates.

Key Management Personnel Compensation

The remuneration of Directors and other members of key management personnel during the year are as follows:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Wages and salaries | **$** | **343,347** | $ | 559,314 |
| Other | | **1,691** | | 3,336 |
| | **$** | **345,038** | $ | 562,650 |

Other includes health plan and fitness premiums paid on behalf of members of key management. There are no other short-term, long-term, termination or post-retirement benefits extended to any directors and other members of key management personnel of the Company.

## 4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the year ended Dec 31, 2016 was $34,388,647 (2015 - $36,644,632). No inventory write downs were recognized in 2016 or 2015.

## 5. LOANS RECEIVABLE

As a result of the sale of two stores during the prior year, two secured, interest bearing promissory notes for $45,000 each were issued in lieu of a cash payment. Principal and interest payments are due monthly, with interest charged at 5.0%. The notes are due Aug 1, 2020 and Sep 1, 2020.

| | | |
|---|---|---|
| Promissory notes granted | $ | 90,000 |
| Principal payments | | 3,696 |
| Balance Dec 31, 2015 | $ | 86,304 |
| Principal payments | | 13,085 |
| Balance Dec 31, 2016 | **$** | **73,219** |
| Amounts payable within one year | | 13,755 |
| | **$** | **59,464** |

6. DISPOSAL OF RETAIL STORES

During 2015 the Company sold three retail liquor stores. There were no stores sold in 2016. The proceeds were allocated to the assets as follows in 2015;

| | Note | **2016** | 2015 |
|---|---|---|---|
| Cash and cash equivalents | | **$ -** | $ 1,504 |
| Inventory | | **-** | 200,979 |
| Property and equipment | | **-** | 45,321 |
| Goodwill | 8 | **-** | 105,735 |
| Fair value of net assets sold | | **$ -** | $ 353,539 |
| | | | |
| Total cash consideration received | | **$ -** | $ 277,483 |
| Promissory notes granted | 5 | **-** | 90,000 |
| Gain on sale of property and equipment | | **-** | (119,679) |
| Loss on disposal of goodwill | 8 | **-** | 105,735 |
| | | **$ -** | $ 353,539 |

Cash consideration received in 2015 was for payment of; cash and cash equivalents $1,504, inventory $200,979, and property and equipment, $75,000.

7. PROPERTY AND EQUIPMENT

| | 2016<br>Cost | 2016<br>Accumulated Depreciation | **2016**<br>**Net Book Value** |
|---|---|---|---|
| Building | $ 289,700 | $ 123,909 | **$ 165,791** |
| Computer equipment | 350,858 | 219,677 | **131,181** |
| Computer software | 856,784 | 773,176 | **83,608** |
| Furniture and fixtures | 3,810,742 | 2,834,491 | **976,251** |
| Leasehold improvements | 3,267,650 | 1,673,817 | **1,593,833** |
| Motor vehicles | 142,824 | 109,353 | **33,471** |
| | $ 8,718,558 | $ 5,734,423 | **$ 2,984,135** |

| | Dec 31, 2015<br>Opening NBV | Additions | Disposal | Depreciation | **Dec 31, 2016**<br>**Closing NBV** |
|---|---|---|---|---|---|
| Building | $ 172,699 | $ - | $ - | $ (6,908) | **$ 165,791** |
| Computer equipment | 73,238 | 101,594 | (8,609) | (35,042) | **131,181** |
| Computer software | 72,497 | 167,218 | - | (156,107) | **83,608** |
| Furniture and fixtures | 1,117,459 | 118,655 | (27,194) | (232,669) | **976,251** |
| Leasehold improvements | 2,110,636 | 44,961 | (331,011) | (230,753) | **1,593,833** |
| Motor vehicles | 26,012 | 20,667 | (1,153) | (12,055) | **33,471** |
| | $ 3,572,541 | $ 453,095 | $ (367,967) | $ (673,534) | **$ 2,984,135** |

*(continues)*

7. PROPERTY AND EQUIPMENT (continued)

| | | 2015 Cost | | 2015 Accumulated Depreciation | | 2015 Net Book Value |
|---|---|---|---|---|---|---|
| Building | $ | 289,700 | $ | 117,001 | $ | 172,699 |
| Computer equipment | | 354,890 | | 281,652 | | 73,238 |
| Computer software | | 692,643 | | 620,146 | | 72,497 |
| Furniture and fixtures | | 3,787,762 | | 2,670,303 | | 1,117,459 |
| Leasehold improvements | | 3,647,338 | | 1,536,702 | | 2,110,636 |
| Motor vehicles | | 135,317 | | 109,305 | | 26,012 |
| | $ | 8,907,650 | $ | 5,335,109 | $ | 3,572,541 |

| | Dec 31, 2014 Opening NBV | Additions | Disposal | Depreciation | Dec 31, 2015 Closing NBV |
|---|---|---|---|---|---|
| Building | $ 179,895 | $ - | $ - | $ (7,196) | $ 172,699 |
| Computer equipment | 101,860 | 16,748 | (11,215) | (34,155) | 73,238 |
| Computer software | 34,441 | 144,994 | - | (106,938) | 72,497 |
| Furniture and fixtures | 1,425,159 | 83,700 | (101,331) | (290,069) | 1,117,459 |
| Leasehold improvements | 2,222,174 | 158,895 | (27,733) | (242,700) | 2,110,636 |
| Motor vehicles | 27,373 | 14,435 | (6,657) | (9,139) | 26,012 |
| | $ 3,990,902 | $ 418,772 | $ (146,936) | $ (690,197) | $ 3,572,541 |

Proceeds on disposal of property and equipment for the year was $1,600 (2015 - $5,800). A loss of $366,367 after proceeds on disposal (2015 – $95,815) was recognized in the year upon disposal of property and equipment in existing stores as a result of the replacement of certain assets and closure of a store. $42,073 (2015 - $nil) in assets are currently held for sale.

8. GOODWILL

| | Note | Liquor Store CGU | Convenience Store CGU | Total |
|---|---|---|---|---|
| Balance Dec 31, 2014 | | $ 11,105,368 | $ 100,000 | $ 11,205,368 |
| Goodwill disposed | 6 | (105,735) | - | (105,735) |
| Balance Dec 31, 2015 | | $ 10,999,633 | $ 100,000 | $ 11,099,633 |
| Goodwill impairment | | (4,322,371) | (100,000) | (4,422,371) |
| Balance Dec 31, 2016 | | **$ 6,677,262** | **$ -** | **$ 6,677,262** |

The Company has identified an impairment charge of $4,322,371 related to the liquor store CGU for 2016 due to the challenging economic climate in Alberta. In 2015 the Company sold three liquor stores resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of $105,735.

An impairment charge of $100,000 (2015 - $nil) was recognized upon the entire CGU of the convenience store. All goodwill attributed to the convenience store was expensed in 2016 as a result of Management's decision to close the store in the first quarter of 2017.

*(continues)*

8. GOODWILL (continued)

In determining the value of impairment, the Company performed a discounted cash flow ("DCF") analysis on each of its two CGUs, liquor store CGU and convenience store CGU to determine their value in use. The DCF was based on calculations and projections from financial budgets prepared by management and included the following significant factors.

Forecasted gross margins were based on past performance and expectations for market trends. A growth rate of 1.0% was based on industry statistics and was applied to both revenue and expenditures. A terminal growth rate range of 0.5% to 1.5% was applied to the analysis to project cash flows beyond five years, which is consistent with the industry's expected growth rates, forecasted inflation rates and management's experience. A weighted average cost of capital ("WACC") range of 9.64% - 10.60% was used and based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, a risk premium, and after-tax cost of debt based on corporate bond yields.

An increase in the WACC to approximately 11.86% would reduce the recoverable amount of the liquor store CGU to its carrying value.

9. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2015 – 26%) to the income for the year and is reconciled as follows:

| | **2016** | 2015 |
|---|---|---|
| (Loss) Income before income taxes | **$ (4,727,439)** | $ 401,963 |
| Income tax (recovery) expense at the combined basic Federal and provincial tax rate: | **$ (1,276,409)** | $ 104,510 |
| Increase (decrease) resulting from: | | |
| Non-deductible expenses | **441,913** | 3,576 |
| Effect of rate change and other | **(61,830)** | 5,936 |
| Change in unrecognized deferred tax assets | **645,832** | - |
| Effective tax (recovery) expense | **$ (250,494)** | $ 114,022 |
| Current tax (recovery) expense | **(90,429)** | 80,091 |
| Deferred tax (recovery) expense | **(160,065)** | 33,931 |
| | **$ (250,494)** | $ 114,022 |

The statutory tax rate increased from 26% to 27% due to an increase in the Alberta provincial tax rate effective July 1, 2016.

The following are the significant deferred tax balances and movements during the current and comparative year.

*(continues)*

9. INCOME TAXES (continued)

| | 2015 | Changes through net income | **2016** |
|---|---|---|---|
| Deferred tax liabilities | | | |
| Goodwill | $ (554,922) | $ 554,922 | **$ -** |
| Convertible debenture | (3,776) | (325,749) | **(329,525)** |
| | $ (558,698) | $ 229,173 | **$ (329,525)** |
| Deferred tax assets | | | |
| Financing costs | $ 6,630 | $ 105,353 | **$ 111,983** |
| Non-capital losses | 220,065 | (2,523) | **217,542** |
| Property and equipment | 171,938 | (171,938) | **-** |
| | $ 398,633 | $ (69,108) | **$ 329,525** |
| Deferred tax liability | $ (160,065) | $ 160,065 | **$ -** |

Details of unrecognized deductible temporary differences arising from prior year losses applied to 2016 and goodwill write off

| | 2015 | **2016** |
|---|---|---|
| Goodwill | $ - | **$ 187,022** |
| Non-capial losses | - | **971,403** |
| Property and equipment | - | **1,228,995** |
| Donations carryforward | - | **4,551** |
| Unrecognized deductible temporary differences | $ - | **$ 2,391,971** |

10. BANK LOAN

The Company has an available overdraft limit of $50,000 with Beaumont Credit Union which bears interest at prime plus 1%, per annum and is secured by a guarantee and postponement from a significant shareholder. At Dec 31, 2016 there was $nil in bank indebtedness (2015 – $nil).

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Aug 4, 2016, the Company has an available facility up to a maximum of the lesser of $10,000,000 and the total of $4,500,000 and 75% of accounts receivable to a maximum of $1,000,000, and 70% of the value of inventory less priority payables and statutory payables. The loan is due upon demand, bearing interest at prime plus 1.25% or bankers acceptances plus 2.75% per annum. Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Dec 31, 2016 there was $7,349,495 drawn on the bank loan (Dec 31, 2015 - $5,574,285). These amounts are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

11. CONVERTIBLE DEBENTURE

Under the Normal Course Issuer Bid ("NCIB") in effect from Dec 15, 2015 to Apr 30, 2016, the Company repurchased and cancelled $197,000 (2015 - $927,000) of the principal amount of the original debenture for aggregate consideration of $160,333 (2015 – $710,133). $193,099 (2015 - $908,646) was a reduction to the liability component, $3,901 (2015 - $18,354) was recorded as a reduction to the equity component, $5,546 (2015 - $11,552) was charged to interest expense and $42,213 (2015 - $228,419) was recorded as a gain on settlement to the consolidated statement of comprehensive (loss) income.

*(continues)*

11. CONVERTIBLE DEBENTURE (continued)

On Apr 1, 2016 the Company received debenture holder approval to restructure the terms of the debenture originally issued Apr 13, 2011 (the “original debenture”). The Company restructured the $8,076,000 outstanding unsecured subordinated convertible debenture (the “Debenture”) on Apr 30, 2016 as follows: the maturity date of the Debenture was extended to Apr 30, 2021; the interest rate payable semi-annually was reduced to 7.50% from 7.75%; and the Debenture is convertible to common shares of the Company at a conversion price of $0.25 per common share, reduced from $0.50.

The restructuring was accounted for as an extinguishment, which resulted in a gain on extinguishment of $1,111,833 after deducting related transaction costs of $491,253.The original debenture was derecognized and the revised Debenture was measured at fair value on the date of restructuring using an effective interest rate of 13.17%. The fair value of the Debenture of $6,472,914 was estimated using discounted future cash flows of the principal amount.

Included in the restructure terms was an option for the Company to partially redeem $1,211,000 of the Debenture at face value. On Jun 10, 2016 the Company exercised this option. The equity component of the Debenture was decreased by $17,062 and $240,383 was charged directly to retained earnings.

| | Liability Component | | Equity Component |
|---|---|---|---|
| | Face Value | Carrying Value | Carrying Value |
| Balance Dec 31, 2014 | $ 9,200,000 | $ 9,057,885 | $ 136,011 |
| Accretive interest | - | 26,211 | - |
| Deferred issuance costs | - | 83,027 | - |
| Repurchased and cancelled | (927,000) | (908,646) | (18,354) |
| Balance Dec 31, 2015 | $ 8,273,000 | $ 8,258,477 | $ 117,657 |
| Repurchased and cancelled | (197,000) | (193,099) | (3,901) |
| Deferred issuance costs | - | - | - |
| Extinguishment of original debentrue | (8,076,000) | (8,076,000) | - |
| Issuance of convertible debenture | 8,076,000 | 6,472,914 | - |
| Partial redemption | (1,211,000) | (970,617) | (17,062) |
| Accretive interest | - | 152,860 | - |
| Deferred tax | - | - | - |
| Balance Dec 31, 2016 | **$ 6,865,000** | **$ 5,644,535** | **$ 96,694** |

On May 13, 2016 the Company announced a NCIB on the Debenture. The Company is authorized to repurchase for cancellation up to $807,600 of the principal amount, representing 10% of the restructured Debenture issued and outstanding. The NCIB began May 13, 2016 and expires on May 12, 2017. There have been no Debenture repurchases under the current NCIB.

12. FINANCE COSTS

| | Note | **2016** | 2015 |
|---|---|---|---|
| Bank loan interest | | **$ 305,150** | $ 267,071 |
| Convertible debentures interest | | **564,345** | 694,173 |
| Net accretive interest | 11 | **152,860** | 26,211 |
| Change in fair value of interest rate swap | | **-** | (45,977) |
| Amortization of convertible debenture issue costs | 11 | **-** | 83,027 |
| | | **$ 1,022,355** | $ 1,024,505 |

## 13. SHARE CAPITAL

On Sep 1, 2015 the Company announced an NCIB to repurchase its common shares. The Company was authorized to repurchase for cancellation up to 5.0% of the issued and outstanding common shares which equaled 2,889,889 common shares. The NCIB began Sep 3, 2015 and expired on Sep 2, 2016.

During the year, the Company repurchased and cancelled 142,000 (2015 – 864,000) common shares for aggregate consideration of $7,100 (2015 - $50,050). $15,109 (2015 - $91,930) was a reduction to share capital and $8,009 was recorded as an addition to contributed surplus (2015 - $41,880).

Authorized - Unlimited common shares

| | Number | Amount |
|---|---|---|
| Balance at Dec 31, 2014 | 57,797,788 | $ 4,774,481 |
| Repurchased and cancelled | (864,000) | (91,930) |
| Balance at Dec 31, 2015 | 56,933,788 | 4,682,551 |
| Repurchased and cancelled | (142,000) | (15,109) |
| Balance at Dec 31, 2016 | **56,791,788** | **$ 4,667,442** |

## 14. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

| | Note | Amount |
|---|---|---|
| Balance at Dec 31, 2014 | | $ 937,532 |
| Repurchase of common shares | 13 | 41,880 |
| Balance at Dec 31, 2015 | | 979,412 |
| Partial redemption of convertible debenture | 11 | 17,062 |
| Repurchase of common shares | 13 | 8,010 |
| Balance at Dec 31, 2016 | | **$ 1,004,484** |

## 15. EXPENSES BY NATURE

| | **2016** | 2015 |
|---|---|---|
| Wages and employee benefits | **$ 5,481,250** | $ 5,614,579 |
| Lease and premise costs | **3,774,223** | 3,909,426 |
| Other | **1,017,346** | 1,117,260 |
| | **$ 10,272,819** | $ 10,641,265 |

## 16. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2016 was based on net comprehensive loss of $4,476,945 (2015 – income $287,941) and a weighted average number of shares outstanding of 56,951,837(2015 – 57,644,914).

*(continues)*

16. EARNINGS PER COMMON SHARE (continued)

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2016 was based on net comprehensive loss of $4,476,945 (2015 – income $287,941) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,951,837 (2015 – 57,644,914).

The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the years ended Dec 31, 2016 and 2015.

17. COMMITMENTS

The Company occupies various leased premises subject to minimum rent payments excluding the Company's proportion of occupancy costs. Lease commitments are based on the current lease term. The future minimum lease payments of operating leases for head office and retail store premises are as follows:

| | | |
|---|---|---|
| Less than one year | $ | 2,056,026 |
| One to five years | | 5,265,857 |
| More than five years | | 1,121,514 |
| | **$** | **8,443,397** |

18. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

| | | **2016** | | 2015 |
|---|---|---|---|---|
| Cash provided by (used in) | | | | |
| Accounts receivable | **$** | **74,723** | $ | 101,396 |
| Inventory | | **590,176** | | (469,226) |
| Prepaid expenses and deposits | | **167** | | 20,150 |
| Income taxes recoverable | | **(89,163)** | | 156,271 |
| Accounts payable and accrued liabilities | | **50,111** | | 33,079 |
| Goods and services tax payable | | **809** | | (35,779) |
| | **$** | **626,823** | $ | (194,109) |

19. CAPITAL

The Company's objectives when managing capital are:

- To ensure the Company has capital to support its growth strategy, and operations;
- To safeguard the Company's ability to continue as a going concern;
- To ensure compliance with all covenants; and
- To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers capital to include shareholders' equity, bank loan, and convertible debentures offset by cash and cash equivalents.

*(continues)*

19. CAPITAL (continued)

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Convertible debenture | $ | **5,644,535** | $ | 8,258,477 |
| Bank loan | | **7,349,495** | | 5,574,285 |
| Cash and cash equivalents | | **(786,285)** | | (862,726) |
| Net debt | $ | **12,207,745** | $ | 12,970,036 |
| Shareholders' equity | | **3,062,093** | | 7,790,422 |
| Total capital | $ | **15,269,838** | $ | 20,760,458 |

The Company's capital structure is developed to focus on its growth strategy. Management monitors the adequacy of capital and will adjust the structure accordingly by accessing credit facilities or issuing debt instruments. The Company meets its objectives for managing capital through strategic long-term planning and the annual budgeting process.

20. FINANCIAL INSTRUMENTS

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank loan, the carrying value approximates fair value due to the short-term nature of the instruments.

The loans receivable have a fair value equivalent to the carrying value, and are carried at the prevailing market interest rate.

The convertible debentures fair value was determined based on market trading values at the statement of financial position date.

As at Dec 31, 2016 and Dec 31, 2015 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Carrying Value** | **Estimated Fair Value** | Carrying Value | Estimated Fair Value |
| Fair value through profit or loss | | | | |
| Cash and cash equivalents | **$ 786,285** | **$ 786,285** | $ 862,726 | $ 862,726 |
| Loans and receivables | | | | |
| Accounts receivable | **134,729** | **134,729** | 209,452 | 209,452 |
| Loans receivable | **73,219** | **73,219** | 86,304 | 86,304 |
| Other financial liabilities | | | | |
| Bank loan | **7,349,495** | **7,349,495** | 5,574,285 | 5,574,285 |
| Accounts payable and accrued liabilities | **723,299** | **723,299** | 673,188 | 673,188 |
| Convertible debenture | **5,644,535** | **4,462,250** | 8,258,477 | 6,577,035 |

Fair value measurements

For financial instruments recognized in the statement of financial position at fair value, the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

*(continues)*

20. FINANCIAL INSTRUMENTS (continued)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Company's financial instruments recognized in the consolidated statement of financial position at fair value:

| | Dec 31, 2016 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Fair value through profit or loss | | | | |
| Cash and cash equivalents | $ 786,285 | $ 786,285 | | |
| | Dec 31, 2015 | Level 1 | Level 2 | Level 3 |
| Fair value through profit or loss | | | | |
| Cash and cash equivalents | $ 862,726 | $ 862,726 | | |

Risk Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk, and market risk. The significant risks for the Company's financial instruments are discussed below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages its credit risk for its cash and cash equivalents by maintaining bank accounts with Canadian banks.

The Company in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with accounts receivables by credit management policies. All accounts receivable are due from organizations in Alberta's hospitality industry.

The Company is exposed to risk in relation to the loans receivable. The Company has managed the risk by entering into a general security agreement over the assets of the stores purchased with the debtor.

Amounts are considered past due when payment has not been received in accordance with a customer agreement, which is typically 60 days. Amounts are considered to be impaired when the Company has exhausted all collection efforts. Maximum exposure to credit risk is $134,729 (2015 - $209,452). $51,412 (2015 - $47,728) are over 60 days, but not considered impaired. For the period ending Dec 31, 2016, $22,074 (2015 – $29,416) was written off to bad debts.

At Dec 31, 2016 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's financial liabilities at Dec 31, 2016 and 2015 have maturities summarized below:

*(continues)*

20. FINANCIAL INSTRUMENTS (continued)

| Dec 31, 2016 | Note | Maturity Date | **Current** | **Non-current** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | | | **$ 723,299** | **$ -** |
| Goods and services tax payable | | Jan 31, 2017 | **38,441** | **-** |
| Bank loan | 10 | | **7,349,495** | **-** |
| Convertible debenture | 11 | Apr 30, 2021 | **-** | **5,644,535** |
| | | | **$ 8,111,235** | **$ 5,644,535** |

| Dec 31, 2015 | Note | Maturity Date | Current | Non-current |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | | | $ 673,188 | $ - |
| Goods and services tax payable | | Jan 31, 2016 | 37,632 | - |
| Bank loan | 10 | | 5,574,285 | - |
| Convertible debenture | 11 | Apr 30, 2016 | 8,258,477 | - |
| | | | $ 14,543,582 | $ - |

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities.

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company is comprised of interest rate risk. The Company does not have any significant currency risk, or other price risk.

Interest Rate Risk

The Company is subject to interest rate risk as its bank indebtedness and bank loan bears interest rates that vary in accordance with prime borrowing rates while interest rates on the convertible debentures remains fixed. Assuming outstanding loan balance of $7,349,495, a one percent increase/decrease in interest rates would have a nominal effect on net comprehensive (loss) income. Approximately 57% (2015 – 40%) of the Company’s long term debt is exposed to interest rate risk due to floating rates. The Company manages its interest rate risk through credit facility negotiations.

21. ECONOMIC DEPENDENCE

The Company is required to purchase all alcohol-based products from the Alberta Gaming and Liquor Commission (“AGLC”). As the majority of the Company’s income is derived from the sale of alcohol based products, its ability to continue operations is dependent upon the relationship with and the sustainability of AGLC. The alcohol-based products are distributed through Connect Logistics Services Inc. and Brewers Distributor Ltd. Any significant disruption in the supply chain for either of these businesses could result in a material adverse effect on the operations of the Company.

## 22. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2016, the Company closed a store in Central Alberta, and the convenience store was closed. All goodwill attributed to the convenience store was expensed in 2016 as a result of Management's decision to close the store.