Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2017

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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 is composed equally of members who are Directors or Officers of the Company. The Audit Committee is composed primarily of members who are Directors 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 25, 2018

"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, 2017 and, December 31, 2016 and the consolidated statements of changes in shareholders' equity, comprehensive loss, 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, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainty that may cast significant doubt about Rocky Mountain Liquor Inc's ability to continue as a going concern.

Edmonton, Alberta

MNP LLP

April 25, 2018

Chartered Professional Accountants

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ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

As at	**Note**	**Dec 31, 2017**	Dec 31, 2016
ASSETS			
CURRENT			
Cash and cash equivalents		**818,786**	786,285
Accounts receivable		**63,300**	134,729
Inventory	4	**5,870,760**	5,868,662
Prepaid expenses and deposits		**156,858**	180,747
Current portion of loans receivable	5	**14,458**	13,755
Income taxes recoverable	9	**-**	112,824
		6,924,162	7,097,002
NON-CURRENT			
LOANS RECEIVABLE	5	**45,006**	59,464
PROPERTY AND EQUIPMENT	7	**2,550,492**	2,984,135
GOODWILL	8	**6,548,188**	6,677,262
		16,067,848	16,817,863
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**675,157**	723,299
Income taxes payable	9	**1,994**	-
Bank loan	10	**8,306,135**	7,349,495
Goods and services tax payable		**56,875**	38,441
		9,040,161	8,111,235
NON-CURRENT			
CONVERTIBLE DEBENTURE	11	**5,872,607**	5,644,535
		14,912,768	13,755,770
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures	11	**96,694**	96,694
Share capital	13	**4,667,442**	4,667,442
Contributed surplus	14	**1,014,911**	1,004,483
Accumulated deficit		**(4,623,967)**	(2,706,526)
		1,155,080	3,062,093
		16,067,848	16,817,863

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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	Accumulated deficit	Total
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)
Partial redemption of convertible debenture	11	(17,062)	-	17,062	(240,383)	(240,383)
Repurchase of shares	13, 14	-	(15,109)	8,009	-	(7,100)
Net comprehensive loss for the year		-	-	-	(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
Share based compensation	14, 15	-	-	10,428	-	10,428
Net comprehensive loss for the period		-	-	-	(1,917,441)	(1,917,441)
Balance at Dec 31, 2017		96,694	4,667,442	1,014,911	(4,623,967)	1,155,080

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Comprehensive Loss

	Note	Dec 31, 2017	Dec 31, 2016
SALES		**43,619,001**	45,342,791
COST OF SALES	4	**33,482,765**	34,388,647
		10,136,236	10,954,144
OPERATING AND ADMINISTRATIVE EXPENSES	16	**9,937,487**	10,272,819
INCOME FROM OPERATIONS		**198,749**	681,325
DEPRECIATION	7	**622,186**	673,534
OTHER EXPENSES (INCOME)			
Finance costs	12	**1,097,049**	1,022,355
Loss on disposal of property and equipment and goodwill	6, 7, 8	**205,269**	366,367
Store closure expenses		**179,481**	116,250
Other income		**(6,980)**	(60,141)
Bad debt expense		**8,491**	22,074
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)
		1,483,310	4,735,230
LOSS BEFORE TAX		**(1,906,747)**	(4,727,439)
INCOME TAX EXPENSE (RECOVERY)	9	**10,694**	(250,494)
NET COMPREHENSIVE LOSS		**(1,917,441)**	(4,476,945)
Basic loss per share	17	**(0.03)**	(0.08)
Diluted loss per share	17	**(0.03)**	(0.08)
Weighted average number of shares - basic		**56,791,788**	56,951,837
Weighted average number of shares - diluted		**56,791,788**	56,951,837

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

ROCKY MOUNTAIN LIQUOR INC
Consolidated Statements of Cash Flows

	Note	Dec 31, 2017	Dec 31, 2016
OPERATING ACTIVITIES			
Net comprehensive loss		**(1,917,441)**	(4,476,945)
Items not affecting cash			
Depreciation	7	**622,186**	673,534
Loss on disposal of property and equipment and goodwill	6, 7, 8	**205,269**	366,367
Notional accretive interest	11	**228,072**	152,860
Share based compensation	14, 15	**10,428**	-
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)
Deferred tax expense		**-**	(160,065)
Changes in non-cash working capital	19	**178,330**	626,823
Cash flow (used in) provided by operating activities		**(673,156)**	450,899
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(557,559)**	(453,095)
Proceeds on disposal of property and equipment	7	**292,821**	1,600
Cash flow used in investing activities		**(264,738)**	(451,495)
FINANCING ACTIVITIES			
Repayment of loans receivable	5	**13,755**	13,085
Net proceeds from bank loan	10	**956,640**	1,775,210
Repurchase and redemption of convertible debenture	11	**-**	(1,365,787)
Transaction costs on restructuring convertible debenture	11	**-**	(491,253)
Repurchase of shares	13	**-**	(7,100)
Cash flow provided by (used in) financing activities		**970,395**	(75,845)
INCREASE (DECREASE) IN CASH		**32,501**	(76,441)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		**786,285**	862,726
CASH AND CASH EQUIVALENTS - END OF PERIOD		**818,786**	786,285
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		**868,977**	825,922
Income taxes paid		**8,700**	91,000

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, 2017 Andersons operated 35 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.

These consolidated financial statements have been approved for issue by the Board of Directors on Apr 25, 2018.

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 value as explained in the accounting policies below.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and can realize its assets and discharge its liabilities and commitments in the normal course of operation.

As at Dec 31, 2017, the Company had negative cash flow from operations of $673,156, and net comprehensive loss of $1,917,441. These conditions indicate the existence of a material uncertainty which may cast doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations to meet current and future obligations. The Company expects that the investment it has made in 2017 in rebranding of eight of its stores to the Great Canadian Liquor (“GCL”) brand, and investments in sales and marketing programs, which it expects to continue into 2018, will result in an increase in revenue and profits. If, for any reason, the Company is unable to continue as a going concern, it could impact the Company’s ability to realize assets at their recognized values and to meet its liabilities in the ordinary course of business at the amounts stated these consolidated financial statements.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 financial statements 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 its carrying amount may not be recoverable. The recoverable amount is the higher of its estimated value in use and its estimated fair value less costs of disposal (“FVLCD”). A discounted cash flow method is used to determine the cash generating units’ (“CGU”) value in use. The FVLCD is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arm’s length transaction with a third party, net of estimates of costs of disposal.

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. Classification for fair value of financial instruments is disclosed in Note 21.

Share based compensation

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key inputs used in the pricing model 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.

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 for non-financial assets other than goodwill. Management monitors goodwill as one group of CGUs as the synergies of multiple locations operating under a common regulatory environment are realized across all related retail locations.

Revenue recognition

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial 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 FVLCD or value in use. FVLCD is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arms length transaction with a third party, net of estimates of costs of disposal. 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.

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 the Company's CGU expected to benefit from the synergies of the combination.CGU 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive loss 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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

<u>Financial liabilities and equity</u>

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 comprehensive loss.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, and accordingly, have not been applied in preparing these consolidated financial statements.

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. Management is currently assessing the impact of the new standard but does not expect any material adjustments to the Company’s consolidated statement of financial position. The new standard requires additional disclosure and changes to presentation. These may change the nature and extent of the Company’s disclosures about its financial instruments in the year of adoption.

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”. This standard is effective for annual periods beginning on or after January 1, 2018. Management evaluated the new standard and completed its assessment. Management does not expect any material adjustments to the timing and recognition of revenue. Additional financial statement disclosures are expected to change the extent of the Company’s disclosures regarding revenue.

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. Management’s preliminary assessment of the impact of the new standard is IFRS 16 will result in materially higher fixed assets, long term debt, deferred income taxes, and a decrease in opening retained earnings as a result of the recognition of right-of-use assets and associated lease liabilities. On an on-going basis there will be a significant decrease in rent expense recorded as part of selling and administrative expenses and an increase in depreciation and finance costs. Additional disclosures are expected to change the nature and extent of the Company’s disclosures regarding leases.

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of $60,960 (2016 - $60,960), in respect of two (2016 – two) retail liquor stores, to a privately held company in which an Officer of the Company 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:

		2017		2016
Wages and salaries	**$**	**499,000**	$	343,347
Other		**2,692**		1,691
	$	**501,692**	$	345,038

Other includes health plan 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, 2017 was $33,482,765 (2016 - $34,388,647). No inventory write downs were recognized in 2017 or 2016.

5. LOANS RECEIVABLE

As a result of the sale of two stores during 2015, 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.

Balance Dec 31, 2015	$	86,304
Principal payments		13,085
Balance Dec 31, 2016	$	73,219
Principal payments		13,755
Balance Dec 31, 2017	**$**	**59,464**
Amounts payable within one year		14,458
	$	**45,006**

6. SALE OF RETAIL STORES

During 2017 the Company sold five retail liquor stores. There were no stores sold in 2016. The proceeds were allocated to the assets as follows in 2017:

Carrying Value	Note	2017	2016
Cash and cash equivalents		**$ 507**	$ -
Inventory		**382,329**	-
Property and equipment		**200,965**	-
Goodwill	8	**129,074**	-
Carrying value of net assets sold		**$ 712,875**	$ -
Total cash consideration received		**$ 570,336**	$ -
Loss on sale of property and equipment		**13,465**	-
Loss on disposal of goodwill	8	**129,074**	-
		$ 712,875	$ -

Cash consideration received in 2017 was for payment of: cash and cash equivalents $507, inventory $382,329, and property and equipment $187,500, based on fair value.

7. PROPERTY AND EQUIPMENT

	2017 Cost	2017 Accumulated Depreciation	**2017 Net Book Value**
Building	$ 289,700	$ 130,540	**$ 159,160**
Computer equipment	334,165	235,024	**99,141**
Computer software	995,576	921,950	**73,626**
Furniture and fixtures	3,406,497	2,554,837	**851,660**
Leasehold improvements	2,987,778	1,649,070	**1,338,708**
Motor vehicles	117,143	88,946	**28,197**
	$ 8,130,859	$ 5,580,367	**$ 2,550,492**

	Dec 31, 2016 Opening NBV	Additions	Disposal	Depreciation	**Dec 31, 2017 Closing NBV**
Building	$ 165,791	$ -	$ -	$ (6,631)	**$ 159,160**
Computer equipment	131,181	15,545	(5,533)	(42,052)	**99,141**
Computer software	83,608	147,143	(56)	(157,069)	**73,626**
Furniture and fixtures	976,251	243,548	(167,205)	(200,934)	**851,660**
Leasehold improvements	1,593,833	136,541	(187,571)	(204,095)	**1,338,708**
Motor vehicles	33,471	14,782	(8,651)	(11,405)	**28,197**
	$ 2,984,135	$ 557,559	$ (369,016)	$ (622,186)	**$ 2,550,492**

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7. PROPERTY AND EQUIPMENT (continued)

	2016 Cost	2016 Accumulated Depreciation	2016 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 Opening NBV	Additions	Disposal	Depreciation	Dec 31, 2016 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

	Note	**2017**	2016
Proceeds on disposal through discontinuation of use		**$ 105,321**	$ 1,600
Loss on disposal through discontinuation of use		**62,730**	366,367
Proceeds through store sale	6	**187,500**	-
Loss after proceeds on disposal through store sale	6	**13,465**	-
NBV of assets disposed		**$ 369,016**	$ 367,967

8. GOODWILL

	Note	Liquor Store CGU	Convenience Store CGU	Total
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
Goodwill disposed	6	(129,074)	-	(129,074)
Balance Dec 31, 2017		**$ 6,548,188**	**$ -**	**$ 6,548,188**

In 2017 the Company sold five liquor stores resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of $129,074, included in loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive loss. The Company previously identified an impairment charge of $4,322,371 related to the liquor store CGU in 2016 due to the challenging economic climate in Alberta.

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8. GOODWILL (continued)

An impairment charge of $100,000 was recognized upon the entire CGU of the convenience store in 2016. 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.

In conducting its annual goodwill impairment test, a FVLCD method using level 3 inputs (see Note 21 for explanation of each level) was relied on, as the value from this method was greater than the amount calculated through the value in use model. The FVLCD calculation is based on applying a range of multiples to earnings before interest, taxes, depreciation and amortization, ("EBITDA"), plus inventory. A significant assumption applied in the goodwill impairment test is the earning multiple of stores. Data for EBITDA multiples is based on recent comparable transactions and Management's understanding of the market.

Management prepared two EBITDA models and applied the earning multiple ranges to each. One model is based on historical 2017 EBITDA value and the other is a 2018 projection. The projected value is based on the Company's internal budget. It includes assumptions for growth of stores that have transferred to the Great Canadian Liquor ("GCL") brand to experience the growth that has occurred since they transitioned. For those stores that are not transferring to the GCL brand in 2018, revenues remain consistent with 2017. Expenses in the model have been normalized to reflect costs that are expected to change. An average gross margin of 22.6% was applied to the 2018 projection. Management applied a percentage of 4.2% of the estimated purchase price in developing an estimate of costs to dispose based on historical costs to sell a store.

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 17% to the 2017 EBITDA or 23% to 2018 EBTIDA would reduce the recoverable amount to zero. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any cash generating unit to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of goodwill.

9. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2016 – 27%) to the income for the year and is reconciled as follows:

	2017	2016
Loss before income taxes	**$ (1,906,747)**	$ (4,727,439)
Income tax (recovery) expense at the combined basic		
Federal and provincial tax rate:	**$ (514,822)**	$ (1,276,409)
Increase (decrease) resulting from:		
Non-deductible expenses	**18,382**	441,913
Effect of rate change and other	**2,186**	(61,830)
Change in unrecognized deferred tax assets	**504,948**	645,832
Effective tax (recovery) expense	**$ 10,694**	$ (250,494)
Current tax (recovery) expense	**10,694**	(90,429)
Deferred tax (recovery) expense	**-**	(160,065)
	$ 10,694	$ (250,494)

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9. INCOME TAXES (continued)

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

	2016	Changes through net loss	**2017**
Deferred tax liabilities			
Goodwill	$ -	$ (9,625)	**$ (9,625)**
Convertible debenture	(329,525)	61,577	**(267,948)**
	$ (329,525)	$ 51,952	**$ (277,573)**
Deferred tax assets			
Financing costs	$ 111,983	$ (27,000)	**$ 84,983**
Non-capital losses	217,542	(24,952)	**192,590**
	$ 329,525	$ (51,952)	**$ 277,573**
Deferred tax liability	$ -	$ -	**$ -**

The unrecognized deductible temporary differences at Dec 31 are comprised of the following:

	2016	**2017**
Goodwill	$ 187,022	**$ -**
Non-capital losses	971,403	**3,029,310**
Property and equipment	1,228,995	**1,228,282**
Donations carryforward	4,551	**4,551**
Unrecognized deductible temporary differences	$ 2,391,971	**$ 4,262,143**

As of Dec 31, 2017 the Company has not recognized a deferred tax asset in respect of non-capital loss carry-forwards of $3,029,310 (2016 - $971,403) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to the final determination by tax authorities. The carry-forward balances expire between 2036 and 2037.

10. BANK LOAN

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Dec 18, 2017, the Company has an available facility up to a maximum of the lesser of $10,000,000 and the total of $4,400,000 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 1.9% or bankers acceptances plus 3.4% per annum. Previous agreement provided an available facility up to a maximum of the lesser of $10,000,000 and the total of $4,400,000, with no change to allowance for accounts receiable or inventory. Previous agreement beared 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, 2017 there was $8,306,135 drawn on the bank loan (Dec 31, 2016 - $7,349,495). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

11. CONVERTIBLE DEBENTURE

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 Sep 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 accumulated deficit.

Notional accretive interest expense is reflected at Dec 31, 2017 in the amount of $228,072 (2016 - $152,860).

	Liability Component	
	Face Value	Carrying Value
Balance Dec 31, 2015	$ 8,273,000	$ 8,258,477
Repurchased and cancelled	(197,000)	(193,099)
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)
Notional accretive interest	-	152,860
Balance Dec 31, 2016	$ 6,865,000	$ 5,644,535
Notional accretive interest	-	228,072
Balance Dec 31, 2017	**$ 6,865,000**	**$ 5,872,607**

	Equity Component
	Carrying Value
Balance Dec 31, 2015	$ 117,657
Repurchased and cancelled	(3,901)
Partial redemption	(17,062)
Balance Dec 31, 2016 and Dec 31, 2017	**$ 96,694**

Under the Normal Course Issuer Bid (“NCIB”) in effect from Dec 15, 2015 to Apr 30, 2016, the Company repurchased and cancelled $197,000 of the principal amount of the original debenture for aggregate consideration of $160,333. $193,099 was a reduction to the liability component, $3,901 was recorded as a reduction to the equity component, $5,546 was charged to interest expense and $42,213 was recorded as a gain on settlement to the consolidated statement of comprehensive loss.

On May 13, 2016 the Company announced a NCIB on the Debenture that began May 13, 2016 and expired May 13, 2017. The Company was authorized to repurchase for cancellation up to $807,600 of the principal amount, representing 10% of the restructured Debenture issued and outstanding. There were no Debenture repurchases under this NCIB.

12. FINANCE COSTS

	Note	2017	2016
Bank loan interest		**$ 354,137**	$ 305,150
Convertible debentures interest		**514,840**	564,345
Notional accretive interest	11	**228,072**	152,860
		$ 1,097,049	$ 1,022,355

13. SHARE CAPITAL

In 2016 the Company repurchased and cancelled 142,000 common shares for aggregate consideration of $7,100, as a result of an NCIB issued Sep 3, 2015 and expired Sep 2, 2016. $15,109 was a reduction to share capital and $8,009 was recorded as an addition to contributed surplus. No share repurchases occurred in 2017.

Authorized - Unlimited common shares

	Number	Amount
Balance at Dec 31, 2015	56,933,788	$ 4,682,551
Repurchased and cancelled 2016	(142,000)	(15,109)
Balance at Dec 31, 2016 and 2017	**56,791,788**	**$ 4,667,442**

14. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2015		$ 979,412
Partial redemption of convertible debenture	11	17,062
Repurchase of common shares	13	8,009
Balance at Dec 31, 2016		$ 1,004,483
Share based compensation	15	10,428
Balance at Dec 31, 2017		**$ 1,014,911**

15. STOCK OPTION PLAN

Stock option plan ("Option Plan")

The maximum number of common shares that may be reserved for issuance under the Option Plan is 2,500,000 shares.

The exercise price of each option is determined on the basis of the market price at the time the option is granted. If the option has a discount to market price as an incentive for early redemption the exercise price may not be less than the discounted market price as defined by the policies of the TSX Venture Exchange ("TSXV"). For options that have no early redemption incentives, the exercise price may not be less than the closing price of a Rocky Mountain Liquor common share on the TSXV on the last trading day before the day the option is granted. The shares purchased on the exercise of an option must be paid for in full at the time of exercise. The Company operates equity-settled compensation plans. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement.

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15. STOCK OPTION PLAN (continued)

On Jan 17, 2017, 500,000 incentive options were issued under the Option Plan, representing 0.9% of the outstanding common shares. 300,000 are exercisable per the below vesting schedule and 200,000 are exercisable Jan 18, 2018 if the unadjusted closing price per share for any 10-consecutive trading day period between Oct 20, 2017 and Jan 17, 2018 is equal to or greater than $0.16. All options expire Jan 18, 2018.

	# of options	Exercise Price	Estimated fair value of options	Weighted average exercise price	Weighted average contractual life remaining
Outstanding Dec 31, 2016	-	-	-	-	-
Issued Jan 17, 2017	500,000	0.070	34,563	0.070	0.553
Outstanding Dec 31, 2017	**500,000**	**0.070**	**34,563**	**0.070**	**0.053**

75,000 of the options vested on each of Feb 28, 2017, May 31, 2017, Aug 31, 2017 and Nov 30, 2017. 200,000 vested Oct 20, 2017. Share based compensation expense was $10,428 (2016 – $nil). This is accounted for in operating and administrative expenses in the consolidated statements of comprehensive loss.

The fair value of the 300,000 options issued Jan 17, 2017 has been estimated at $0.042 per option using the Black-Scholes option-pricing model and applying the following weighted-average assumptions:

Risk-free interest rate	1.3%
Estimated volatility	130.0%
Expected life	1 years
Expected dividend yield	NIL
Expected forfeiture rate	27.0%

The fair value of the 200,000 options issued Jan 17, 2017 has been estimated at $0.110 per option using the Black-Scholes option-pricing model and applying the following weighted-average assumptions:

Risk-free interest rate	1.3%
Estimated volatility	130.0%
Expected life	1 years
Expected dividend yield	NIL
Expected forfeiture rate	93.8%

16. EXPENSES BY NATURE

	2017	2016
Wages and employee benefits	**$ 5,359,702**	$ 5,481,250
Lease and premise costs	**3,427,556**	3,774,223
Other	**1,150,229**	1,017,346
	$ 9,937,487	$ 10,272,819

17. LOSS PER COMMON SHARE

Basic Loss per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2017 was based on net comprehensive loss of $1,917,441 (2016 – $4,476,945) and a weighted average number of shares outstanding of 56,791,788 (2016 – 56,951,837).

Diluted Loss per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2017 was based on net comprehensive loss of $1,917,441 (2016 – $4,476,945) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,791,788 (2016 – 56,951,837). The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the years ended Dec 31, 2017.

18. 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	$	1,782,951
One to five years		3,172,139
More than five years		686,092
	$	**5,641,182**

19. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

		2017		2016
Cash provided by (used in)				
Accounts receivable	**$**	**71,429**	$	74,723
Inventory		**(2,098)**		590,176
Prepaid expenses and deposits		**23,889**		167
Income taxes recoverable		**112,824**		(89,163)
Accounts payable and accrued liabilities		**(48,142)**		50,111
Income taxes payable		**1,994**		-
Goods and services tax payable		**18,434**		809
	$	**178,330**	$	626,823

20. 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.

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20. CAPITAL (continued)

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

		2017		2016
Convertible debenture	**$**	**5,872,607**	$	5,644,535
Bank loan		**8,306,135**		7,349,495
Cash and cash equivalents		**(818,786)**		(786,285)
Net debt	**$**	**13,359,956**	$	12,207,745
Shareholders' equity		**1,155,080**		3,062,093
Total capital	**$**	**14,515,036**	$	15,269,838

The Company's capital structure is developed to focus on its operations and rebranding 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.

21. 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 as they bear interest 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, 2017 and Dec 31, 2016 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	2017		2016	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	**$ 818,786**	**$ 818,786**	$ 786,285	$ 786,285
Loans and receivables				
Accounts receivable	**63,300**	**63,300**	134,729	134,729
Loans receivable	**59,464**	**59,464**	73,219	73,219
Other financial liabilities				
Bank loan	**8,306,135**	**8,306,135**	7,349,495	7,349,495
Accounts payable and accrued liabilities	**675,157**	**675,157**	723,299	723,299
Convertible debenture	**5,872,607**	**2,231,125**	5,644,535	4,462,250

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:

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21. FINANCIAL INSTRUMENTS (continued)

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

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, 2017	**Level 1**	**Level 2**	**Level 3**
Fair value through profit or loss				
Cash and cash equivalents	**$ 818,786**	**$ 818,786**	**-**	**-**
	Dec 31, 2016	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	$ 786,285	$ 786,285	-	-

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, relating to accounts receivable, is $63,300 (2016 - $134,729). $7,886 (2016 - $51,412) are over 60 days, but not considered impaired. For the period ending Dec 31, 2017, $8,491 (2016 – $22,074) was written off to bad debts.

At Dec 31, 2017 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's financial liabilities at Dec 31, 2017 and 2016 have maturities summarized below:

(continues)

21. FINANCIAL INSTRUMENTS (continued)

			Current	**Non-Current**		
Dec 31, 2017	Note	Maturity Date	**2018**	**2019**	**2020**	**2021**
Accounts payable and accrued liabilities			**$ 675,157**	**$ -**	**$ -**	**$ -**
Goods and services tax payable		Jan 31, 2018	**56,875**	**-**	**-**	**-**
Bank loan	10		**8,306,135**	**-**	**-**	**-**
Convertible debenture	11	Apr 30, 2021	**-**	**-**	**-**	**5,872,607**
			$ 9,038,167	**$ -**	**$ -**	**$ 5,872,607**

			Current	Non-Current			
Dec 31, 2016	Note	Maturity Date	2017	2018	2019	2020	2021
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

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 loan bears interest rates that vary in accordance with prime borrowing rates while interest rates on the convertible debentures remains fixed. Assuming outstanding bank loan balance of $8,306,135, a one percent increase/decrease in interest rates would have a nominal effect on net comprehensive loss. Approximately 59% (2016 – 57%) of the Company's debt is exposed to interest rate risk due to floating rates. The Company manages its interest rate risk through credit facility negotiations.

22. 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.

23. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2017, the Company closed a store in Central Alberta and sold one store in Southern Alberta.