Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2015

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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 financial statements.

The Board of Directors and Audit Committee are composed primarily of members who are Directors or management 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 27, 2016

“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, 2015 and 2014, and the consolidated statements of changes in shareholders' equity, comprehensive 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 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, 2015 and 2014 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 27, 2016

Chartered Professional Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

As at	**Note**	**Dec 31, 2015**	Dec 31, 2014
ASSETS			
CURRENT			
Cash and cash equivalents		**862,726**	868,858
Accounts receivable		**209,452**	310,848
Inventory		**6,458,838**	5,989,612
Prepaid expenses and deposits		**180,914**	201,064
Current portion of loans receivable	6	**13,085**	-
Income taxes recoverable		**23,661**	179,932
		7,748,676	7,550,314
NON-CURRENT			
LOANS RECEIVABLE	6	**73,219**	-
PROPERTY AND EQUIPMENT	8	**3,572,541**	3,990,902
GOODWILL	9	**11,099,633**	11,205,368
		22,494,069	22,746,584
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**673,188**	640,109
Bank loan	11	**5,574,285**	5,232,183
Current portion of convertible debentures	12	**8,258,477**	-
Goods and services tax payable		**37,632**	73,411
Interest rate swap liability	3	**-**	45,977
		14,543,582	5,991,680
NON-CURRENT			
DEFERRED TAX LIABILITY	10	**160,065**	126,134
CONVERTIBLE DEBENTURES	12	**-**	9,057,885
		14,703,647	15,175,699
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures	12	**117,657**	136,011
Share capital	14	**4,682,551**	4,774,481
Contributed surplus	16	**979,412**	937,532
Retained earnings		**2,010,802**	1,722,861
		7,790,422	7,570,885
		22,494,069	22,746,584

COMMITMENTS	21
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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	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Jan 1, 2014		325,633	4,774,481	210,007	537,903	1,699,619	7,547,643
Maturity of debenture A	12, 16	(189,622)	-	-	189,622	-	-
Expiry of warrants	15, 16	-	-	(210,007)	210,007	-	-
Net comprehensive income for the year		-	-	-	-	23,242	23,242
Balance at Dec 31, 2014		136,011	4,774,481	-	937,532	1,722,861	7,570,885
Repurchase of debentures	12	(18,354)	-	-	-	-	(18,354)
Repurchase of shares	14, 16	-	(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

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Comprehensive Income

	Note	**Dec 31, 2015**	Dec 31, 2014
SALES		**49,315,282**	55,949,749
COST OF SALES	5	**36,644,632**	43,075,675
		12,670,650	12,874,074
OPERATING AND ADMINISTRATIVE EXPENSES	19	**10,641,265**	10,571,218
INCOME FROM OPERATIONS		**2,029,385**	2,302,856
DEPRECIATION	8	**690,197**	748,922
OTHER EXPENSES (INCOME)			
Finance costs	13	**1,024,505**	1,293,633
Gain on disposal of retail stores	7, 9	**(13,944)**	-
Loss on disposal of property and equipment	8	**95,815**	128,393
Gain on repurchase of convertible debenture	12	**(228,419)**	-
Bad debt expense	24	**29,416**	11,441
Store closure expenses		**41,945**	70,783
Other income		**(12,093)**	(10,933)
Business development costs		**-**	23,534
		937,225	1,516,851
INCOME BEFORE TAX		**401,963**	37,083
INCOME TAXES	10	**114,022**	13,841
NET COMPREHENSIVE INCOME		**287,941**	23,242
Basic earnings per share	20	**0.00**	0.00
Diluted earnings per share	20	**0.00**	0.00
Weighted average number of shares - basic		**57,644,914**	57,797,788
Weighted average number of shares - diluted		**57,644,914**	57,797,788

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Cash Flows

	Note	Dec 31, 2015	Dec 31, 2014
OPERATING ACTIVITIES			
Net comprehensive income		**287,941**	23,242
Items not affecting cash			
Change in fair value of interest rate swap	3	**(45,977)**	(92,431)
Depreciation	8	**690,197**	748,922
Gain on disposal of retail stores	7, 9	**(13,944)**	-
Loss on disposal of property and equipment	8	**95,815**	128,393
Deferred tax expense	10	**33,931**	106,475
Gain on repurchase of convertible debenture	12	**(228,419)**	-
Net accretive interest	12	**26,211**	58,478
Amortization of convertible debenture issue costs	12	**83,027**	163,247
Changes in non-cash working capital	22	**(194,109)**	1,041,313
Cash flow provided by operating activities		**734,673**	2,177,639
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(418,772)**	(444,500)
Proceeds on disposal of property and equipment	7, 8	**80,800**	16,039
Cash flow used in investing activities		**(337,972)**	(428,461)
FINANCING ACTIVITIES			
Repayment of loans receivable	6	**3,696**	-
Net proceeds from (repayment of) bank loan	11	**342,102**	(1,044,275)
Repayment of bank indebtedness	11	**-**	(49,909)
Repurchase of convertible debenture	12	**(698,581)**	-
Repayment of convertible debenture	12	**-**	(809,140)
Repurchase of shares	14	**(50,050)**	-
Repayment of promissory note		**-**	(100,000)
Cash flow used in financing activities		**(402,833)**	(2,003,324)
DECREASE IN CASH		**(6,132)**	(254,146)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		**868,858**	1,123,004
CASH AND CASH EQUIVALENTS - END OF PERIOD		**862,726**	868,858
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		**973,502**	1,182,130
Income taxes paid		**108,078**	51,600

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, 2015 Andersons operated 43 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 27, 2016.

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 condsolidated 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 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 based on calculations and projections from financial budgets prepared by management. A discount rate range of 7.32% - 8.14%, which is the Company’s weighted average cost of capital, was used. Budgeted gross margin was based on past performance. Growth rates were forecasted to be 0.25% - 1.0% based on industry statistics.

An increase in the discount rate to approximately 9.38% would reduce the recoverable amount of the CGU to its carrying value.

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.

Business combinations

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. Goodwill is calculated based on the purchase price less the fair value of the net tangible assets. Fair value of the net tangible assets is based on market price of similar assets.

Convertible debentures

To determine the equity versus liability portion of the convertible debentures issued, management engaged a valuator to estimate the discount rate required for calculation of the net present value of future cash flows which determined the liability component. Detailed information with respect to key assumptions used in determining fair value of financial instruments is discussed in Note 24.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

The determination of CGU 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.

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 all 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 consideration paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition 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. At the acquisition date, any goodwill acquired is allocated to the CGU expected to benefit from the combination's synergies. Acquisition costs are expensed as incurred.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 to sell 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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 income or directly in equity. Current tax is the expected payable on the taxable income for the year using rates enacted or substantially 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 payments

The Company's share-based payments consisted of an employee share purchase plan available to all employees which was terminated Nov 19, 2014, and a stock option plan available to directors and management. Shares purchased under the employee share purchase plan were measured at fair value and recognized as an expense in the period they were purchased. This plan is described in Note 18.

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. Cash-settled awards are measured at fair value at date of grant. The Company's stock option plans are described in Note 17.

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and interest rate swaps 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

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.

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, promissory notes, bank loan and long-term debt 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.

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, 2015, and accordingly, have not been applied in preparing these consolidated financial statements.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Company does not believe this will have a significant impact on its disclosure.

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. The Company does not believe this will have an impact on its recognition of revenue.

Leases
The IASB issued IFRS 16, “Leases” (“IFRS 16”), which replaces IAS 17 “Leases”. It sets out the principles for recognition, measurements, 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 has not yet determined the impact of this new standard.

3. INTEREST RATE SWAP

Mark to market value Dec 31, 2013	$	(138,408)
Unrealized gain		92,431
Mark to market value Dec 31, 2014	$	(45,977)
Realized gain		45,977
Mark to market value Dec 31, 2015	**$**	**-**

The Company entered into a five year Interest Rate Swap Agreement (“SWAP”) on Apr 6, 2010 with a Canadian chartered bank (“SWAP Counterparty”) to mitigate the interest rate risk associated with the bank indebtedness and long term debt. The notional amount of the SWAP was equal to $4,500,000 of the outstanding principal balance on the bank loan.

The Company was obligated to pay the Swap Counterparty an amount based upon a 3.35% interest rate plus spread. The Swap Counterparty was obligated to pay the floating interest rate. Fair value of the SWAP was determined using estimated future discounted cash flows using a comparable current market rate of interest.

The SWAP expired on April 5, 2015.

4. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of $60,960 (2014 - $59,631), in respect of two (2014 – two) retail liquor stores, to privately held companies 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:

		2015		2014
Wages and salaries	**$**	**559,314**	$	438,039
Other		**3,336**		2,902
	$	**562,650**	$	440,941

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.

5. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the year ended Dec 31, 2015 was $36,644,632 (2014 - $43,075,675). No inventory write downs were recognized in 2015 or 2014.

6. LOANS RECEIVABLE

As a result of the sale of two stores during the 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**
Amounts payable within one year		13,085
	$	**73,219**

7. DISPOSAL OF RETAIL STORES

During the year the Company sold three retail liquor stores. The proceeds were allocated to the assets as follows;

	Note	**2015**	2014
Cash and cash equivalents		**$ 1,504**	$ -
Inventory		**200,979**	
Property and equipment	8	**45,321**	-
Goodwill	9	**105,735**	-
Fair value of net assets sold		**$ 353,539**	$ -
Total cash consideration received		**$ 277,483**	$ -
Promissory notes granted	6	**90,000**	-
Gain on sale of property and equipment		**(119,679)**	
Loss on disposal of goodwill	9	**105,735**	-
		$ 353,539	$ -

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

8. PROPERTY AND EQUIPMENT

	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	Transfers	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**

(continues)

8. PROPERTY AND EQUIPMENT (continued)

	2014 Cost	2014 Accumulated Depreciation	2014 Net Book Value
Building	$ 289,700	$ 109,805	$ 179,895
Computer equipment	397,290	295,430	101,860
Computer software	556,330	521,889	34,441
Furniture and fixtures	4,173,538	2,748,379	1,425,159
Leasehold improvements	3,611,203	1,389,029	2,222,174
Motor vehicles	193,402	166,029	27,373
	$ 9,221,463	$ 5,230,561	$ 3,990,902

	Dec 31, 2013 Opening NBV	Additions	Disposal	Transfers	Depreciation	Dec 31, 2014 Closing NBV
Building	$ 182,593	$ 4,700	$ -	$ -	$ (7,398)	$ 179,895
Computer equipment	129,204	16,140	(2,062)	(648)	(40,774)	101,860
Computer software	39,749	68,619	-	648	(74,575)	34,441
Furniture and fixtures	1,749,303	60,324	(27,008)	-	(357,460)	1,425,159
Leasehold improvements	2,283,556	294,017	(100,829)	-	(254,570)	2,222,174
Motor vehicles	55,351	700	(14,533)	-	(14,145)	27,373
	$ 4,439,756	$ 444,500	$ (144,432)	$ -	$ (748,922)	$ 3,990,902

Proceeds on disposal of property and equipment for the year was $5,800 (2014 - $16,039). A loss of $95,815 (2014 – $128,393) was recognized in the year upon disposal of property and equipment in existing stores as a result of the replacement of certain assets.

9. GOODWILL

Balance Dec 31, 2014	$ 11,205,368
Goodwill disposed	(105,735)
Balance Dec 31, 2015	**$ 11,099,633**

During the year the Company sold three stores resulting in a deemed disposition of goodwill allocated to the associated CGU. The annual goodwill impairment review was performed at Dec 31, 2015 and no impairment was recognized (2014 - $nil).

10. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 26% (2014 – 25%) to the income for the year and is reconciled as follows:

	2015	2014
Income before income taxes	**$ 401,963**	$ 37,083
Income tax expense at the combined basic Federal and provincial tax rate:	**$ 104,510**	$ 9,271
Increase resulting from:		
Non-deductible expenses	**3,576**	2,240
Effect of rate change and other	**5,936**	2,330
Effective tax expense	**$ 114,022**	$ 13,841
Current tax expense (recovery)	**80,091**	(92,634)
Deferred tax expense	**33,931**	106,475
	$ 114,022	$ 13,841

The statutory tax rate increased from 25% to 26% due to an increase in the Alberta provincial tax rate effective July 1, 2015.

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

	2014	Changes through net income	**2015**
Deferred tax liabilities			
Goodwill	$ (472,539)	$ (82,383)	**$ (554,922)**
Convertible debenture	(35,528)	31,752	**(3,776)**
	$ (508,067)	$ (50,631)	**$ (558,698)**
Deferred tax assets			
Financing costs	$ 42,021	$ (35,391)	**$ 6,630**
Non-capital losses	112,576	107,489	**220,065**
Property and equipment	215,842	(43,904)	**171,938**
Interest rate swap	11,494	(11,494)	**-**
	$ 381,933	$ 16,700	**$ 398,633**
Net deferred tax position	$ (126,134)	$ (33,931)	**$ (160,065)**

11. 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, 2015 there was $nil in bank indebtedness (2014 – $nil).

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014, the Company has an available facility up to a maximum $10,000,000 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, 2015 there was $5,574,285 drawn on the bank loan (Dec 31, 2014 - $5,232,183). These amounts are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

12. CONVERTIBLE DEBENTURES

In 2009 the Company issued an $809,140 unsecured convertible debenture, ("Debenture A") which was due and paid in full on Mar 16, 2014.

Interest expense for Debenture A was calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Dec 31, 2015 in the amount of $nil (2014 - $27,260), which represents the accretive interest for the period.

Debt Component

Dec 31, 2013	$	803,479
Accretive interest		27,260
Coupon interest *		(21,599)
Repayment of debenture		(809,140)
Dec 31, 2014 and 2015	**$**	**-**

* Coupon interest is the cash interest paid to the debenture holder.

Equity Component

Balance Dec 31, 2013	$	189,622
Transferred to contributed surplus at maturity		(189,622)
Dec 31, 2014 and 2015	**$**	**-**

In 2011 the Company issued a $9,200,000 unsecured subordinated convertible debenture ("Debenture B") due on Apr 30, 2016. Debenture B is interest bearing at 7.75% payable semi-annually. Debenture B is convertible to common shares of the Company at a conversion price of $0.50 per common share.

Debenture B was initially recorded on the statement of financial position at a fair value of $9,004,684, calculated by discounting cash flows at the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Issue costs relating to the debt portion of the Debenture B of $690,211 are being amortized over its term. The difference of $195,316 between the face amount and the estimated fair value of the debt component, less related issue costs of $13,968, less adjustment for deferred tax is reflected as the equity component of Debenture B.

The carrying value of Debenture B is being increased such that the liability at maturity will be equal to the face value of $8,273,000 (2014 - $9,200,000). Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Dec 31, 2015 in the amount of $708,886 (2014 - $753,754), which represents the accretive interest for the year.

On Dec 11, 2014 the Company announced a normal course issuer bid ("NCIB") to repurchase Debenture B. The Company was authorized to repurchase for cancellation up to $920,000 of the principal amount, representing 10% of Debenture B's issued and outstanding. The NCIB began Dec 15, 2014 and expired on Dec 14, 2015. On Dec 15, 2015 the Company announced another NCIB to repurchase Debenture B. The Company is authorized to repurchase for cancellation up to $844,100 of the principal amount, representing 10% of Debenture B's issued and outstanding. The NCIB began Dec 15, 2015 and expires on April 30, 2016, at maturity.

During the year, the Company repurchased and cancelled $927,000 principal amount of Debenture B for aggregate consideration of $710,133. $908,646 was a reduction to the liability component, $18,354 was recorded as a reduction to the equity component, $11,552 was charged to interest expense and $228,419 was recorded as a gain to the consolidated statement of comprehensive income (2014 - $nil).

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12. CONVERTIBLE DEBENTURES (continued)

Debt Component

Dec 31, 2013	$	8,853,884
Accretive interest		753,754
Coupon interest *		(713,000)
Amortization of issue costs		163,247
Dec 31, 2014	$	9,057,885
Accretive interest		708,886
Coupon interest *		(682,675)
Amortization of issue costs		83,027
Repurchased and cancelled		(908,646)
Dec 31, 2015	**$**	**8,258,477**

* Coupon interest is the cash interest paid to the debenture holder.

Equity Component

Balance Dec 31, 2013 and 2014	$	136,011
Repurchased and cancelled		(18,354)
Balance Dec 31, 2015	**$**	**117,657**

13. FINANCE COSTS

	Note		**2015**		2014
Interest expense		**$**	**987,455**	$	1,222,817
Change in fair value of interest rate swap	3		**(45,977)**		(92,431)
Amortization of convertible debenture issue costs	12		**83,027**		163,247
		$	**1,024,505**	$	1,293,633

14. SHARE CAPITAL

On Sep 1, 2015 the Company announced an NCIB to repurchase its common shares. The Company is authorized to repurchase for cancellation up to 5% of the issued and outstanding common shares which equals 2,889,889 common shares. The NCIB began Sep 3, 2015 and expires on Sep 2, 2016.

During the year, the Company repurchased and cancelled 864,000 common shares for aggregate consideration of $50,050. $91,930 was a reduction to share capital and $41,880 was recorded as a an addition to contributed surplus (2014 - $nil).

Authorized - Unlimited common shares

	Number		Amount
Balance at Dec 31, 2013 and 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**

15. WARRANTS

	# of warrants	Exercise price	Estimated fair value of warrants
Outstanding Dec 31, 2013	1,000,000	$ 0.3765	$ 210,007
Expired Nov 24, 2014	(1,000,000)	(0.3765)	(210,007)
Outstanding Dec 31, 2014 and 2015	-	**$ -**	**$ -**

The 1,000,000 warrants, which expired on Nov 24, 2014, were issued to Roynat Capital as a result of a financing agreement.

16. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2013		$ 537,903
Maturity of Debenture A	12	189,622
Expiry of warrants	15	210,007
Balance at Dec 31, 2014		$ 937,532
Repurchase of common shares	14	41,880
Balance at Dec 31, 2015		**$ 979,412**

17. STOCK OPTION PLANS

(a) 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.

Directors Options

750,000 options were issued to directors under the Option Plan, representing 1.3% of the outstanding common shares, with none outstanding at Dec 31, 2015.

	# of options	Exercise price	value of options
Outstanding Dec 31, 2013	150,000	$ 0.220	$ 28,980
Expired Oct 12, 2014	(150,000)	(0.220)	(28,980)
Outstanding Dec 31, 2014 and 2015	-	**$ -**	**$ -**

18. EMPLOYEE BENEFITS

The Employee Share Savings Plan was terminated effective Nov 19, 2014 as approved by shareholders at their annual general meeting. The plan, established Jan 1, 2011, permitted employees with more than six months service with the Company to have the Company match one half of an employee's purchase of the Company's shares, up to a maximum of 10% of the employee's annual income. All shares automatically vested at termination date.

No compensation expense in excess of Company cash contributions was recognized under this plan. $nil was paid by the Company to the plan in 2015 (2014 - $12,504).

The Company pays 50% of Alberta Blue Cross health premiums for certain employees. For the year ended Dec 31, 2015 the total premiums paid by the Company were $53,464 (2014 - $44,334).

19. EXPENSES BY NATURE

	2015	2014
Wages and employee benefits	**$ 5,614,579**	$ 5,540,887
Lease and premise costs	**3,909,426**	3,914,291
Other	**1,117,260**	1,116,040
	$ 10,641,265	$ 10,571,218

20. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2015 was based on net comprehensive income of $287,941 (2014 – $23,242) and a weighted average number of shares outstanding of 57,644,914 (2014 – 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2015 was based on net comprehensive income of $287,941 (2014 – $23,242) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,644,914 (2014 – 57,797,788).

The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dultive effect for the years ended Dec 31, 2015 and 2014. For the year ending Dec 31, 2014 the potential warrants and stock options were out of the money and therefore considered anti-dilutive.

21. 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	$	2,174,248
One to five years		6,499,626
More than five years		1,852,498
	$	**10,526,372**

22. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

		2015		2014
Cash provided by (used in)				
Accounts receivable	**$**	**101,396**	$	171,702
Inventory		**(469,226)**		1,168,903
Prepaid expenses and deposits		**20,150**		25,424
Income taxes recoverable		**156,271**		(95,592)
Accounts payable and accrued liabilities		**33,079**		(232,014)
Goods and services tax payable		**(35,779)**		2,890
	$	**(194,109)**	$	1,041,313

23. 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
- 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.

		2015		2014
Convertible debentures	**$**	**8,258,477**	$	9,057,885
Bank loan		**5,574,285**		5,232,183
Cash and cash equivalents		**(862,726)**		(868,858)
Net debt	**$**	**12,970,036**	$	13,421,210
Shareholders' equity		**7,790,422**		7,570,885
Total capital	**$**	**20,760,458**	$	20,992,095

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.

24. 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 interest rate swap has a fair value equivalent to the carrying value and is calculated on a mark to market basis.

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

The convertible debenture has a fair value equivalent to the carrying value, as the discount rate remains unchanged.

As at Dec 31, 2015 and Dec 31, 2014 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	2015		2014	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	**$ 862,726**	**$ 862,726**	$ 868,858	$ 868,858
Interest rate swap	**-**	**-**	45,977	45,977
Loans and receivables				
Accounts receivable	**209,452**	**209,452**	310,848	310,848
Loans receivable	**86,304**	**86,304**	-	-
Other financial liabilities				
Bank loan	**5,574,285**	**5,574,285**	5,232,183	5,232,183
Accounts payable and accrued liabilities	**673,188**	**673,188**	640,109	640,109
Convertible debentures	**8,258,477**	**8,258,477**	9,057,885	9,057,885

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

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:

(continues)

24. FINANCIAL INSTRUMENTS (continued)

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

	Dec 31, 2014	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	$ 868,858	$ 868,858		
Interest rate swap liability	$ 45,977		$ 45,977	

The Interest rate swap liability Level 2 inputs used include quoted prices for similar instruments in active markets, and market interest rates. The liability is valued using the market approach, based upon the mid-market levels at the close of business on Dec 31, 2015 and Dec 31, 2014.

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 $209,452 (2014 - $310,848). $47,728 (2014 - $42,614) are over 60 days, but not considered impaired. For the period ending Dec 31, 2015, $29,416 (2014 – $11,441) was written off to bad debts.

At Dec 31, 2015 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's financial liabilities at Dec 31, 2015 and 2014 have maturities summarized below:

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	11		**5,574,285**	-
Convertible debenture	12	Apr 30, 2016	**8,258,477**	-
			$ 14,543,582	$ -

(continues)

24. FINANCIAL INSTRUMENTS (continued)

Dec 31, 2014	Note	Maturity Date	Current	Non-current
Accounts payable and accrued liabilities			$ 640,109	$ -
Goods and services tax payable		Jan 31, 2015	73,411	-
Bank loan	11		5,232,183	-
Convertible debenture	12	Apr 30, 2016	-	9,057,885
			$ 5,945,703	$ 9,057,885

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 bear interest rates that vary in accordance with prime borrowing rates. Assuming outstanding loan balance of $5,574,285, a one percent change in interest rates would have an immaterial effect on net comprehensive income. The Company manages its interest rate risk through credit facility negotiations.

25. 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.

26. SUBSEQUENT EVENTS

On Apr 1, 2016 the Company announced that the holders of its 7.75% convertible unsecured subordinated debentures due April 30, 2016 approved the proposed amendments to the debentures. As a result, the maturity date will be extended to April 30, 2021, the conversion price will reduce to $0.25 from $0.50, and the coupon rate will be reduced to 7.50%. The Company has also announced its intention to redeem on a prorata basis 15% of the principal amount of the amended debentures on or about June 10, 2016.

Subsequent to Dec 31, 2015, the Company has entered into an agreement to sell one store in Southern Alberta. The sale is scheduled to be completed by Q3 2016.