Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2018

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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.

Grant Thornton 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, 2019

"Peter J. Byrne"

Chief Executive Officer

"Sarah Stelmack"

Chief Financial Officer

Independent auditor's report

Grant Thornton LLP
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To the Shareholders of Rocky Mountain Liquor Inc.

Opinion

We have audited the consolidated financial statements of Rocky Mountain Liquor Inc. (the "Company") which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive loss, consolidated statement of changes in shareholders' deficiency and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net comprehensive loss of $1,216,653 during the year ended December 31, 2018 and, as of that date, the Company had a shareholders' deficiency of $61,573, and current liabilities in excess of current assets of $2,558,527. As stated in Note 1, these events and conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 25, 2018.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Meghan DeRoo McConnan.

Edmonton, Canada

Grant Thornton LLP

April 25, 2019

Chartered Professional Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

As at	Note	Dec 31, 2018	Dec 31, 2017
ASSETS			
CURRENT			
Cash and cash equivalents		**574,497**	818,786
Accounts receivable		**43,704**	63,300
Inventory	4	**5,385,849**	5,870,760
Prepaid expenses and deposits		**185,751**	156,858
Income taxes recoverable	10	**10,694**	-
Current portion of loans receivable	5	**15,198**	14,458
		6,215,693	6,924,162
NON-CURRENT			
LOANS RECEIVABLE	5	**29,866**	45,006
PROPERTY AND EQUIPMENT	7	**2,290,017**	2,550,492
GOODWILL	8	**6,307,819**	6,548,188
		14,843,395	16,067,848
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**595,544**	675,157
Bank loan	9	**8,091,238**	8,306,135
Goods and services tax payable		**87,438**	56,875
Income taxes payable	10	**-**	1,994
		8,774,220	9,040,161
NON-CURRENT			
CONVERTIBLE DEBENTURE	11	**6,130,748**	5,872,607
		14,904,968	14,912,768
SHAREHOLDERS' DEFICIENCY			
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**	1,014,911
Accumulated deficit		**(5,840,620)**	(4,623,967)
		(61,573)	1,155,080
		14,843,395	16,067,848

GOING CONCERN	1
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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' Deficiency

	Note	Equity component of convertible debenture	Share capital	Contributed surplus	Accumulated deficit	Total
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 year		-	-	-	(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
Net comprehensive loss for the year		-	-	-	(1,216,653)	(1,216,653)
Balance at Dec 31, 2018		96,694	4,667,442	1,014,911	(5,840,620)	(61,573)

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Comprehensive Loss

	Note	Year ended Dec 31, 2018	Year ended Dec 31, 2017
SALES		**44,068,345**	43,619,001
COST OF SALES	4	**34,451,736**	33,482,765
		9,616,609	10,136,236
OPERATING AND ADMINISTRATIVE EXPENSES	16	**8,679,533**	9,937,487
INCOME FROM OPERATIONS		**937,076**	198,749
DEPRECIATION	7	**541,557**	622,186
OTHER EXPENSES (INCOME)			
Finance costs	12	**1,245,913**	1,097,049
Loss on disposal of property and equipment and goodwill	6,7,8	**233,682**	205,269
Store closure expenses		**142,215**	179,481
Bad debt expense		**3,843**	8,491
Other income		**(2,787)**	(6,980)
		1,622,866	1,483,310
LOSS BEFORE TAX		**(1,227,347)**	(1,906,747)
INCOME TAXES	10	**(10,694)**	10,694
NET COMPREHENSIVE LOSS		**(1,216,653)**	(1,917,441)
Basic income per share	17	**(0.02)**	(0.03)
Diluted income per share	17	**(0.02)**	(0.03)
Weighted average number of shares - basic		**56,791,788**	56,791,788
Weighted average number of shares - diluted		**56,791,788**	56,791,788

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

ROCKY MOUNTAIN LIQUOR INC
Consolidated Statements of Cash Flows

	Note	**Year ended Dec 31, 2018**	Year ended Dec 31, 2017
OPERATING ACTIVITIES			
Net comprehensive loss		**(1,216,653)**	(1,917,441)
Items not affecting cash			
Depreciation	7	**541,557**	622,186
Loss on disposal of property and equipment and goodwill	6,7,8	**233,682**	205,269
Notional accretive interest	11	**258,141**	228,072
Share based compensation	14,15	**-**	10,428
Changes in non-cash working capital	19	**413,876**	178,330
Cash flow from (used in) operating activities		**230,603**	(673,156)
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(587,350)**	(557,559)
Proceeds on disposal of property and equipment	7	**312,955**	292,821
Cash flow used in investing activities		**(274,395)**	(264,738)
FINANCING ACTIVITIES			
Repayment of loans receivable	5	**14,400**	13,755
(Net repayment) proceeds from bank loan	9	**(214,897)**	956,640
Cash flow (used in) provided by financing activities		**(200,497)**	970,395
DECREASE IN CASH		**(244,289)**	32,501
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		**818,786**	786,285
CASH AND CASH EQUIVALENTS - END OF YEAR		**574,497**	818,786
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		**987,803**	868,977
Income taxes paid		**3,493**	8,700

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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, 2018 Andersons operated 29 retail liquor stores in Alberta (2017 – 35 stores), 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, 2019.

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, 2018, the Company had a shareholders' deficiency of $61,573 (2017 shareholders' equity - $1,155,080), net comprehensive loss of $1,216,653 (2017 - $1,917,441), and current liabilities in excess of current assets of $2,558,527, (2017 - $2,115,999) as a result of the demand bank loan of $8,091,238 (2017 - $8,306,135) classified as a current liability. These conditions indicate the existence of a material uncertainty which may cast significant 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 from rebranding activities that occurred during 2017 and 2018 to rebrand fifteen of its stores to the Great Canadian Liquor ("GCL") brand and from ongoing investments in related sales and marketing programs. Continuation as a going concern is also dependent on the Company's ability to maintain its current demand bank financing as further described in Note 9 and seek additional sources of debt or equity financing as required. However, there are no assurances that the steps taken by management will be successful. 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 in 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 going concern assumption not be appropriate. Such adjustments could be material.

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.

(continues)

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 net 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

The Company reviews goodwill at least annually, and when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units (“CGU”) have been determined, where applicable using discounted cash flow models that require assumptions about future cash flows, earning multiples of stores, EBITDA projections and discount rates. Refer to note 8 for further details regarding estimation of recoverable amounts.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Useful lives of property and equipment

Management has estimated the useful lives of property and equipment based on its assumption of the time frame in which these assets will be used by the Company. These assumptions may differ from actual life of the assets.

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. For the purposes of goodwill testing, management assesses 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.

Going Concern

The assessment of the Company’s ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the coming year involves significant judgement based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the current forecasted model.

Significant accounting policies

Revenue recognition

Revenue from the sale of goods is generated through retail and licensee sales and recognized at the point of sale to customers, net of discounts. The amount of revenue recognized is adjusted for expected returns which are estimated based on historical data. Revenue is recognized when all of the following conditions are met:

- a contract is created between two parties,
- rights relating to the transfer of goods is identified,
- payment terms for the goods are identified,
- the contract has commercial substance and
- it is probable the Company will collect payment for exchange of goods.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Inventory

Inventory consists primarily of liquor and related merchandise for resale and is valued at the lower of cost and net realizable value. Cost is based on purchase price plus freight on a first-in, first out basis, and net realizable value is the estimated selling price less applicable selling costs.

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 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 fair value less costs of disposal (" 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 carried at cost less accumulated impairment losses.

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. 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.

Operating leases

All leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis.

Interest income

Interest income is recognised on an effective interest basis.

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.

(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 compensation

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

Borrowing costs

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

Financial instruments

The classification of a financial asset or liability is determined at the time of initial recognition. The Company does not enter into derivative contracts.

Financial assets:

A financial asset is recognized when the Company has the contractual right to collect future cash flows. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. Financial assets are recognized at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost.

Cash and cash equivalents are recognized at their fair value and carried at amortized cost.

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 9 replaces the incurred loss model from IAS 39 with an expected loss model ("ECL"). The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39. The ECL model applies to the Company's trade receivables and loan receivable (Note 21).

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low
3. financial instruments that have objective evidence of impairment at the reporting date

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Trade and other receivables and contract assets
The Company makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate, the Company uses historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis when they possess shared credit risk characteristics and days past due.

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)

Financial assets, other than those at FVTPL and amortized cost, 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.

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:

A financial liability is recognized when the Company has the contractual obligation to pay future cash flows. Financial liabilities such as accounts payable and accrued liabilities and bank loan are recognized at amortized cost using the effective interest rate method.

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.

Derecognition of financial liabilities

The Company derecognizes financial liabilities 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 a change results in a modification adjustment recognized through profit or loss. The adjustment is calculated as the difference between the original contractual cash flows and the present value of the modified cash flows at the original contracted effective interest rate. Management will monitor debt instruments for significant events that affect future cash flows. Events that could lead to a modification may include amendments, large debt repayments or large draws on a debt instrument.

Equity

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.

<u>Changes in accounting standards from prior year</u>

Financial Instruments – IFRS 9

The IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), which replaced IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). This standard came into effect for annual periods beginning on or after Jan 1, 2018. The Company adopted the new standard for its current period in these consolidated financial statements retrospectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

IFRS 9 replaces the incurred loss model from IAS 39 with an ECL model where receivables are assessed as a group, and impairment is estimated based on historical experience and external factors. Previously the impairment of trade receivables was based on the incurred loss model. Individual receivables were considered for impairment when they were past due or when other objective evidence was received that a specific part would default, and losses were recorded. In applying IFRS 9, the Company has not restated comparative information for prior periods with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financing assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 at Jan 1, 2018 for each of the Company's financial assets and liabilities:

Financial Instrument	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Bank loan	Financial liabilities measured at amortized cost	Amortized cost
Convertible debenture	Financial liabilities measured at amortized cost	Amortized cost

The application of IFRS 9 had no material impact to the opening retained earnings or to the current fiscal year.

Revenue from Contracts with Customers – IFRS 15

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 came into effect for annual periods beginning on or after Jan 1, 2018. The adoption of IFRS 15 was applied fully retrospectively with no practical expedients elected, and resulted in no impact to retained earnings or comparative numbers. The adoption of IFRS 15 resulted in changes to disclosure, but no material, financial impact to these financial statements or accompanying notes.

<u>Significant accounting standards issued but not yet in effect</u>

New standards have been issued but are not yet effective for the year beginning Jan 1, 2018, and accordingly, have not been applied in preparing these consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Jan 1, 2019. The Company will adopt the modified retrospective approach, applying various practical expedients upon adoption. Management's 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 $73,560 (2017 - $60,960), in respect of three (2017 – two) retail liquor stores, to a privately held company in which an Officer of the Company is a significant shareholder. The rent is at exchange amount for consideration agreed to between the parties.

Key Management Personnel Compensation

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

	2018	2017
Wages and salaries	**$ 504,807**	$ 499,000
Other	**2,141**	2,692
	$ 506,948	$ 501,692

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. During variable periods of the year, the Company incurred loans payable to a key member of management with interest. There was a balance due of $nil at Dec 31, 2018 (2017 - $nil).

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the year ended Dec 31, 2018 was $34,451,736 (2017 - $33,482,765). No inventory write downs were recognized in 2018 or 2017.

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, 2016	$	73,219
Principal payments		13,755
Balance Dec 31, 2017	$	59,464
Principal payments		14,400
Balance Dec 31, 2018	**$**	**45,064**
Amounts payable within one year		15,198
	$	**29,866**

6. SALE OF RETAIL STORES

During 2018 the Company sold three retail liquor stores and sold five in 2017. The proceeds were allocated to the assets as follows:

Carrying Value

	Note		**2018**		2017
Cash and cash equivalents		**$**	**500**	$	507
Inventory			**309,345**		382,329
Property and equipment			**89,201**		200,965
Goodwill	8		**240,369**		129,074
Carrying value of net assets sold		**$**	**639,415**	$	712,875
Total cash consideration received		**$**	**619,845**	$	570,336
Total loss on sale of stores			**19,570**		142,539
Carrying value of net assets sold		**$**	**639,415**	$	712,875

7. PROPERTY AND EQUIPMENT

		2018 Cost		2018 Accumulated Depreciation		**2018 Net Book Value**
Building	$	289,700	$	136,906	**$**	**152,794**
Computer equipment		322,188		243,062		**79,126**
Computer software		1,119,267		1,052,299		**66,968**
Furniture and fixtures		3,199,715		2,345,462		**854,253**
Leasehold improvements		2,589,527		1,471,595		**1,117,932**
Motor vehicles		109,198		90,254		**18,944**
	$	7,629,595	$	5,339,578	**$**	**2,290,017**

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7. PROPERTY AND EQUIPMENT (continued)

	Dec 31, 2017 Opening NBV	Additions	Disposal	Depreciation	**Dec 31, 2018 Closing NBV**
Building	$ 159,160	$ -	$ -	$ (6,366)	**$ 152,794**
Computer equipment	99,141	17,042	(7,364)	(29,693)	**79,126**
Computer software	73,626	133,936	-	(140,594)	**66,968**
Furniture and fixtures	851,660	285,875	(94,356)	(188,926)	**854,253**
Leasehold improvements	1,338,708	150,497	(203,584)	(167,689)	**1,117,932**
Motor vehicles	28,197	-	(964)	(8,289)	**18,944**
	$ 2,550,492	$ 587,350	$ (306,268)	$ (541,557)	**$ 2,290,017**

	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**

8. GOODWILL

	Note	
Balance Dec 31, 2016		$ 6,677,262
Goodwill disposed		(129,074)
Balance Dec 31, 2017		$ 6,548,188
Goodwill disposed	6	(240,369)
Balance Sep 30, 2018		**$ 6,307,819**

In 2018 the Company sold three liquor stores (Note 6) resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of $240,369, included in loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive loss. Five liquor stores were sold in 2017, resulting in a deemed disposition of $129,074.

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8. GOODWILL (continued)

In conducting its annual goodwill impairment test, the Company performed a discounted cash flow ("DCF") analysis on its CGU to determine its value in use. The DCF was based on calculations and projections from financial budgets prepared by management and included the following significant factors.

Forecasted gross margins were based on past performance and expectations for market trends. A growth rate of between 2% to 4% was based on industry statistics and past performance and was applied to revenue. Inflation of 1% was applied to expenditures. A terminal growth rate of 1.8% was applied to the analysis to project cash flows beyond five years, which is consistent with the industry's expected growth rates, forecasted inflation rates and management's experience. A weighted average cost of capital ("WACC") pre-tax range of 12.5% and 13.5% was used and based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, a risk premium, and after-tax cost of debt based on corporate bond yields.

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 16% to the 2019 EBITDA or 14% to 2020 EBTIDA would reduce the recoverable amount to zero. An increase in the WACC to approximately 14.2% would reduce the recoverable amount of the CGU to its carrying value. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of 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. BANK LOAN

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Sept 20, 2018, the Company has an available facility up to a maximum of the lesser of i) $10,000,000 and ii) the total of $4,102,000 and 75% of accounts receivable to a maximum of $1,000,000, and 70% of the value of inventory plus goods and services tax and bottle deposits, less trade payables related to liquor and unremitted source deductions. The loan is due upon demand, bearing interest at prime plus 2.65% or bankers' acceptances plus 4.15% per annum. The previous agreement provided an available facility up to a maximum of the lesser of i) $10,000,000 and ii) the total of $4,400,000, with no change to allowance for accounts receivable or inventory. The previous agreement bore interest at prime plus 1.90% or bankers' acceptances plus 3.40% per annum. The previous agreement was in place for the comparative period of 2017. A covenant included in the amended agreement requires the Company to maintain a ratio of earnings before interest, taxes, depreciation, and amortization (EBITDA) to projected EBITDA. As at Dec 31, 2018 the Company is in compliance with this covenant.

Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Dec 31, 2018 there was $8,091,238 drawn on the bank loan (Dec 31, 2017 - $8,306,135). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

10. INCOME TAXES

Income tax expense:

		2018		2017
Current tax expense:				
Current period	**$**	**(10,694)**	$	10,694
Deferred tax expense:				
Origination and reversal of temporary differences		**(314,061)**		(504,948)
Change in unrecognized deductible temporary differences		**314,061**		504,948
Total income tax expense from continuing operations	**$**	**(10,694)**	$	10,694

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

	2018	2017
Income before tax	**$ (1,227,347)**	$ (1,906,747)
Statutory income tax rate	**27.00%**	27.00%
Expected income tax	**(331,384)**	(514,822)
Increase (decrease) resulting from:		
Non-taxable items	**(18,069)**	18,382
Change in unrecognized deductible temporary differences	**314,061**	504,948
Change in tax rates and rate differences	**-**	2,186
Other	**24,698**	-
Income tax (recovery) expense	**$ (10,694)**	$ 10,694

Recognized deferred tax assets and liabilities:

		2018		2017
Deferred tax assets are attributable to the following:				
Finance costs	**$**	**53,055**	$	84,983
Non-capital losses		**190,605**		192,590
Deferred tax assets		**243,660**		277,573
Set-off of tax		**(243,660)**		(277,573)
Net deferred tax asset		**-**		-
Deferred tax liabilities are attributable to the following:				
Convertible debenture		**(198,248)**		(267,948)
Goodwill		**(45,412)**		(9,625)
Deferred tax liabilities		**(243,660)**		(277,573)
Set-off of tax		**243,660**		277,573
Net deferred tax liability		**-**		-

Unrecognized deferred tax assets:

The non-capital loss carryforwards begin to expire in 2034. Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries can utilize the benefits.

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10. INCOME TAXES (continued)

Deferred tax assets have not been recognized in respect of the following items:

		2018		2017
Deductible temporary differences	**$**	**1,265,168**	$	1,232,833
Tax losses		**4,838,273**		3,029,310
Total income tax expense from continuing operations	**$**	**6,103,441**	$	4,262,143

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 Jun 10, 2016 the Company exercised this option. The equity component of the Debenture was decreased by $17,062 and $240,383 was charged directly to accumulated deficit.

Notional accretive interest expense is reflected at Dec 31, 2018 in the amount of $258,141 (2017 - $228,072).

	Liability Component			
		Face Value		Carrying Value
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
Notional accretive interest		-		258,141
Balance Dec 31, 2018	**$**	**6,865,000**	**$**	**6,130,748**

	Equity Component	
		Carrying Value
Balance Dec 31, 2016, 2017 and 2018	**$**	**96,694**

12. FINANCE COSTS

	Note		**2018**		2017
Bank loan interest		**$**	**472,897**	$	354,137
Convertible debentures interest			**514,875**		514,840
Notional accretive interest	11		**258,141**		228,072
		$	**1,245,913**	$	1,097,049

13. SHARE CAPITAL

Authorized - Unlimited common shares

	Number		Amount
Balance at Dec 31, 2016, 2017 and 2018	**56,791,788**	**$**	**4,667,442**

14. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2016		$ 1,004,483
Share based compensation	15	10,428
Balance at Dec 31, 2017 and 2018		**$ 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.

On Jan 17, 2017, 500,000 incentive options were issued under the Option Plan, representing 0.9% of the outstanding common shares. 300,000 were exercisable per the below vesting schedule. 200,000 were 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 was equal to or greater than $0.16. All options expired at the end of the trading day on Jan 18, 2018 and none were exercised.

	# 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
Expired Jan 17, 2018	(500,000)	-	-	-	-
Outstanding Dec 31, 2018	**-**	**-**	**-**	-	**-**

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 Jan 18, 2018. Share based compensation expense was $nil (2017 – $10,428). This is accounted for in operating and administrative expenses in the consolidated statements of comprehensive loss.

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15. STOCK OPTION PLAN (continued)

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

	2018	2017
Wages and employee benefits	**$ 4,684,825**	$ 5,359,702
Lease and premise costs	**3,018,145**	3,427,556
Other	**976,563**	1,150,229
	$ 8,679,533	$ 9,937,487

17. LOSS PER COMMON SHARE

Basic Loss per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2018 was based on net comprehensive loss of $1,216,653 (2017 – $1,917,441) and a weighted average number of shares outstanding of 56,791,788 (2017 – 56,791,788).

Diluted Loss per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2018 was based on net comprehensive loss of $1,216,653 (2017 – $1,917,441) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,791,788 (2017 – 56,791,788). The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the years ended Dec 31, 2018.

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	$	1,442,457
One to five years		2,678,129
More than five years		837,954
	$	**4,958,540**

19. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

		2018		2017
Cash provided by (used in)				
Accounts receivable	**$**	**19,596**	$	71,429
Inventory		**484,911**		(2,098)
Prepaid expenses and deposits		**(28,893)**		23,889
Income taxes recoverable		**(10,694)**		112,824
Accounts payable and accrued liabilities		**(79,613)**		(48,142)
Income taxes payable		**(1,994)**		1,994
Goods and services tax payable		**30,563**		18,434
	$	**413,876**	$	178,330

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.

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

		2018		2017
Convertible debenture	**$**	**6,130,748**	$	5,872,607
Bank loan		**8,091,238**		8,306,135
Cash and cash equivalents		**(574,497)**		(818,786)
Net debt	**$**	**13,647,489**	$	13,359,956
Shareholders' (deficiency) equity		**(61,573)**		1,155,080
Total capital	**$**	**13,585,916**	$	14,515,036

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, 2018 and Dec 31, 2017 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Dec 31, 2018		Dec 31, 2017	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	**$ 574,497**	**$ 574,497**	$ 818,786	$ 818,786
Accounts receivable	**43,704**	**43,704**	63,300	63,300
Loans receivable	**45,064**	**45,064**	59,464	59,464
Financial Liabilities at Amortized Cost				
Bank loan	**8,091,238**	**8,091,238**	8,306,135	8,306,135
Accounts payable and accrued liabilities	**595,544**	**595,544**	675,157	675,157
Convertible debenture	**6,130,748**	**2,299,775**	5,872,607	2,231,125

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).

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.

(continues)

21. FINANCIAL INSTRUMENTS (continued)

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 has $nil expected credit loss from trade receivables (2017 - $nil). $3,843 was recognized in 2018 for bad debts (2017 - $8,491) on trade receivables.

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. The Company has $nil expected credit loss from its loan receivable (2017 - $nil).

Liquidity Risk

The Company's financial liabilities at Dec 31, 2018 and 2017 have maturities summarized below:

			Current		Non-Current	
Dec 31, 2018	Note	Maturity Date	**2019**	**2020**	**2021**	**2022**
Accounts payable and accrued liabilities			**$ 595,544**	**$ -**	**$ -**	**$ -**
Goods and services tax payable		Jan 31, 2019	**87,438**	**-**	**-**	**-**
Bank loan	10		**8,091,238**	**-**	**-**	**-**
Convertible debenture	11	Apr 30, 2021	**-**	**-**	**6,130,748**	**-**
			$ 8,774,220	**$ -**	**$ 6,130,748**	**$ -**

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. Expected cash flows from operations will enable repayment of current liabilities. A risk relates to the ability to refinance debt managed by monitoring current debt agreement terms. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all.

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 $8,091,238, a one percent increase/decrease in interest rates would have a nominal effect on net comprehensive loss of $80,912. Approximately 57% (2017 – 59%) 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.