Liquor Stores N.A. Ltd.

Consolidated Financial Statements

December 31, 2016 and 2015

Management's Responsibility for Financial Reporting

The preparation and presentation of the accompanying consolidated financial statements of Liquor Stores N.A. Ltd. ("the Company"), which have been prepared in accordance with International Financial Reporting Standards, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, Liquor Stores N.A. Ltd.'s financial position, financial performance and cash flows. The Company's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial information is reliable.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Company's external auditor. The external auditor is responsible for examining the consolidated financial statements and expressing its opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of its audit examination and states its opinion.

The Board of Directors, through the Audit Committee, is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Audit Committee meets regularly with management and the external auditor to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reports its findings to the Board of Directors for their consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditor has full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditor.

Signed "Stephen Bebis"
Stephen Bebis
President & Chief Executive Officer

Signed "Matthew Rudd"
Matthew Rudd
Senior Vice President & Chief Financial Officer

March 7 2017

Independent Auditor's Report

To the Shareholders of
Liquor Stores N.A. Ltd.

We have audited the accompanying consolidated financial statements of Liquor Stores N.A. Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's 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 auditor's 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 Liquor Stores N.A. Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Liquor Stores N.A. Ltd.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	December 31, 2016 $	December 31, 2015 $
Assets			
Current assets:			
Cash		7,020	3,790
Accounts receivable	23	3,184	6,020
Inventory	6	155,425	157,102
Prepaid expenses and deposits		10,380	11,088
		176,009	178,000
Deferred tax assets	15	16,819	10,474
Purchase option	4	1,537	-
Property and equipment	7	63,674	64,781
Intangible assets	8	46,690	43,312
Goodwill	9	158,318	158,987
		463,047	455,554
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	23	67,857	61,628
Income taxes payable	15	399	-
Dividends payable	14	830	2,470
Derivative instrument	10	52	583
Current portion of long term debt	10	323	114
		69,461	64,795
Long-term debt	10	135,838	129,566
Deferred tax liabilities	15	8,037	5,457
Non-controlling interest put option	4	14,316	-
		227,652	199,818
Shareholders' Equity			
Equity attributable to shareholders		230,889	255,659
Equity attributable to non-controlling interest		4,506	77
		235,395	255,736
		463,047	455,554

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board of Directors:

Signed "Jim Dinning"
Jim Dinning
Director

Signed "Robert Green"
Robert Green
Director

Liquor Stores N.A. Ltd.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Attributable to Shareholders of the Company							
	Share capital $	Equity component of convertible debentures $	Contributed surplus $	Accumulated other comprehen-sive income $	Deficit $	Total $	Non-controlling interest $	Total equity $
Opening balance – January 1, 2015	246,826	3,328	174,927	7,653	(68,082)	364,652	106	364,758
Net earnings (loss) for the year	-	-	-	-	(99,587)	(99,587)	195	(99,392)
Foreign currency translation adjustment	-	-	-	16,807	-	16,807	-	16,807
Comprehensive income (loss) for the year	-	-	-	16,807	(99,587)	(82,780)	195	(82,585)
Share-based payments (note 18)	-	-	834	-	-	834	-	834
Adjustment to net proceeds on share Issuance	(34)	-	-	-	-	(34)	-	(34)
Dividends declared (note 14)	-	-	-	-	(29,524)	(29,524)	-	(29,524)
Dividend reinvestment plan issuance (note 14)	2,511	-	-	-	-	2,511	-	2,511
Dividends declared by subsidiaries	-	-	-	-	-	-	(224)	(224)
Transactions with owners	2,477	-	834	-	(29,524)	(26,213)	(224)	(26,437)
Balance – December 31, 2015	249,303	3,328	175,761	24,460	(197,193)	255,659	77	255,736
Opening balance – January 1, 2016	249,303	3,328	175,761	24,460	(197,193)	255,659	77	255,736
Net earnings for the year	-	-	-	-	655	655	2,298	2,953
Foreign currency translation adjustment	-	-	-	(3,716)	-	(3,716)	(192)	(3,908)
Comprehensive income (loss) for the year	-	-	-	(3,716)	655	(3,061)	2,106	(955)
Share-based payments (note 18)	-	-	1,434	-	-	1,434	-	1,434
Settlement of equity-based payments (note 18)	314	-	(314)	-	-	-	-	-
Equity component of convertible debenture issuance (note 10)	-	3,006	-	-	-	3,006	-	3,006
Dividends declared (note 14)	-	-	-	-	(13,238)	(13,238)	-	(13,238)
Dividend reinvestment plan issuance (note 14)	1,563	-	-	-	-	1,563	-	1,563
Initial recognition of non-controlling interest put option liability (note 4)	-	-	-	-	(14,474)	(14,474)	-	(14,474)
Acquisition of Birchfield Ventures LLC (note 4)	-	-	-	-	-	-	4,854	4,854
Dividends declared by subsidiaries	-	-	-	-	-	-	(2,531)	(2,531)
Transactions with owners	1,877	3,006	1,120	-	(27,712)	(21,709)	2,323	(19,386)
Balance – December 31, 2016	251,180	6,334	176,881	20,744	(224,250)	230,889	4,506	235,395

The accompanying notes are an integral part of the consolidated financial statements.

Liquor Stores N.A. Ltd.

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)
Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars, except for per share amounts)

	Note	2016 $	2015 $
Sales		817,673	746,384
Cost of sales		611,074	554,995
Gross margin		206,599	191,389
Selling and distribution expenses	20	143,792	127,554
Administrative expenses	21	23,145	26,965
Other income	26	(704)	-
Operating profit before amortization		40,366	36,870
Amortization			
Property and equipment	7	12,250	10,814
Intangible assets	8	443	254
Operating profit		27,673	25,802
Finance costs	11	11,041	8,070
Net (gain) loss on foreign exchange from financing activities		(1,457)	935
Fair value adjustments	12	952	540
Provision for impairment of goodwill and intangible assets	8 & 9	16,153	130,313
Earnings (loss) before income taxes		984	(114,056)
Income tax expense (recovery)			
Current	15	3,245	3,386
Deferred	15	(5,214)	(18,050)
		(1,969)	(14,664)
Net earnings (loss)		2,953	(99,392)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net earnings:			
Currency translation difference on foreign subsidiaries		(4,679)	16,807
Net investment hedge		771	-
Comprehensive loss		(955)	(82,585)
Net earnings (loss) attributable to:			
Owners of the parent		655	(99,587)
Non-controlling interest		2,298	195
		2,953	(99,392)
Comprehensive income (loss) attributable to:			
Owners of the parent		(3,061)	(82,780)
Non-controlling interest		2,106	195
		(955)	(82,585)
Earnings (loss) per share			
Basic	17	0.02	(3.64)
Diluted	17	0.02	(3.64)

The accompanying notes are an integral part of the consolidated financial statements.

Liquor Stores N.A. Ltd.

Consolidated Statements of Cash Flow
Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	2016 $	2015 $
Cash provided by (used in)			
Operating activities:			
Net earnings (loss)		2,953	(99,392)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Amortization of property and equipment	7	12,250	10,814
Amortization of intangible assets	8	443	254
Amortization of financing charges	11	407	318
Non-cash interest on convertible debentures	11	1,735	1,269
Unrealized foreign exchange gain		(1,787)	-
Provision for impairment of goodwill and intangible assets	8 & 9	16,153	130,313
Fair value adjustments	12	952	540
Deferred tax	15	(5,214)	(18,050)
Equity-settled share-based payments	18	1,434	834
Cash provided by operating activities before changes in non-cash working capital		29,326	26,900
Net change in non-cash working capital items	22	18,403	(10,527)
		47,729	16,373
Investing activities:			
Purchase of property and equipment		(13,353)	(25,930)
Purchase of intangible assets		(669)	(4,627)
Acquisition of Birchfield, net of cash acquired	4	(20,912)	-
		(34,934)	(30,557)
Financing activities:			
(Repayment of) net proceeds from long-term debt		(66,817)	36,580
Proceeds from issuance of convertible subordinated debentures, net of commission fees	10	74,520	-
Deferred financing fees paid on loans and borrowings	10	(592)	(524)
Deferred financing fees paid on convertible subordinated debentures	10	(518)	-
Proceeds from sale and leaseback of assets	5	-	5,664
Dividends paid	14	(13,315)	(26,994)
Dividends paid to non-controlling interest by subsidiaries		(2,531)	(224)
		(9,253)	14,502
Foreign exchange (loss) gain on cash held in foreign currency		(312)	469
Increase in cash		3,230	787
Cash – Beginning of year		3,790	3,003
Cash – End of year		7,020	3,790

The accompanying notes are an integral part of the consolidated financial statements.

1 Nature of the business

Liquor Stores N.A. Ltd. (the "Company") was incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 101, 17220 Stony Plain Road, Edmonton, Alberta. The Company's common shares and convertible unsecured subordinated debentures trade on the Toronto Stock Exchange (the "TSX") under the symbols "LIQ", "LIQ.DB.A" and "LIQ.DB.B".

The Company's principal activity is the retailing of wines, beers and spirits. As at December 31, 2016, the Company operated 253 (2015 - 252) retail liquor stores, of which 179 (2015 - 180) were in Alberta, 34 (2015 - 35) were in British Columbia, 22 (2015 - 22) were in Alaska, 15 (2015 - 15) were in Kentucky, two (2015- none) were in New Jersey and one (2015 – none) was in Connecticut. Of the stores operated, 195 (2015 - 196) were acquired and 58 (2015 - 56) were developed by the Company.

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on March 7, 2017.

2 Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for the derivative instrument, non-controlling interest put option, purchase option, the Directors' deferred share plan, and cash-settled awards under the incentive award plan which are measured at fair value.

c) Basis of consolidation

These financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases to exist.

All subsidiaries, with the exception of holding companies, are retailers of wine, beer, and spirits. The financial statements of the subsidiaries are prepared for under the same reporting period as the Company, using consistent accounting policies. All inter-company balances, income and expenses an unrealized gains and losses resulting from inter-company transactions are eliminated on consolidation.

2 Basis of preparation (continued)

Non-controlling interests ("NCI") represent equity interests in subsidiaries owned by outside parties. NCIs are measured at their proportionate share of the Company's identifiable net assets at the date of acquisition. The share of net assets of subsidiaries attributable to NCI is presented as a component of equity. Their share of net earnings is recognized directly in equity. Changes in the Company's ownership interest in its subsidiaries that do not result in a loss of control are accounted for as equity transactions.

As at December 31, 2016 the Company, through its wholly owned subsidiaries, held a 51% ownership interest in Birchfield Ventures LLC ("Birchfield").

d) Critical accounting estimates and judgements

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reported period. Actual results could differ from those estimates.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

Estimates:

i) Impairment of non-financial assets

The Company reviews goodwill and intangible assets with indefinite lives at least annually, and other non-financial assets when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units ("CGU") have been determined using discounted cash flow models that require assumptions about future cash flows and discount rates.

Refer to notes 8 and 9 for further details regarding estimation of recoverable amounts.

ii) Deferred taxes

Determining deferred taxes involves a number of assumptions and variables that could reasonably change, including: the useful lives of recorded property and equipment and definite life intangible assets that determine the amount of amortization recorded thereon, the amount of discretionary tax deductions the Company will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Company is taxable, the allocation of taxable income to those jurisdictions, and the acceptance of the Company's tax filing positions by taxation authorities. Changes
in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of deferred taxes and these changes could be material.

2 Basis of preparation (continued)

Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income. Details of tax losses expected to be utilized on the basis of future taxable income are provided in note 15.

iii) Fair value of equity-settled share-based payments

The Company uses option pricing models to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates relating to volatility, interest rates, dividend yields and expected life of the units issued. The expected share price volatility is estimated based on the Company and a group of peers' historical volatility over a period consistent with the expected life of the award. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of the grant.

Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share based payments.

iv) Net realizable value of inventory

Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in future retail prices, seasonality and costs necessary to sell the inventory.

v) Business combinations

The Company applies judgment on the recognition and measurement of assets acquired and liabilities assumed, and estimates are used to calculate and measure such adjustments. In measuring the fair value of the acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes after initial recognition would affect the measurement of goodwill.

vi) Liability related to non-controlling interest put option

Estimates and assumptions used to calculate the value of the liability related to the non-controlling put option include the discount rate used to measure the present value of the exercise price of the option (2.70%), the expected timing of exercise of the option (January 2019), and the forecasted gross settlement amount of the option, which will vary depending on the trailing earnings of Birchfield at the time of exercise. Changes in these assumptions could result in a significantly higher or lower fair value measurement.

The put option is classified as a financial liability. Non-controlling interest continues to be recognized because the non-controlling shareholders have access to the returns associated with their underlying ownership interests. As such, the impact of recognizing the financial liability has been included in the Deficit of the Company at the acquisition date and had no impact on the measurement of NCI. The

2 Basis of preparation (continued)

liability is re-measured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

vii) Purchase option asset

Estimates and assumptions were used to calculate the value of the asset related to the Company's purchase option to acquire the remaining 49% of Birchfield for a fixed price in the first 18 months subsequent to January 4, 2016. Fair value was determined using a Black-Scholes option pricing model, and estimates and assumptions were made with respect to the strike price compared to current price of the option (based on fair value of the minority interest of Birchfield), expected volatility of Birchfield's earnings using a selection of comparable companies (23.0%), remaining time to expiration of 6 months, and a discount rate of 2.4%. Changes in these assumptions could result in a significantly higher or lower fair value measurement.

The asset is re-measured each period with gains and losses recorded in fair value adjustments in the Consolidated Statement of Earnings.

Critical Judgements:

i) Consolidation

The Company uses judgment in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company consolidates all of its wholly owned subsidiaries. Judgment is applied in determining whether the company controls the entities in which it does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over one entity) or protective rights (protecting the Company's interest without giving it power).

Based on the Company's current proportion of ownership and voting rights, and considering substantive potential voting rights available through exercise of the purchase option, the Company has determined that it controls Birchfield and as such, has consolidated Birchfield in the financial statements.

ii) Valuation of non-financial assets

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. The Company has determined that each retail location is a separate CGU for purposes of testing property and equipment for impairment. For the purpose of goodwill and indefinite life intangible impairment testing, CGUs are grouped at the lowest level at which goodwill and intangibles are monitored for internal management purposes. Judgment is further required to determine the appropriate grouping of CGUs, for the level at which goodwill and intangible assets are tested for impairment. As the grouping of CGUs determines the level at which goodwill and intangible assets are tested for impairment, the grouping of CGUs can impact the outcome of impairment testing.

3 Summary of significant accounting policies

a) Revenue recognition

Revenue is generated from sales to customers through retail stores and licensee sales to wholesale customers. Revenue from retail sales is recognized at the point of sale and from wholesale sales at the time of shipment.

b) Cash

Cash consists of cash on hand and demand deposits held with banks.

c) Inventory

Inventory consists primarily of liquor for resale and is valued at the lower of cost, determined using the weighted average method, and net realizable value. Net realizable value is the estimated selling price less applicable selling costs. Write downs to net realizable value may be reversed in a subsequent period if circumstances that previously caused a write down no longer exist.

d) Property and equipment

Property and equipment is recorded at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of assets. Land has an indefinite useful life and, as such, is not amortized. Depreciation methods and useful lives are reviewed at each financial year end and are adjusted for prospectively. Estimated useful lives are as follows:

Leasehold improvements	Lesser of lease term and useful life
Operating equipment	10 years
Office equipment and fixtures	10 years
Computer equipment	5 years
Vehicles	5 years
Signage	10 years
Shelving and racking	10 years
Buildings	25 years
Assets held under finance leases	Lesser of lease term and useful life

The Company tests its property and equipment for impairment when events and circumstances warrant such a review, as described in the "Impairment of non-financial assets" policy.

e) Intangible assets

Intangible assets, consisting of acquired customer relationships, retail liquor licenses and business permits, trade names, non-compete agreements, software and property leases acquired at less than market rates, are recorded at cost.

3 Summary of significant accounting policies (continued)

i) Amounts attributed to property leases acquired at less than market rates which have a finite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the term of the lease.

ii) Retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. These retail liquor licenses and business permits do not expire, but rather are subject to an administrative extension process each year indefinitely.

iii) Trade names have an indefinite life and are not amortized as there is no foreseeable limit on the period of time over which they are expected to contribute to the net cash flows of the Company.

iv) Non-compete agreements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the term of the agreement.

v) Software is comprised of acquired licenses which have finite lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the life of the license.

vi) Intangible assets under development are not amortized when under development, but once ready for use will be amortized according to the relevant category discussed above.

The Company assesses the carrying value of finite life intangible assets for impairment when events or circumstances warrant such a review as described in the “Impairment of non-financial assets” policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

The Company assesses the carrying value of indefinite life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable as described in the “Impairment of non-financial assets” policy.

f) Business combinations and goodwill

i) Acquisitions

Acquisitions of businesses and subsidiaries that meet the definition of a business are accounted for using the acquisition method. The consideration of an acquisition is measured as the fair value of the identifiable assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. Acquisition-related costs are recognized into net earnings as incurred, other than those associated with the issue of debt or equity securities. Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired.

3 Summary of significant accounting policies (continued)

ii) Goodwill

Goodwill is not amortized, but is assessed for impairment at least annually or when events and circumstances indicate that the carrying value may not be recoverable as described in the "Impairment of non-financial assets" policy.

g) Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying value of its non-financial assets, other than inventories and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its estimated recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purposes of impairment testing, assets are grouped together in the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a CGU. The Company has determined that each separate store location is a separate CGU for purposes of impairment testing.

Corporate assets, which include head office facilities and warehouses, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU or CGU grouping is the higher of its estimated value in use and its estimated fair value less costs of disposal ("FVLCD"). Value in use is based on the estimated future cash flows from the CGU or CGU grouping, 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 CGU or CGU group. The FVLCD is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying value of a CGU or CGU group exceeds its estimated recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying value of the non-financial assets in the CGU on a pro-rata basis. Any loss identified from goodwill impairment testing is first applied to reduce the carrying value of goodwill allocated to the CGU grouping, and then to reduce the carrying value of the other non-financial assets in the CGU or CGU group on a pro-rata basis. Impairment losses are recognized in net earnings.

Goodwill is carried at cost less accumulated impairment losses adjusted for foreign exchange where applicable. An impairment loss with respect to goodwill is not reversed. For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of amortization, if no impairment loss had been recognized.

3 Summary of significant accounting policies (continued)

h) Income tax

Current income tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

i) Share-based payment plans

The Company's share-based payments consist of a deferred share plan for the benefit of the Company's Directors, an incentive award plan comprised of restricted awards and performance awards for employees of the Company, and a one-time grant of performance awards for the executives of the Company. These plans are further described in note 18.

i) Equity-settled share-based payment plans

The Company's equity-settled share-based payment arrangements include restricted awards and performance awards.

The fair value of the Company's equity-settled restricted awards as determined at the grant date are expensed on a graded-vesting basis with a corresponding increase in equity. The fair value of the Company's performance awards as determined at the grant date is expensed on a cliff-vesting basis with a corresponding increase in equity. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined. Refer to note 18 for further details of the plans.

Upon settlement of awards issued under equity share-based payment plans, amounts previously recorded in equity reserves are recorded as an increase in share capital.

ii) Cash-settled share-based payment plans

The Company's cash-settled share-based payment arrangements include a deferred share plan and restricted awards.

3 Summary of significant accounting policies (continued)

The fair value of awards granted under these plans is recognized as an expense with a corresponding increase in the liability as employees become entitled to the payments. The liability is recorded in accounts payable and accrued liabilities. The fair value of the liability is re-measured at the end of each reporting period and at the date of the settlement. Changes in fair value are recognized in net earnings.

j) Financial instruments

The Company has designated its cash and accounts receivable as loans and receivables, which are measured initially at fair value, and subsequently at amortized cost. Accounts payable and accrued liabilities, dividends payable, and long-term debt are classified as other financial liabilities and measured initially at fair value, and subsequently at amortized cost. Derivative instruments are recorded at fair value through profit and loss, whereby they are marked to market at each reporting period with changes in fair value reported in net earnings.

Transaction costs related to the issuance of financial liabilities are included in the initial measurement of the financial liability and are recognized in net earnings using the effective interest method.

k) Convertible debentures

The Company's convertible debentures have been classified as a financial liability with a portion of the proceeds representing the value of the conversion option bifurcated to equity. Transaction costs related to the convertible debenture issuance have been initially recognized in the carrying value of the associated liability and are recognized in net earnings using the effective interest method. Upon conversion, portions of debt and the conversion option are transferred into common shares.

l) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The results and financial position of the Company's foreign subsidiaries in the United States of America ("US"), that have a functional currency of US dollars, are translated into Canadian dollars as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii) income and expenses are translated at average exchange rates for the respective quarter on a quarterly basis; and

3 Summary of significant accounting policies (continued)

iii) all resulting exchange differences are recognized in other comprehensive income as currency translation differences.

Transactions and balances

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at the statement of financial position date exchange rates are recognized in the Statement of Earnings.

m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Executive Officer of the Company.

n) Dividends

Dividends on common shares are recognized in the Company's financial statements in the period in which they are approved by the Board of Directors.

o) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding for the period.

Diluted EPS is calculated by adjusting basic EPS for the effect of dilutive instruments, which may include equity-settled share based payment plans and convertible debentures.

p) Accounting standards and amendments issued but not yet effective

i) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will supersede IFRS IAS 17, "Leases" and IFRIC 4, "Determining whether an Arrangement contains a Lease". IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to do so at this time.

3 Summary of significant accounting policies (continued)

ii) Financial Instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

iii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time.

iv) Statement of cash flows

In January 2016, the IASB amended IAS 7, introducing additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings, and non-cash changes, such as acquisitions, disposals and unrealized exchange differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

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

4 Acquisitions

a) Business combination

Effective January 4, 2016, the Company acquired a 51% ownership interest in Birchfield Ventures LLC ("Birchfield") and the right to acquire the remaining 49% interest at pre-negotiated terms. Birchfield operates two stores in New Jersey under the banner "Joe Canal's Discount Liquor Outlets". The aggregate consideration paid to the sellers in consideration of the transfer of the purchased units and other undertakings was an aggregate amount in cash equal to USD $15 million less a closing net working capital adjustment of $0.5 million. The acquisition was funded by the Company's existing credit facilities, and was accounted for using the acquisition method. The Company is using USD borrowings to manage its exposure to foreign currency fluctuations associated with the net assets of the acquired business. The purchase of this business is consistent with the Company's U.S. growth strategy. The acquisition costs associated with the business combination were

$539, which were recognised in the Statement of Earnings and Comprehensive Income. Included in the Consolidated Statement of Earnings and Comprehensive Income for the year ended December 31, 2016 is $56,488 of sales and $4,371 of pre-tax earnings of Birchfield since acquisition, of which $2,142 of the net earnings are attributable to the non-controlling interest for the year ended December 31, 2016.

The following table summarizes the purchase consideration and purchase price allocation for the acquisition:

	Fair Value as at January 4, 2016
Fair value of consideration transferred ($15,000 USD)	20,912
Fair value of purchase option	(2,782)
Non-controlling interest	4,854
	22,984
Net identifiable asset or liability:	
Current assets net of current liabilities	774
Property and equipment	1,177
Intangible asset – non compete agreement	971
Intangible asset – liquor licenses	6,986
Fair value of net identifiable assets acquired and liabilities assumed	9,908
Goodwill	13,076

The goodwill recognized is attributable mainly to the synergies expected to be achieved through integrating Birchfield into the Company's U.S. operations. The entire amount of goodwill is deductible for U.S. tax purposes.

Non-controlling interest of $4,854 was recognized on the basis of a 49% interest in the fair value of the net identifiable assets acquired and liabilities assumed.

The terms of the purchase option to acquire the remaining 49% are as follows:

i) If the Company exercises the purchase option within the first 18 months subsequent to the acquisition date, the purchase price will be a fixed USD$12.5 million;

ii) If the Company exercises the purchase option between 18 and 36 months subsequent to the acquisition date, the purchase price will be calculated at 4.5 times store level earnings before interest, tax, depreciation and amortization ("EBITDA") for the trailing twelve months;

iii) If the Company exercises the purchase option more than 36 months subsequent to the acquisition date, the purchase price will be calculated at 4.5 times average annual store level EBITDA for the trailing 36 months with a floor price of 4.5 times 10% of gross sales for the trailing twelve months.

In addition, the Company has provided the non-controlling interest shareholders a put option whereby if the Company has not exercised the above call option in the first 36 months subsequent to the acquisition date, the non-controlling interest can, at their option, require the Company to purchase the remaining 49% interest in Birchfield at a price of 4.5 times average annual store level EBITDA for the trailing 36 months,

4 Acquisitions (continued)

exercisable on January 15th or July 15th of each subsequent year. This put option has been presented as a liability related to non-controlling interest put option in the Statement of Financial Position.

b) Asset acquisition

On June 11, 2015, the Company acquired a retail liquor store in Alberta for cash consideration of $2,142. The assets acquired did not meet the definition of a business and therefore the transaction was accounted for as an asset acquisition and not as a business combination. The purchase price has been allocated between the individual identifiable assets acquired based on their relative fair values at the acquisition date, as follows:

	$
Inventory	862
Property and equipment	831
Intangible assets (lease at below market rates)	449
Purchase price	2,142

5 Sale and leaseback of assets

On March 31, 2015, the Company completed a transaction with a third party whereby the Company sold and leased-back property and building in Fairbanks, Alaska for gross proceeds of $5,957 less transaction costs of $293. The Company has classified the lease as an operating lease and, as the transaction occurred at fair market value, the gain on sale of $134 was netted against amortization of property and equipment in the Statement of Earnings.

6 Inventory

The cost of inventory recognized as an expense and included in cost of sales for the year ended December 31, 2016 was $610,593 (2015 - $554,532). Included in cost of sales are $481 (2015 – $463) in write downs of inventory to estimated net realizable value. No inventory write downs recognized in previous years were reversed in the current year. The Company’s inventory is pledged as collateral by a general security agreement under the terms of the Company’s credit facility (note 10).

7 Property and equipment

	Year ended December 31, 2016				
	Opening net book value $	Exchange differences $	Net Additions $	Amortization charge $	Closing net book value $
Leasehold improvements	32,695	(284)	6,783	(5,862)	33,332
Operating equipment	11,250	(114)	1,407	(1,578)	10,965
Store fixtures and office equipment	7,683	(64)	1,398	(1,680)	7,337
Computer equipment	3,540	(30)	260	(1,436)	2,334
Vehicles	361	(5)	(58)	(72)	226
Finance leases – vehicles	453	(1)	614	(204)	862
Signage	2,848	(27)	582	(499)	2,904
Shelving and racking	5,433	(62)	813	(781)	5,403
Buildings	381	(3)	-	(67)	311
Land[(i)]	137	(7)	(59)	(71)	-
	64,781	(597)	11,740	(12,250)	63,674

i) Amortization charge includes a loss on the sale of land in the current year.

	As at December 31, 2016		
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	69,956	(36,624)	33,332
Operating equipment	19,299	(8,334)	10,965
Store fixtures and office equipment	14,397	(7,060)	7,337
Computer equipment	5,808	(3,474)	2,334
Vehicles	713	(487)	226
Finance leases – vehicles	1,073	(211)	862
Signage	6,096	(3,192)	2,904
Shelving and racking	9,517	(4,114)	5,403
Buildings	472	(161)	311
	127,331	(63,657)	63,674

Included in property and equipment are fully amortized assets with a cost of $15,724 (2015 – $5,509) that are still in use. During the year, the Company accelerated amortization on the assets of stores where there was a change in estimated useful life because the store either underwent or was confirmed for renovation or closure. Amortization expense related to the accelerated amortization of such assets was $254 (2015– $1,255).

7 Property and equipment (continued)

	Year ended December 31, 2015				
	Opening net book value $	**Exchange differences $**	**Net Additions $**	**Amortization charge $**	**Closing net book value $**
Leasehold improvements	24,702	1,502	12,266	(5,775)	32,695
Operating equipment	6,122	494	5,858	(1,224)	11,250
Store fixtures and office equipment	5,604	311	3,107	(1,339)	7,683
Computer equipment	2,184	141	2,380	(1,165)	3,540
Vehicles	431	20	52	(142)	361
Finance leases – vehicles	-	1	459	(7)	453
Signage	1,857	119	1,322	(450)	2,848
Shelving and racking	3,379	302	2,405	(653)	5,433
Buildings	5,485	364	(5,409)	(59)	381
Land	1,244	101	(1,208)	-	137
	51,008	3,355	21,232	(10,814)	64,781

	As at December 31, 2015		
	Cost $	**Accumulated amortization $**	**Net $**
Leasehold improvements	65,313	(32,618)	32,695
Operating equipment	17,426	(6,176)	11,250
Store fixtures and office equipment	12,395	(4,712)	7,683
Computer equipment	6,436	(2,896)	3,540
Vehicles	809	(448)	361
Finance leases – vehicles	460	(7)	453
Signage	5,728	(2,880)	2,848
Shelving and racking	8,881	(3,448)	5,433
Buildings	526	(145)	381
Land	137	-	137
	118,111	(53,330)	64,781

No impairments were recognized on the property and equipment during the years ended December 31, 2016 and 2015. The Company’s property and equipment are pledged as collateral by a general security agreement under the terms of the Company’s credit facility (note 10).

8 Intangible assets

	Year ended December 31, 2016					
	Opening net book value $	**Exchange differences $**	**Net Additions $**	**Impairments, net of reversals $**	**Amortization charge $**	**Closing net book value $**
Finite life						
Favourable leases (acquired)	972	(10)	-	-	(112)	850
Software	190	-	61	-	(121)	130
Non-compete	-	(38)	971	-	(185)	748
Other	197	-	-	-	(25)	172
Indefinite life						
Retail liquor licenses	37,842	(799)	6,982	(760)	-	43,265
Trade names	1,525	-	-	-	-	1,525
Under development						
Software [(i)]	2,586	-	-	(2,586)	-	-
	43,312	(847)	8,014	(3,346)	(443)	46,690

(i) Impairment charges include the loss on de-recognition of the asset previously recognized as software under development.

	As at December 31, 2016			
	Cost $	**Accumulated amortization $**	**Accumulated impairment losses $**	**Net $**
Finite life				
Favourable leases (acquired)	5,413	(4,563)	-	850
Software	786	(656)	-	130
Non-compete	935	(187)	-	748
Other	261	(89)	-	172
Indefinite life				
Retail liquor licenses	57,247	-	(13,982)	43,265
Trade names	1,525	-	-	1,525
	66,167	(5,495)	(13,982)	46,690

8 Intangible assets (continued)

						Year ended December 31, 2015
	Opening net book value $	**Exchange differences $**	**Net Additions $**	**Impairments & reversals $**	**Amortization charge $**	**Closing net book value $**
Finite life						
Favourable leases (acquired)	582	59	445	-	(114)	972
Software	263	2	39	-	(114)	190
Other	222	1	-	-	(26)	197
Indefinite life						
Retail liquor licenses	34,122	2,606	2,001	(887)	-	37,842
Trade names	1,525	-	-	-	-	1,525
Under development						
Software	-	-	2,586	-	-	2,586
	36,714	2,668	5,071	(887)	(254)	43,312

				As at December 31, 2015
	Cost $	**Accumulated amortization $**	**Accumulated impairment losses $**	**Net $**
Finite life				
Favourable leases (acquired)	5,197	(4,225)	-	972
Software	726	(536)	-	190
Other	260	(63)	-	197
Indefinite life				
Retail liquor licenses	51,052	-	(13,210)	37,842
Trade names	1,525	-	-	1,525
Under development				
Software	2,586	-	-	2,586
	61,346	(4,824)	(13,210)	43,312

8 Intangible assets (continued)

Impairments

For the purpose of impairment testing, intangible assets with indefinite useful lives are allocated to a cash-generating unit as described in note 3. The Company performs its annual impairment tests as of October 1 each year or more frequently if there is any indication that goodwill may be impaired at the end of the reporting period.

Management noted an indication that intangible assets may have been impaired as at December 31, 2016 within the USA South CGUs. This was based on a decline in management's projections for the future financial performance of this goodwill CGU grouping due to a significant increase in competition that occurred during the fourth quarter of 2016. As such, the Company first performed an additional impairment test on the USA South intangible assets as at December 31, 2016 to determine any specific impairment in intangible assets before testing goodwill. For clarity of disclosure, the assumptions and results of testing discussed below related to the USA South intangible assets, are as at December 31, 2016, and for the Alaska and Canada intangible assets, are as at October 1, 2016.

The recoverable amount of a CGU is determined based on FVLCD using level 3 inputs (refer to note 23 for further discussion of each level) using a discounted cash flow (DCF) methodology. The significant assumptions applied in determination of the recoverable amount are described below:

- Cash flows: Estimated cash flows are determined using a relief-from-royalty method by reference to the royalty rate a market participant would have to pay in order to license the use of the asset from a third party. In determining an estimate of the expected royalty rate, consideration was given to comparable market rates where available. The royalty rate is then applied to forecasted revenues to determine the total after-tax cash flows saved through ownership of the asset. Forecasted revenues are extended to a total of five years based on an analysis of historical and forecast volume changes, growth rates and inflation rates.

- Discount rate: The weighted average cost of capital (WACC) was selected from a range of 10.9% to 13.5%, which was based on market-based capital structure, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, an unsystematic risk premium and after-tax cost of debt based on corporate bond yields.

- Terminal value growth rate: Five years of cash flows have been included in the DCF models. Maintainable debt-free net cash flow beyond the forecast period is estimated to approximate the 2021 cash flows increased by a terminal growth rate of 2.1% to 2.4% and is based on the industry's expected growth rates, forecast inflation rates and management's experience.

8 Intangible assets (continued)

Key assumptions used in calculating the recoverable amount, which reflect past experience and current market expectations, were as follows compared to the prior year:

	2016	2015
Weighted average sales growth rates	1.8% - 2.8%	1.5% - 2.0%
Pre-tax royalty rates	1.0% - 5.0%	1.0% - 5.0%
Terminal growth rate	2.1% - 2.4%	2.0% - 2.3%
Discount rate	11.2% - 13.2%	11.5% - 13.3%

The Company completed its annual impairment tests during the fourth quarter and identified that an impairment charge of $1,911 (2015 - $1,562) was required related to one Massachusetts retail liquor license in its U.S. operating segment (2015 – two licenses in its Canadian operating segment). The impairment primarily related to a change in Management's forecasted profitability attributable to the license. A reversal of previously recorded impairment charges were recorded during the year in the amount of $1,151 (2015- $675) related to five licenses (2015 – once license) in its Canadian operating segment where Management's forecasted sales and profitability increased due to a sustained improvement in operating results.

No impairments were recognized on the intangible assets with finite lives or the trade names during the years ended December 31, 2016 and 2015. The Company's intangible assets are pledged as collateral by a general security agreement under the terms of the Company's credit facility (note 10).

9 Goodwill

	December 31, 2016 $	December 31, 2015 $
Opening balance	158,987	284,607
Additions	13,076	-
Foreign currency translation	(938)	3,806
Impairment	(12,807)	(129,426)
Closing balance	158,318	158,987

a) Impairment test for goodwill

Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination. For the purposes of goodwill impairment

9 Goodwill (continued)

testing, the Company has grouped its CGUs by operating segment before aggregation to reporting units, with the three CGU groupings being Canada, USA South, and Birchfield.

The recoverable amount of a CGU is determined based on FVLCD calculations using level 3 inputs. These calculations use projections over a five year period based on financial budgets approved by management and the Company's Board of Directors. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long-term average growth rate for the retail liquor industry in which the CGU operates. The Company performs its annual impairment tests as of October 1 each year, or more frequently if there is any indication that goodwill may be impaired at the end of the reporting period.

Management noted an indication that goodwill may have been impaired as at December 31, 2016 in the USA South CGU grouping. The indication was based on a decline in the anticipated financial performance of this CGU due to a significant increase in competition that occurred during the fourth quarter of 2016. As such, the Company performed an additional impairment test in the USA South CGU grouping as at December 31, 2016. For clarity of disclosure, the assumptions and results of testing discussed below related to the USA South CGU grouping is as at December 31, 2016, and for the Canada and Birchfield CGU groupings are as at October 1, 2016.

Goodwill has been allocated to the CGU groupings as follows with the only change from the prior year pertaining to foreign currency translation:

	December 31, 2016 $	December 31, 2015 $
Canada[i]	145,725	145,725
Birchfield[ii]	12,593	-
USA South[iii]	-	13,262
Total	158,318	158,987

i) The carrying amount of the goodwill allocated to the Canada CGU grouping as at October 1, 2016 was $145,725 (October 1, 2015 - $262,501).

ii) Birchfield CGU grouping was $12,304 as at October 1, 2016 (October 1, 2015 - nil).

iii) USA South CGU grouping was $12,570 as at October 1, 2016 (October 1, 2015 - $12,702).

9 Goodwill (continued)

b) Key assumptions used for fair value calculations:

	2016			**2015**		
	Canada $	**USA South** $	**Birchfield** $	**Canada** $	**USA South** $	**Birchfield** $
Weighted average sales growth rate	1.8%	2.7%	2.0%	2.2%	2.6%	N/A
Terminal growth rate	2.1%	2.4%	2.4%	2.3%	2.3%	N/A
Discount rate	10.0%	10.2%	12.2%	10.0%	10.5%	N/A

N/A – not applicable as Birchfield was acquired on January 4, 2016.

Management determined forecasted gross margins based on past performance and its expectations for market trends. The weighted average growth rates applied to gross margin are consistent with the forecasts included in external research reports. Growth rates applied to expenditures in the forecast ranged from 1.5% to 3.5%. The discount rates used reflect specific risks relating to the relevant CGU grouping.

During the year ended December 31, 2016, the Company recorded an aggregate $12,807 impairment charge to the USA South CGU grouping (included in US operating segment). The impairment charge was allocated entirely to reduce goodwill of the CGU grouping. The impairment loss was recognized due to a change in Management's forecasted sales and profitability as a result of increased competition in the areas that the stores allocated to this CGU operate in.

The recoverable amount of the Canada CGU grouping exceeded its carrying value by $3 million at the midpoint of the range. An increase in the discount rate to approximately 10.4% or a reduction to the weighted average sales growth rate to approximately 1.6% in the fair value calculation would reduce the recoverable amount of the Canada CGU grouping to its carrying value within this range.

The recoverable amount of the Birchfield CGU grouping was approximately equal to its carrying value given it was acquired during the current year and performed consistent with expectations. An increase in the discount rate or reduction to the weighted average sales growth rate would reduce the recoverable amount of the Birchfield CGU grouping below its carrying value.

The recoverable amounts were based on FVLCD using DCF methodology. The significant assumptions applied in the goodwill impairment test are described below:

- Cash flows: Estimated cash flows are based on budgeted earnings before interest, taxes, depreciation and amortization (EBITDA). The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecast volume changes, growth rates, and inflation rates.
- Discount rate: The weighted average cost of capital (WACC) was determined to be in the range of 10.0% to 12.2% and is based on market capital structure of debt, risk-free rate, equity risk premium,

9 Goodwill (continued)

beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields.

- Terminal value growth rate: Five years of cash flows have been included in the DCF models. Maintainable debt-free net cash flow beyond the forecast period is estimated to approximate the 2021 cash flows increased by a terminal growth rate of 2.1% to 2.4% and is based on the industry's expected growth rates, forecast inflation rates, and management's experience.

10 Long-term debt

Long-term debt comprises the following:

	Maturity date	2016 effective rate %	December 31, 2016 $	2015 effective rate %	December 31, 2015 $
Credit facility advance[(a)]	September 30, 2019	4.63	-	3.86	65,412
5.85% debentures[(b)]	April 30, 2018	8.41	66,197	8.41	65,351
4.70% debentures[(b)]	January 31, 2022	6.89	73,430	-	-
Finance lease liability (note 24)	November 27, 2019 to November 14, 2021	2.83 to 5.23	993	4.06 to 5.23	462
			140,620		131,225
Unamortized deferred financing costs:					
Credit facility[(a)]			(497)		(315)
Debentures[(b)]			(3,962)		(1,230)
			136,161		129,680
Less: Current portion of finance lease liability			(323)		(114)
			135,838		129,566

a) Credit facility advance

On August 31, 2016 the Company and a syndicate of Canadian banks agreed to amend and restate the credit facility, whereby the Company has access to a $CAD 165 million extendible revolving credit facility and a $USD 15 million operating facility (previously $CAD 170 million plus $USD 5 million) maturing September 30, 2019 (collectively the "credit facility"). Pursuant to the terms of the credit facility, the Company has the ability to request an additional $CAD 50 million (to be provided by the lenders on a best-effort basis). The Company has the option to utilize its credit facility by requesting prime loan advances, US base rate advances, LIBOR advances, and banker's acceptance or letter of credit advances.

Fees and interest under the credit facility are subject to a pricing grid whereby the pricing level is determined by the funded debt to EBITDA ratio.

10 Long-term debt (continued)

- Funded debt is defined in the agreement as all the Company's obligations, liabilities and indebtedness which would, in accordance with IFRS, be classified on a consolidated Statement of Financial Position of the Company as indebtedness for borrowed money of the Company, but excludes subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Company's business; EBITDA is defined under the amended and restated credit facility as the net earnings of the Company plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, and non-recurring losses to a maximum of $4.5 million in any fiscal year, write down of goodwill and intangible assets and other restructuring charges for store closures, amortization of inventory fair value adjustments and deductions for the non-controlling interest. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

- The Company was in the first of four tiers of the pricing grid as at December 31, 2016, with the first tier providing the lowest rate of interest under the credit facility (2015 – second of four tiers).

- In the first tier of the pricing grid, interest on bank indebtedness related to the credit facility is payable at the lender's prime rate plus 0.25% or the banker's acceptance discount rate plus a stamping fee of 1.5%. Standby fees for the credit facility are charged at an annual rate of 0.30% payable monthly on undrawn portions of the facilities. Financing fees relating to the credit facility have been included in the initial measurement of the financial liability and are recognized in net earnings using the effective interest method.

The credit facility is collateralized by a general security agreement covering all present and after-acquired property of the Company and its affiliates and material subsidiaries, a floating charge over all of the present and after acquired real property of the Company and its direct and indirect subsidiaries and an assignment of the Company's insurance. Further, the Company's material subsidiaries have provided the syndicate with unlimited guarantees of the credit facilities.

The Company's credit facility agreements contain both objectively determinable and subjective covenants which, if the Company fails to comply, could accelerate repayment requirements or restrict operations and growth.

Financing fees of $592 (2015 - $524) were incurred to amend and restate the credit facility. These fees have been recorded as deferred financing costs and are being amortized using the effective interest method over the term of the credit facility.

The Company entered into a forward-starting interest rate swap effective on December 14, 2015 and expiring December 14, 2019, to fix the effective interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At December 31, 2016, the estimated fair value of the interest rate swap was a $52 liability (2015 - $583 liability).

10 Long-term debt (continued)

Fair value adjustments to the interest rate swap are included in finance costs in the statements of earnings. A $531 gain was recognized in 2016 (2015 – $540 loss). This financial instrument has not been designated as a hedge for accounting purposes.

b) Unsecured subordinated convertible debentures

	5.85% Debentures	**4.70% Debentures**
Balance at December 31, 2014	62,852	-
Interest accretion and amortization of transaction costs	1,269	-
Balance at December 31, 2015	**64,121**	**-**
Proceeds from issuance of convertible debentures	-	77,625
Transaction costs	-	(3,623)
Net proceeds	-	74,002
Amount classified to equity (net of transaction costs)	-	(4,193)
Interest accretion and amortization of transaction costs	1,380	355
Balance at December 31, 2016	**65,501**	**70,164**

i) 5.85% unsecured subordinated convertible debentures (the “5.85% Debentures”)

The 5.85% Debentures have an aggregate principal amount of $67,500 and are subordinated, unsecured obligations of the Company. The 5.85% Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the “Conversion Price”) of $24.90 per share.

Prior to April 30, 2017, the 5.85% Debentures are redeemable by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after April 30, 2017 and prior to the maturity date, the Company may, at its option, redeem the 5.85% Debentures by way of cash payment or through the issuance of common shares, in whole or in part, from time to time at par plus accrued and unpaid interest.

10 Long-term debt (continued)

The value of the conversion feature at the date of issuance, which was determined to be $4,437, net of $207 in transaction costs, has been recorded as equity with the remaining $59,912 (net of $3,151 in transaction costs) recorded as long-term debt. A deferred tax liability of $1,109 related to the conversion feature was recorded directly to the carrying value of the equity component at the date of issuance. The 5.85% Debentures are being accreted such that the liability at maturity will be equal to the face value of $67,500.

ii) 4.70% unsecured subordinated convertible debentures (the "4.70% Debentures")

On September 29, 2016 the Company issued $67,500 of convertible unsecured subordinated debentures due January 31, 2022 (the "4.70% Debentures"). The underwriting syndicate exercised in full their over-allotment option on October 4, 2016, resulting in the issuance of an additional $10,125 aggregate principal amount of 4.70% Debentures at the same terms and conditions. The 4.70% Debentures are subordinated, unsecured obligations of the Company and bear interest at a rate of 4.70% per annum, payable semi-annually in arrears on January 31 and July 31 of each year, commencing July 31, 2017. The 4.70% Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion price (the "Conversion Price") of $14.60 per share.

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

The value of the conversion feature, which was determined to be $4,193, net of $206 in transaction costs, has been recorded as equity and a deferred income tax liability of $1,187 related to the conversion feature was recorded directly to the carrying amount of the equity component. The remaining $69,809, net of $3,417 in transaction costs, has been recorded as long-term debt. The 4.70% Debentures are being accreted such that the liability will be equal to the face value of $77,625 upon maturity.

11 Finance costs

Finance costs comprise the following:

	2016 $	2015 $
Interest expense		
Long-term debt[(i)]	4,423	2,852
Convertible debentures[(ii)]	6,618	5,218
	11,041	8,070

i) Included in interest expense on long-term debt was amortization of deferred financing costs of $407 (2015 - $318).

ii) Interest expense on the convertible debentures of $6,618 (2015 - $5,218) represents coupon interest of $4,883 (2015 – $3,949) and $1,735 (2015 – $1,269) pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method.

12 Fair value adjustments

The fair value adjustments recognized in the period comprise the following:

	Fair Value Hierarchy	2016 $	2015 $
(Gain) loss on interest rate swap	Level 2	(531)	540
Loss on non-controlling interest put option (note 4)	Level 3	371	-
Loss on purchase option (note 4)	Level 2	1,112	-
		952	540

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement (note 23).

The fair value of the interest rate swap is calculated as the net present value of the future cash flows expected to arise on the variable and fixed rate tranches, determined using applicable yield curves at each measurement date.

The fair values of the non-controlling interest put option and purchase option are calculated using the methods as described in note 2.

13 Hedge of a net investment in foreign operation

The Company is applying hedge accounting to foreign currency differences arising between the $USD functional currency of Birchfield (note 4) and the $CAD functional currency of the Company. The Company has therefore designated a portion of the principal amount outstanding of the $USD borrowings made by the Company as a net investment hedge of the net assets of Birchfield. The Company's investments in other subsidiaries are not hedged.

No ineffectiveness was recognized in the current period from the net investment hedge.

14 Dividends

	2016 $	2015 $
Dividends declared	13,238	29,524
Dividends paid		
Dividends paid in cash	13,315	26,994
Dividends paid in shares	1,563	2,511

Dividends were declared on January 13, 2017 and February 15, 2017 in the amount of $0.03 per common share and will be paid to the holders of common shares as at the close of the record dates of January 31, 2017 and February 28, 2017, respectively.

15 Income tax

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority and taxable entity, resulting in the following presentation on the consolidated statements of financial position:

	December 31, 2016 $	December 31, 2015 $
Deferred tax assets	16,819	10,474
Deferred tax liabilities	(8,037)	(5,457)
Net deferred tax asset (liability)	8,782	5,017

The following are the deferred tax balances recognized and movements thereon during the current and comparative year:

	Balance – January 1, 2016 $	Charged to net earnings $	Charged to equity attributable to shareholders $	Exchange differences $	Balance – December 31, 2016 $
Deferred tax assets					
Goodwill	336	3,093	-	60	3,489
Issue and financing costs	1,662	(27)	-	(10)	1,625
Deferred lease inducements	1,494	540	-	-	2,034
Inventory	220	165	-	(10)	375
Long-term incentive plans	748	469	-	(10)	1,207
Put and call options	-	589	-	3	592
Foreign exchange	-	73	-	-	73
Non-capital losses	14,898	1,388	-	(403)	15,883
	19,358	6,290	-	(370)	25,278
Deferred tax liabilities					
Intangible assets	2,504	(2)	-	13	2,515
Property and equipment	5,893	335	-	(122)	6,106
Partnership income	5,367	1,034	-	-	6,401
Convertible debentures	577	(291)	1,188	-	1,474
	14,341	1,076	1,188	(109)	16,496
	5,017	5,214	(1,188)	(261)	8,782

15 Income tax (continued)

	Balance – January 1, 2015 $	Charged to net earnings $	Charged to equity attributable to shareholders $	Exchange differences $	Balance – December 31, 2015 $
Deferred tax assets					
Goodwill	-	761	-	(425)	336
Issue and financing costs	727	863	46	26	1,662
Deferred lease inducements	1,062	432	-	-	1,494
Inventory	93	105	-	22	220
Long-term incentive plans	599	119	-	30	748
Non-capital losses	10,217	2,660	-	2,021	14,898
	12,698	4,940	46	1,674	19,358
Deferred tax liabilities					
Intangible assets	4,480	(2,177)	-	201	2,504
Property and equipment	3,377	1,992	-	524	5,893
Goodwill	12,975	(12,975)	-	-	-
Partnership income	5,166	201	-	-	5,367
Convertible debentures	728	(151)	-	-	577
	26,726	(13,110)	-	725	14,341
	(14,028)	18,050	46	949	5,017

The above includes a net deferred tax asset recorded by a wholly-owned US subsidiary of $16,647 (2015 – $10,185).

The Company has recognized deferred tax assets related to non-capital losses of $41,711 (2015 – $39,146) available in subsidiaries to offset income taxes of future years. If not utilized, the non-capital loss carry forwards will expire as follows:

	$
2028	85
2029	2,388
2030	3,620
2031	5,706
2032	5,151
2033	5,740
2034	3,153
2035	10,793
2036	5,075
	41,711

Deferred taxes are not recorded on $143 of intangible assets with impairment reversals that are not taxable.

15 Income tax (continued)

The tax on the Company's earnings before income taxes differs from the amount that would arise using the weighted average Canadian federal and provincial statutory tax rate applicable to the consolidated entities as follows:

	2016 $	2015 $
Earnings (loss) taxed at statutory rate of 26.85% (i) (2015 – 26.01%)	264	(29,666)
Tax effects of		
Impact of difference between US and Canada tax rates	(1,900)	(2,220)
Non-deductible and non-taxable items	(1,082)	(493)
Impairment provision (reversal) not deductible (taxable) for tax purposes	(143)	16,640
Impact of substantively enacted tax rates	3	726
Change in valuation allowance	(74)	61
Adjustment to prior years' deferred tax estimates	793	312
Other	170	(24)
Income tax recovery	(1,969)	(14,664)

i) On June 29, 2015, the Alberta government enacted a two percent increase in the corporate income tax rate. The rate increase was effective July 1, 2015.

16 Share capital

a) Authorized:

An unlimited number of voting common shares without par value are authorized to be issued.

b) Issued and outstanding:

	#	$
Balance – January 1, 2015	27,240,760	246,826
Adjustment to net proceeds on share issuance	-	(34)
Shares issued under dividend reinvestment plan	209,131	2,511
Balance – December 31, 2015	27,449,891	249,303
Balance – January 1, 2016	27,449,891	249,303
Shares issued under dividend reinvestment plan	191,899	1,563
Shares issued on settlement of equity based compensation awards	22,280	314
Balance – December 31, 2016	27,664,070	251,180

17 Earnings (loss) per share

	2016	**2015**
	$	**$**
Net earnings (loss) attributable to owners of the parent	655	(99,587)

	2016	**2015**
	#	**#**
Weighted average number of common shares outstanding – Basic	27,594,903	27,329,145
Effect of dilutive securities		
Equity-settled one time grant performance share units	30,862	16,232
Equity-settled performance share units	44,295	-
Equity-settled restricted share units	81,003	30,893
Weighted average number of common shares outstanding – Diluted	27,751,063	27,376,270

	2016	**2015**
	$	**$**
Basic earnings (loss) per share	0.02	(3.64)
Diluted earnings (loss) per share	0.02	(3.64)

For the year ended December 31, 2015 and 2016, potential shares issuable in exchange for equity-settled share options have been excluded in the diluted earnings per share calculation as their effect would have been anti-dilutive.

For the year ended December 31, 2015, potential shares issuable in exchange for equity-settled performance share units have been excluded in the diluted earnings per share calculation as their effect would have been anti-dilutive.

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

18 Share-based payments

The following summarizes the Company's share based payment plans:

	Cash settled			Equity settled			
Year ended December 31, 2016	Share options[(a)]	Deferred Share Units[(b)]	Restricted Share Units[(c)]	Share options[(a)]	Restricted Share Units[(c)]	Performance Share Units[(c)]	One-time Grant[(d)]
Outstanding, beginning of period	6,750	78,226	65,223	48,750	61,439	54,263	127,857
Granted and reinvested dividends	-	28,268	3,045	-	179,690	116,471	7,805
Settled / exercised	-	-	(39,473)	-	(23,784)	-	-
Forfeited / expired	(6,750)	-	(7,758)	(48,750)	(21,957)	(24,966)	(25,868)
Outstanding, end of period	-	106,494	21,037	-	195,388	145,768	109,794

	Cash settled			Equity settled			
Year ended December 31, 2015	Share options[(a)]	Deferred Share Units[(b)]	Restricted Share Units[(c)]	Share options[(a)]	Restricted Share Units[(c)]	Performance Share Units[(c)]	One-time Grant[(d)]
Outstanding, beginning of period	18,750	58,161	99,189	87,750	10,244	-	131,452
Granted and reinvested dividends	-	20,065	6,150	-	54,875	54,263	10,620
Settled / exercised	-	-	(37,869)	-	-	-	-
Forfeited	(12,000)	-	(2,247)	(39,000)	(3,680)	-	(14,215)
Outstanding, end of period	6,750	78,226	65,223	48,750	61,439	54,263	127,857

For the year-ended December 31, 2016, the company recognized compensation expense on equity settled plans of $1,434 (2015 - $834) and compensation expense on cash settled plans of $512 expense (2015 - $80 recovery) related to the Company's share-based award plans.

18 Share-based payments (continued)

a) Employee share option plan

On March 24, 2011, 675,000 share options were granted to employees with an exercise price set at $15.52 per share, which was the five day average trading price preceding the grant date. Of these awards, 598,500 were classified as equity-settled share options and 76,500 were classified as cash-settled share options. Share options vested over three years (1/3 at each of the first, second and third anniversaries of the grant date) and expired five years after the grant date. No share options remain as at December 31, 2016.

b) Directors' deferred share unit plan ("DSU")

The Company has a DSU plan for members of the Company's Board of Directors, granting an annual award as part of their compensation. Directors may also elect to receive a portion of their annual retainers and fees in the form of DSUs. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Company. The number of DSUs granted is determined on the volume weighted average price of the Company's common shares on the five trading days immediately prior to the grant date. The fair value of the awards granted under the DSU plan is initially recognized as a compensation expense on the grant date. Fluctuations in the market value are recognized as a compensation expense in the period in which the fluctuations occur. Dividends paid earn fractional DSUs and are treated as additional awards.

The awards are settled at the time when the participant ceases to be a Director of the Company. The Company intends to settle all DSUs in cash; however, wholly at its own discretion, the Company may settle the units with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury.

c) Incentive award plan

On March 28, 2013, the Company adopted an incentive award plan comprised of restricted awards ("RSUs") and performance awards ("PSUs") for employees of the Company. RSUs are subject to service conditions and PSUs are subject to both service and market conditions. Restricted awards and performance awards issued under the incentive award plan are granted at the discretion of the Company's Board of Directors. RSUs vest over three years, one third on each of the first, second and third anniversaries of the grant date. The PSUs cliff-vest on the third anniversary of the grant date. Dividends paid earn fractional units and are treated as additional awards.

Prior to the plan amendment on May 6, 2014, the Company had the option, wholly at its own discretion, to settle the units with cash or in shares through the purchase of voting shares on the open market. The Company intends to settle all awards issued prior to the plan amendment in cash. The incentive awards are accounted for as an employee benefit, the liability for which is revalued at each balance sheet date using the closing price of the Company's shares.

18 Share-based payments (continued)

On May 6, 2014, the Company amended its award plan to also allow settlement of awards in shares through the issue of new shares from treasury, in addition to settling the awards in shares purchased on the open market or by settlement with cash. The Company intends to settle all awards granted subsequent to May 6, 2014 through the issuance of new shares from treasury.

Compensation expense for equity-settled awards is recognized over each tranche vesting period by increasing contributed surplus based on the number of awards expected to vest for the RSUs, and evenly over the cliff-vesting period by increasing contributed surplus based on the number of awards expected to vest for the PSUs. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined.

The PSUs are subject to a market performance condition where the total number of units that will be awarded is dependent on the Company's total shareholder return relative to a predetermined group of comparable companies. Fair values of the PSU awards were determined using a Monte Carlo simulation approach with the following key assumptions used to value the awards granted in 2015 and 2016:

	2016	**2015**
Expected life	3 year vesting period	3 year vesting period
Expected share price volatility of the Company	30.1%	22.8%
Expected share price volatility of comparable companies	13.4% - 135.4%	11.4% - 106.1%
Risk-free interest rate	0.51%	0.57%

d) One-time grant

On November 14, 2014, a one-time special grant comprised of PSUs to senior executives of the Company was approved by the Board of Directors and approved by shareholders on May 8, 2015. The PSUs cliff vest on the third anniversary of the grant date. The number of common shares issuable to the executives pursuant to the PSUs is subject to the common shares meeting certain pre-determined 20 day volume weighted average trading price targets between the date of grant and the payout or settlement date of the PSUs (the "Performance Period"). No common shares are issuable under the PSUs if the 20 day volume weighted average trading price of the common shares does not reach a minimum of $15.00 during the Performance Period. To date, the Company has achieved the $15.00 minimum indicating a 50% award multiplier, at a minimum, will be applied to these awards upon settlement.

After the three-year vesting period has been met, the date of settlement is at the employee's option but must occur prior to the end of the five year term. The Company will settle all awards through the issuance of new shares from the treasury. Other terms and the accounting treatment of the awards are consistent with other equity-settled awards under the incentive award plan.

19 Related party transactions

The following transactions were carried out with related parties:

a) Operating and administrative expenses

	2016 $	2015 $
Professional fees[i]		
Recognized in operating and administrative expenses	50	86
Included in the initial carrying value of long-term debt	34	50
	84	136

[i] A director of the Company is a partner in a law firm to which the Company incurred professional fees for legal services. Subsequent to year-end, the director is no longer a partner in this law firm.

b) Compensation of key management

Key management includes the directors and executive officers of the Company.

	2016 $	2015 $
Salaries and short-term benefits	4,554	4,279
Share-based payments	1,913	754
Severance costs	445	675
	6,912	5,708

These expenses are included in corporate and other reconciling items (note 25).

20 Selling and distribution expenses by nature

	2016 $	2015 $
Wages and employee benefits	59,178	54,117
Lease, premises costs, and property tax	46,327	39,433
Advertising and promotion	9,085	8,845
Merchant processing fees	8,440	7,023
Utilities	5,745	5,617
Maintenance, janitorial, and operating supplies	4,765	4,530
Store closure costs	1,199	245
Other	9,053	7,744
Total operating and administrative expenses	143,792	127,554

21 Administrative expenses by nature

	2016 $	2015 $
Wages and employee benefits	14,691	14,590
Share based payments	1,946	752
Information technology costs	1,218	4,143
Travel	1,101	1,689
Legal and accounting fees	1,038	2,191
Lease, premises costs, and property tax	873	861
Consulting	856	1,624
Other	1,422	1,115
Total operating and administrative expenses	23,145	26,965

22 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	2016 $	2015 $
Accounts receivable	5,708	(3,848)
Inventory	10,785	(13,197)
Prepaid expenses and deposits	878	(1,655)
Accounts payable and accrued liabilities	633	8,173
Income tax payable	399	-
	18,403	(10,527)

Interest and income taxes paid are included in cash flows from operating activities in the Statement of Cash Flows.

	2016 $	2015 $
Interest paid	7,932	6,431
Income taxes paid (received)	(160)	6,472

23 Financial instruments

a) Financial instruments measured at fair value

Financial instruments recognized at fair value include the interest rate swap and the purchase option (note 4), which are level 2 measurements, and the non-controlling interest put option (note 4), which is a level 3 measurement. There have been no transfers of instruments between levels in the hierarchy.

The fair values of interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date.

23 Financial instruments (continued)

Fair value hierarchy

Financial instruments recognized on the balance sheet at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

b) Financial instruments measured at other than fair value

Financial assets that are valued at other than fair value on the consolidated Statement of Financial Position include cash and accounts receivable. The carrying value less impairment provision of accounts receivable approximates fair value at December 31, 2016 and December 31, 2015 due to the short-term nature of the instruments.

Financial liabilities that are valued at other than fair value are comprised of accounts payable and accrued liabilities, dividends payable, and long-term debt. Long-term debt has been recorded initially at fair value and subsequently at amortized cost using the effective interest method.

The carrying value of accounts payable and other accrued liabilities and dividends payable approximates their fair value due to the short-term nature of the instruments. The carrying value of the credit facility advances approximate fair value, as the interest rate affecting this instrument is at a variable market rate. The fair value of the debentures were $146,745 (2015 - $67,500) and was determined based on market trading values at the statement of financial position date.

Included in accrued liabilities is a $1,800 provision for onerous contracts. The provision for an onerous contract is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

23 Financial instruments (continued)

The following is a continuity of provisions recorded for onerous contracts:

	2016 $	2015 $
Provisions, beginning of year	2,065	700
Additions	1,282	1,567
Payments	(1,116)	(202)
Reversals	(414)	-
Foreign exchange	(17)	-
Provisions, end of year	1,800	2,065

Credit risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Company's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable.

The Company maintains its cash and cash equivalents with large financial institutions in Canada and the US. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers. Risk associated with respect to accounts receivable is mitigated by credit management policies.

The Company is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the hospitality industry in Alberta.

	2016 $	2015 $
Trade receivables	730	828
Lease inducement receivables	539	1,410
Income tax recoverable	253	3,259
Rebate and coupon receivables	1,358	429
Other receivables	304	94
	3,184	6,020

Substantially all of the Company's trade receivables are aged less than 60 days. An expense of $15 (2015 - $17) was recorded for bad debts or significant past due accounts. Management does not consider credit risk to be material to current operations.

23 Financial instruments (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change.

a) Interest rate risk

The Company is subject to cash flow interest rate risk as its credit facilities bear interest at variable rates.

Due to the limited amount drawn on the Company's credit facilities and the fixed rate of interest on the Company's subordinated convertible debentures, an increase/decrease of 1.00% in market interest rates would result in a nominal decrease/increase in the Company's finance expense, net earnings, and net earnings per share.

The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans. The Company entered into a forward-starting interest rate swap with a Canadian Schedule I bank, effective on December 14, 2015 and expiring December 14, 2019, to fix the effective interest rate on a notional $60 million of principal debt with a rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility.

b) Foreign exchange risk

The Company is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an impact on financial results. The Company's foreign exchange cash flow exposure is limited to the payment of US intercompany management fees, interest charges, and dividends which totalled US$3,680 (2015 – US$4,363). A 10% weakening or strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of $368 (2015 - $436).

The Company also has exposure to foreign exchange risk through its US dollar borrowings under the credit facility. A 10% weakening or strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of $1,207 (2015 - $408) related to its borrowings.

23 Financial instruments (continued)

Liquidity risk

The Company's liabilities have maturities which are summarized below:

	Current $	**Non-current** $
Accounts payable and accrued liabilities	67,857	-
Dividends payable to shareholders	830	-
Finance lease liability (up to November 14, 2021 maturity)	323	670
Credit facility advance (September 30, 2017 maturity)	-	-
5.85% convertible debenture (April 30, 2018 maturity)	-	67,500
4.70% convertible debenture (January 31, 2022 maturity)	-	77,625

A breakdown of the Company's accounts payable and accrued liabilities is summarized below:

	2016 $	**2015** $
Trade payables	39,543	35,345
Wages payable	7,965	6,042
Accrued liabilities	8,835	9,790
Leasehold inducements	4,313	4,703
Indirect taxes payable	3,733	3,030
Provision for onerous contracts	1,800	2,065
Accrued interest	1,668	653
	67,857	61,628

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they come due. As well, the degree to which the Company is leveraged may reduce its ability to obtain additional financing for working capital and to finance growth acquisitions.

To manage liquidity risk, the Company has historically renewed credit terms prior to maturity dates and maintains financial ratios that are conservative compared to financial covenants applicable to the credit facilities. The Company uses a detailed consolidated cash flow forecast model to regularly monitor its near and long-term cash flow requirements, supplemented with frequent evaluation of the financial covenants contained in its credit facility agreements. This also assists the Company in optimizing its working capital and evaluating long-term funding strategies.

As at December 31, 2016, the Company had $152,562 of undrawn capacity available under its existing credit facility which matures on September 30, 2019.

23 Financial instruments (continued)

Capital management

The Company views capital as the combination of its credit facility, convertible debentures and shareholders' equity balances. In general, the overall capital of the Company is evaluated and determined in the context of its financial objectives when managing capital, which are to ensure the Company has capital and capacity to support its growth strategy, provide investors with stable returns and ensure the Company has the financial capacity to support its operations.

Management believes that the Company's capital structure reflects the requirements of a company focused on growth, both through the development of new stores and through acquisitions. Management continually monitors the adequacy of the Company's capital structure and adjusts the structure accordingly, either by accessing credit facilities, issuing debt instruments, or issuing new shares.

There were no changes to the Company's objectives, policies or processes for managing capital from the prior fiscal year.

The Company's credit facilities with a syndicate of Canadian banks are subject to a number of financial covenants. Management prepares financial forecasts to monitor its compliance with the financial covenants and to anticipate possible future issues. Under the terms of the Company's credit facility, the following ratios are monitored: funded debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA"), adjusted debt to earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR"), and fixed charge coverage ratio. For the year ended December 31, 2016 and 2015, the Company is in compliance with all covenants. There are no financial covenants attributable to the Company's convertible unsecured subordinated debentures due April 30, 2018 and January 31, 2022.

24 Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, vehicles, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

a) Operating Leases

The future minimum lease payments under non-cancellable operating leases for head office and retail store premises are as follows:

	$
Not later than one year	32,902
Later than one year and not later than five years	99,898
Later than five years	56,274
	189,074

During 2016, the Company recorded $34,633 (2015 – $28,343) as an expense included in the Statement of Earnings and Comprehensive Income in respect to minimum lease payments of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled $189 (2015 - $142). Current lease terms vary from monthly to twenty years and expire between 2017 and 2035.

b) Finance Leases

The future minimum lease payments under finance leases for vehicles are as follows:

	Not later than one year	**Later than one year and not later than five years**	**Later than five years**
Finance lease payments	356	702	-
Less: future finance charges	(33)	(32)	-
Present value of minimum lease payments	323	670	-

25 Operating segments

The Company has two reportable segments: Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. The Canada and US segments operate retail liquor stores in their respective jurisdictions.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before amortization, and is included in the internal management reports that are reviewed regularly by the Company's President and Chief Executive Officer (the Company's chief operating decision maker, or "CODM") and follow the organization, management and reporting structure of the Company. Operating profit before amortization is one of the primary benchmarks used by management to evaluate the performance of its operating segments. A reconciliation of operating profit before amortization to earnings before income taxes, an earnings measure used in the Company's consolidated Statement of Earnings and Comprehensive Income, has been included in the table below.

Operating profit before amortization is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, operating profit before amortization may not be comparable to similar measures presented by other issuers. Users are cautioned that operating profit before amortization should not be construed as an alternative to earnings before income tax as determined in accordance with IFRS, as an indicator of performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows.

25 Operating segments (continued)

				December 31, 2016
	Canadian Operations $	**US Operations $**	**Corporate and Other Reconciling Items $**	**Consolidated $**
Sales to external customers	531,694	285,979	-	817,673
Operating profit before amortization	48,680	14,831	(23,145)	40,366
Property and equipment amortization				12,250
Intangible asset amortization				443
Provision for impairment of goodwill and intangible assets (note 8 & 9)				16,153
Finance costs				11,041
Net (gain) loss on foreign exchange from financing activities				(1,457)
Fair value adjustments				952
Earnings before income taxes				984
Other information				
Expenditures for additions to				
Property and equipment[(i)]	4,928	5,725	-	10,653
Intangible assets[(i)]	81	144	-	225
Total assets at December 31, 2016[(i)]	316,520	146,527	-	463,047

25 Operating segments (continued)

				December 31, 2015
	Canadian Operations $	US Operations $	Corporate and Other Reconciling Items $	Consolidated $
Sales to external customers	528,720	217,664	-	746,384
Operating profit before amortization	51,499	12,336	(26,965)	36,870
Property and equipment amortization				10,814
Intangible asset amortization				254
Provision for impairment of goodwill and intangible assets (note 8 & 9)				130,313
Finance costs				8,070
Net loss on foreign exchange from financing activities				935
Fair value adjustments				540
Earnings before income taxes				(114,056)
Other information				
Expenditures for additions to				
Property and equipment[i]	16,858	10,197	-	27,055
Intangible assets[i]	3,069	2,006	-	5,075
Total assets at December 31, 2015[i]	332,495	123,059	-	455,554

[i] Total corporate assets and other reconciling items are not regularly reported to the CODM but rather, a split between US and Canadian assets is provided. The disclosure above reflects what is regularly provided to the CODM.

26 Other income

We have submitted a claim under our insurance policies for business income interruption and property damage resulting from smoke damage to our stores that occurred as a result of the Fort McMurray forest fire that occurred during the current year. We have recognized an insurance recovery of $704 as the expected settlement of this claim on the basis that reimbursement was virtually certain at the Statement of Financial Position date. The recovery has been recorded in other income in the Statement of Earnings and Comprehensive Income. A settlement advance of $583 was received from our insurers prior to December 31, 2016, with the remainder recorded as an accounts receivable in the Statement of Financial Position at year-end. The claim was settled subsequent to December 31, 2016.