CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars)

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 "James Burns"
James Burns
Vice Chair & Chief Executive Officer

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

March 14, 2018

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, 2017 and December 31, 2016 and the consolidated statements of (loss) earnings and comprehensive (loss) income, changes in equity and cash flow 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2017 and December 31, 2016 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, 2017 $	December 31, 2016 $
Assets			
Current assets:			
Cash		2,155	7,020
Accounts receivable	23	19,168	3,184
Inventory	6	84,333	155,425
Prepaid expenses and deposits		8,240	10,380
Interest rate swap derivative	12	898	-
Assets held for sale	5	2,860	-
		117,654	176,009
Deferred tax assets	15	8,119	16,819
Purchase option	4	-	1,537
Property and equipment	7	49,534	63,674
Intangible assets	8	35,576	46,690
Goodwill	9	145,519	158,318
		356,402	463,047
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	23	47,639	67,857
Income taxes payable	15	1,400	399
Dividends payable	14	2,501	830
Interest rate swap derivative	12	-	52
Current portion of long term debt	10	407	323
Liabilities directly associated with assets held for sale	5	1,450	-
		53,397	69,461
Long-term debt	10	101,903	135,838
Deferred tax liabilities	15	7,317	8,037
Non-controlling interest put option	4	-	14,316
		162,617	227,652
Shareholders' Equity			
Equity attributable to shareholders		193,700	230,889
Equity attributable to non-controlling interest		85	4,506
		193,785	235,395
		356,402	463,047

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

Approved on behalf of the Board of Directors:

<u>*Signed "Derek Burney"*</u>
Derek Burney
Director

<u>*Signed "John Barnett"*</u>
John Barnett
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 comprehensive income $	Deficit $	Total $	Non-controlling interest $	Total equity $
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
Opening balance – January 1, 2017	251,180	6,334	176,881	20,744	(224,250)	230,889	4,506	235,395
Net earnings (loss) for the year	-	-	-	-	(30,527)	(30,527)	1,774	(28,753)
Foreign currency translation adjustment	-	-	-	(4,799)	-	(4,799)	(187)	(4,986)
Comprehensive income (loss) for the year	-	-	-	(4,799)	(30,527)	(35,326)	1,587	(33,739)
Share-based payments (note 18)	-	-	1,321	-	-	1,321	-	1,321
Settlement of equity-based payments (note 18)	536	-	(2,700)	-	-	(2,164)	-	(2,164)
Redemption of debenture (note 10)	-	(3,328)	2,997	-	-	(331)	-	(331)
Extinguishment of non-controlling interest put option liability (note 5)	-	-	-	-	12,815	12,815	-	12,815
Dividends declared (note 14)	-	-	-	-	(9,990)	(9,990)	-	(9,990)
Dividend reinvestment plan issuance (note 14)	697	-	-	-	-	697	-	697
Sale of Birchfield Ventures LLC (note 5)	-	-	-	-	-	-	(3,501)	(3,501)
Reclassification of accumulated exchange differences on sale (note 5)	-	-	-	(4,211)	-	(4,211)	-	(4,211)
Dividends declared by subsidiaries	-	-	-	-	-	-	(2,507)	(2,507)
Transactions with owners	1,233	(3,328)	1,618	(4,211)	2,825	(1,863)	(6,008)	(7,871)
Balance – December 31, 2017	252,413	3,006	178,499	11,734	(251,952)	193,700	85	193,785

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

Liquor Stores N.A. Ltd.

Consolidated Statements of (Loss) Earnings
Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars, except for per share amounts)

	Note	2017 $	2016 $
			(Restated, note 5)
Sales		621,361	637,598
Cost of sales		457,455	472,364
Gross margin		163,906	165,234
Selling and distribution expenses	20	116,306	110,247
Administrative expenses	21	21,607	22,058
Restructuring charges	28	4,747	629
Other income	26	-	(704)
Operating profit before amortization		21,246	33,004
Amortization			
Property and equipment	7	11,166	10,048
Intangible assets	8	563	245
Gain on sale of liquor store	27	(1,406)	-
Operating profit		10,923	22,711
Finance costs	11	8,673	7,853
Net loss (gain) on foreign exchange from financing activities		78	(1,457)
Fair value adjustments	12	(950)	(531)
Provision for (reversal of) impairment of intangible assets	8	(1,616)	1,455
Earnings before income taxes		4,738	15,391
Income tax expense			
Current	15	4,033	3,126
Deferred	15	1,274	537
		5,307	3,663
Net (loss) earnings from continuing operations		(569)	11,728
Net loss from discontinued operations	5	**(28,184)**	**(8,775)**
Net (loss) earnings		**(28,753)**	**2,953**
Net (loss) earnings attributable to:			
Equity shareholders		(30,527)	655
Non-controlling interest		1,774	2,298
		(28,753)	2,953
(Loss) earnings per share from continuing operations:			
Basic	17	(0.03)	0.42
Diluted	17	(0.03)	0.42
Total (loss) earnings per share:			
Basic	17	(1.10)	0.02
Diluted	17	(1.10)	0.02

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

Liquor Stores N.A. Ltd.

Consolidated Statements of Comprehensive (Loss) Income

Years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except for per share amounts)

	Note	2017 $	2016 $
			(Restated, note 5)
Net (loss) earnings for the year		**(28,753)**	**2,953**
Other comprehensive (loss) income			
Items that may be reclassified subsequently to net earnings:			
Continuing operations:			
Currency translation difference on foreign subsidiaries		(6,892)	(4,230)
Discontinued operations:			
Currency translation difference on foreign subsidiaries		827	(449)
Net investment hedge	13	1,079	771
Comprehensive loss		(33,739)	(955)
Comprehensive (loss) income attributable to:			
Equity shareholders		(35,326)	(3,061)
Non-controlling interest		1,587	2,106
		(33,739)	(955)
Comprehensive (loss) income attributable to:			
Continuing operations		(7,461)	7,498
Discontinued operations		(26,278)	(8,453)
		(33,739)	(955)

Liquor Stores N.A. Ltd.

Consolidated Statements of Cash Flow
Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

	Note	2017 $	2016 $
Cash provided by (used in)			
Operating activities:			
Net (loss) earnings for the year		(28,753)	2,953
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Amortization of property and equipment		13,492	12,250
Amortization of intangible assets		731	443
Amortization of financing charges	11	284	407
Loss on sale of discontinued operations	5	6,174	-
Gain on sale of liquor store	27	(1,406)	-
Non-cash interest on convertible debentures	11	1,879	1,735
Loss on redemption of convertible debentures	11	1,196	-
Unrealized foreign exchange loss (gain)		13	(1,787)
Fair value adjustments	12	(640)	952
Provision for impairment of goodwill, property and equipment and intangible assets	7, 8 & 9	9,303	16,153
Deferred income tax	15	6,995	(5,214)
Settlement of share-based awards previously recognized in contributed surplus	18	(2,112)	-
Equity-settled share-based payments	18	1,321	1,434
Cash provided by operating activities before changes in non-cash working capital		8,477	29,326
Net change in non-cash working capital items	22	24,430	18,403
Net cash provided by operating activities		32,907	47,729
Investing activities:			
Purchase of property and equipment		(18,086)	(13,353)
Purchase of intangible assets		(1,150)	(669)
Acquisition, net cash acquired		-	(20,912)
Net cash proceeds received on sale of discontinued operations		25,821	-
Net cash proceeds on sale of liquor store	z	2,309	-
Net cash provided by (used in) investing activities		8,894	(34,934)
Financing activities:			
Proceeds from (repayment of) long-term debt	22	31,030	(66,817)
Net (repayment of) proceeds from convertible unsecured subordinated debentures	10, 22	(67,500)	74,520
Deferred financing fees paid on loans and borrowings	10	-	(592)
Deferred financing fees paid on convertible subordinated debentures	10	-	(518)
Dividends paid	14	(7,622)	(13,315)
Dividends paid to non-controlling interest by subsidiaries		(2,507)	(2,531)
Net cash used in financing activities		(46,599)	(9,253)
Foreign exchange loss on cash held in foreign currency		(67)	(312)
(Decrease) increase in cash		(4,865)	3,230
Cash – Beginning of year		7,020	3,790
Cash – End of year		2,155	7,020
Discontinued operations	5		

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" and "LIQ.DB.B".

The Company's principal activity is the retailing of wines, beers and spirits. As at December 31, 2017, the Company operated 231 (2016 - 253) retail liquor stores, of which 175 (2016 - 179) were in Alberta, 33 (2016 - 34) were in British Columbia, 22 (2016 - 22) were in Alaska, none (2016 - 15) were in Kentucky, none (2016- two) were in New Jersey and one (2016 – one) was in Connecticut. Of the stores operated, 171 (2016 - 195) were acquired and 60 (2016 - 58) 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 14, 2018.

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 interest rate swap derivative, non-controlling interest put option, purchase option, the Directors' deferred share units, and cash-settled awards under the incentive award plan which are measured at fair value. Assets and liabilities held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 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. The Company applies the direct method of consolidation.

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"). The interest in Birchfield was disposed as of November 30, 2017. The remaining NCI of the Company consists of non-controlling equity interests in certain subsidiaries owned by outside parties.

d) Critical accounting estimates and judgments

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 7, 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.

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) Provisions

The Company evaluates all provisions at each reporting date. These provisions can be significant and are prepared using estimates of the costs of future activities. In certain instances, Management may determine that these provisions are no longer required or that certain provisions are insufficient as new events occur or as additional information is obtained. Provisions are separately identified and disclosed in the Company's consolidated financial statements. Changes to these estimates may affect the value of provisions, net earnings, and comprehensive income (loss) in future periods.

vii) Liability related to non-controlling interest put option

Estimates and assumptions previously used to calculate the value of the liability related to the non-controlling put option prior to its disposition 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 vary depending on the trailing earnings of Birchfield at the time of exercise. Changes in these assumptions could have resulted in a significantly higher or lower fair value measurement.

The put option was classified as a financial liability. Non-controlling interest continued to be recognized because the non-controlling shareholders had access to the returns associated with their underlying ownership interests. As such, the impact of recognizing the financial liability had been included in the Deficit of the Company at the acquisition date and had no impact on the measurement of NCI. The liability was re-measured each period with gains and losses recorded in fair value adjustments in the consolidated statement of earnings, up to the date of sale of Birchfield (note 5). At the date of sale of Birchfield, the impact of cancellation of the put liability was recorded in the Deficit of the Company.

viii) 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 was re-measured each period with gains and losses recorded in fair value adjustments in the consolidated statement of earnings, up to the date of sale of Birchfield (note 5).

Critical Judgments:

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 proportion of ownership and voting rights, and considering substantive potential voting rights available through exercise of the purchase option, the Company had determined that it controlled Birchfield up to the date the subsidiary was sold, and as such, had consolidated Birchfield in the financial statements until the date of sale (note 5).

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 and indefinite life intangibles for impairment. For the purpose of goodwill, 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.

iii) Assets held for sale and discontinued operations

The Company applies judgment in determining whether non-current assets and disposal groups meet the criteria to be classified as held for sale, which require the assets and liabilities to be should be classified as held for sale the results of operations associated with a disposal group meet the criteria

iv) Contingent consideration from Kentucky sale

Included in the consideration for the Kentucky assets, was a contingent payment based upon the percentage of sales achieved in three future years of operation above a minimum threshold. Management has determined that the fair value of the contingent consideration was negligible based on future sales projections of the Kentucky assets.

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:

Buildings	25 years
Leasehold improvements	Lesser of lease term and useful life
Fixtures and equipment	5 - 10 years
Vehicles	5 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 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.

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.

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.

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.

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.

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) Provisions

Provisions are liabilities of the Company for which the amount and/or timing of settlement is uncertain. A provision is recognized in the consolidated financial statements when the Company has a present legal or constructive obligation because of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

k) 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.

l) Hedge accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates and interest rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge. The documentation identifies the specific asset, liability or anticipated cash flows being hedge, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

The Company also formally assesses both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in attributable to the hedged risks in the fair values or cash flows of the hedged items. If a hedge relationship becomes ineffective, it no longer qualifies for hedge accounting and any subsequent change in the fair value of the hedging instrument is recognized in net earnings.

When hedge accounting is permitted, the hedging relationship may be designated as a cash flow hedge, a fair value hedge, or a hedge of foreign currency exposure of a net investment in a foreign operation. In a cash flow hedge, the change in fair value of the hedging instrument is recorded, to the extent it is effective, in other comprehensive income until the hedged item affects net earnings. In a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statements of net earnings by the change in fair value of the hedged item relating to the hedged risk. In a hedge of foreign currency exposure of a net investment in foreign operations, the change in fair value of the hedging instrument is recorded, to the extent it is effective, in other comprehensive income and the ineffective portion is recognized in net earnings.

Hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statement of

earnings. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value through net earnings without any offset from the hedged item.

When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net earnings, as the hedged item affects net earnings, or when the hedged item is derecognized. In a hedge of foreign currency exposure of a net investment in foreign operations, the amounts recognized previously in accumulated other comprehensive income (AOCI) are reclassified to net earnings in the event the Company reduces its net investment in the foreign operation.

Derivatives that do not qualify for hedge accounting are carried at fair value on the consolidated statement of financial position, and subsequent changes in their fair value are recorded in the consolidated statement of net earnings.

m) 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.

n) Non-current assets (or disposal groups) held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met when a sale is highly probable, the asset or disposal group is available for immediate sale in its present condition, and management is committed to the sale, which is expected to be completed within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are not depreciated once classified as held for sale.

A discontinued operation is a component of the Company's business that has either been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of earnings and comprehensive income are restated as if the operation had been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net earnings from discontinued operations in the statement of earnings.

o) Foreign currency translation

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.

Transactions in foreign currencies are translated at the actual rates of exchange. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Canadian dollar at the exchange rate for that date. Foreign exchange differences arising on translation are recognized in net earnings. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The financial statements of foreign subsidiaries whose unit of measure is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at December 31, 2017 for assets and liabilities, and the average exchange rates for the period for revenue, expenses, and cash flows. Foreign exchange differences arising on translation are recognized in accumulated other comprehensive income (loss) in equity.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or join control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to net earnings as part of the gain or loss on disposal.

Foreign exchange gains and losses arising from a receivable or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in foreign operations, are recognized in other comprehensive income (loss) in the cumulate foreign currency translation differences.

p) 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.

q) 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.

r) 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.

s) Accounting standards adopted during the period

i) Statement of Cash Flows

Beginning on January 1, 2017, the Company adopted the amendments to IAS 7 Statement of Cash Flows which require a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a company. Refer to note 22 regarding the adoption of the amendments to IAS 7.

t) 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. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. 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.

The Company has performed a preliminary assessment of the potential impacts of the adoption of IFRS 16 on the Company's consolidated financial statements. The adoption of IFRS 16 will result in a significant increase in fixed assets, long term debt, and deferred income taxes, and a decrease in opening retained earnings as a result of the recognition of right-of-use assets and associated lease liabilities. On an ongoing basis there will be a significant decrease in rent expense recorded as part of selling, distribution and administrative expenses and an increase in depreciation and amortization, net interest expense and other financing charges. The Company intends to adopt IFRS 16 in the period beginning January 1, 2019. The precise extent of the impact of the adoption of IFRS 16 has not yet been determined.

ii) Financial Instruments

IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company has evaluated the impact of the adoption of the new standard on its financial assets and liabilities as follows:

- The new guidance will not significantly affect the classification and measurement of the Company's financial assets or liabilities;
- The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. Based on the assessments completed to date, the Company does not expect the impact to be significant.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The disclosure requirements in IFRS 7 Financial Instruments – Disclosure have been amended to include the additional disclosure required under IFRS 9. The Company is adopting these amendments to IFRS 7 at the same time as adoption of IFRS 9, which will be adopted using the modified retrospective approach.

iii) Revenue

The IASB has issued a new standard for the recognition of revenue, IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after January 1, 2018. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management has assessed the effects of applying the new standard on the Company's financial statements however no areas of change have been identified that would require any significant changes in the Company's revenue recognition or measurement. Additional financial statement disclosures are expected to change the nature and extent of the Company's disclosures regarding revenue. The Company will adopt IFRS 15 using the modified retrospective approach.

4 Birchfield acquisition

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 costs associated with the business combination were $539, which were recognised in the statement of earnings.

On November 30, 2017, the Company sold Birchfield back to the non-controlling interest as described in note 5.

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 was attributable mainly to the synergies expected to be achieved through integrating Birchfield into the Company's U.S. operations. The entire amount of goodwill was 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% were as follows:

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

ii) If the Company exercised the purchase option between 18 and 36 months subsequent to the acquisition date, the purchase price would 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 exercised the purchase option more than 36 months subsequent to the acquisition date, the purchase price would 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 provided the non-controlling interest shareholders a put option whereby if the Company had not exercised the above purchase option in the first 36 months subsequent to the acquisition date, the non-controlling interest could, 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, exercisable on January 15th or July 15th of each subsequent year. Prior to the put option's extinguishment arising from the sale of Birchfield on November 30, 2017, the put option was presented as a liability related to non-controlling interest in the statement of financial position.

5 Discontinued operations and assets held for sale

a) Overview

In 2017, the Company acted on the plan approved by its Board of Directors to exit the lower 48 U.S. states, which formed part of its U.S. Operations operating segment, by disposing or committing to dispose of its assets and operations in these regions. It is expected that the disposal plan will be fully completed in 2018. The following actions were taken by the Company to enact this plan in 2017:

- On November 17, 2017, the Company's 15 retail locations in Kentucky were sold to a third party
- On November 30, 2017, the Company sold its 51% interest in Birchfield back to the non-controlling interest.
- The Company announced that it is currently in discussions with a third party about the sale of its store in Norwalk, Connecticut. The sale is expected to close in 2018.
- The Company's plans to open a store in Massachusetts were abandoned, and the Company is in the process of terminating its lease.

The results of the above disposal group have been classified as discontinued operations in the statement of earnings and related note disclosures based on management's determination that the operations in the lower 48 states constituted a major component of the Company's operations. The comparative consolidated statements of earnings and related note disclosures have been restated to remove the results of the discontinued operations from continuing operations.

For the components of the disposal group not sold prior to December 31, 2017, the remaining assets and liabilities have been presented as assets or liabilities held for sale in the statement of financial position as they continue to be marketed and are available for sale in their current condition. These transactions and their financial statement impact are further detailed below in note b) through d).

b) Results of discontinued operations

A reconciliation of the major classes of line items constituting net loss and comprehensive loss from discontinued operations, net of tax, as presented in the consolidated statements of (loss) earnings and comprehensive (loss) earnings is as follows:

	Note	2017 $	2016 $
Results of Discontinued Operations			
Sales		146,230	180,075
Cost of sales		113,368	138,710
Gross margin		**32,862**	**41,365**
Selling and distribution expenses		31,482	33,545
Administrative expenses		1,586	391
Restructuring charges		-	67
Operating profit before amortization		**(206)**	**7,362**
Amortization, property and equipment	7	2,326	2,202
Amortization, intangible assets	8	168	198
Operating (loss) profit		**(2,700)**	**4,962**
Finance costs		2,387	3,188
Fair value adjustments		310	1,483
Provision for impairment of goodwill, intangible assets and property and equipment	7, 8 & 9	5,775	14,698
Provision for impairment of property and equipment upon classification as assets held for sale	7	5,144	-
Loss before income taxes		**(16,316)**	**(14,407)**
Income tax expense (recovery)		5,694	(5,632)
Loss before (loss) gain on sale		**(22,010)**	**(8,775)**
Loss on sale of Birchfield (Note c)		(8,141)	-
Gain on sale of Kentucky (Note c)		1,967	-
Loss from discontinued operations		**(28,184)**	**(8,775)**
Other comprehensive income (loss)		1,906	322
Comprehensive loss		**(26,278)**	**(8,453)**

The net cash flows provided by (used in) the discontinued operations were as follows:

	2017 $	2016 $
Net cash (used in) provided by discontinued operations – operating activities	(1,481)	9,950
Net cash provided by (used in) discontinued operations – investing activities	26,297	(26,556)
Net cash (used in) provided by discontinued operations – financing activities	(21,569)	17,610
Total cash provided by discontinued operations	**3,247**	**1,004**

c) Discontinued operations

Sale of Kentucky

On November 17, 2017, the Company sold substantially all of the net assets in Kentucky consisting of its fifteen Kentucky liquor stores for cash proceeds of $30,573 (US$23,948), less cash disposed of $100 and transaction costs of $714, resulting in a gain on sale of $1,967.

The Company is also entitled to contingent consideration equal to the lesser of US$3,240 or 21% of sales exceeding US$239,000 over a three-year period for certain Kentucky stores that were sold. Based on the Company's estimates of future sales, the contingent consideration was determined to have a negligible fair value at the date of sale and December 31, 2017.

The Company recognized a gain on the sale within net loss from discontinued operations as follows:

	2017 **$**
Proceeds on disposal, net of cash on disposed and transaction costs	29,759
Reclassification of accumulated exchange differences from other comprehensive income	2,827
Net assets disposed	(30,619)
Income taxes	-
Gain on sale, net of tax	1,967

The assets and liabilities disposed were as follows:

	2017 **$**
Inventory	25,118
Other current assets	443
Property and equipment	8,702
Intangibles	4,812
Total assets	**39,075**
Accounts payable and accrued liabilities	8,456
Total liabilities	**8,456**
Total net assets	**30,619**

Sale of Birchfield

On November 30, 2017 the Company sold its 51% interest in Birchfield back to the non-controlling interest for cash proceeds of $3,866 (US$3,000), less cash disposed of $1,557 and transaction costs of $73. Additionally, the loan extended by the Company to Birchfield was required to be, and was subsequently repaid, on its maturity date of February 15, 2018.

The transaction has resulted in the cancellation of the Company's obligation to purchase the remaining 49% of Birchfield as early as January 1, 2019, which was valued at $12,815. The impact of cancellation of the put liability was recorded in the Deficit of the Company.

The Company recognized the following gain on the sale within net loss from discontinued operations:

	2017 **$**
Proceeds on disposal, net of cash disposed and transaction costs	2,236
Reclassification of accumulated exchange differences from other comprehensive income	1,384
Non-controlling interest derecognized	3,501
Extinguishment of purchase option	(305)
Net assets disposed	(14,957)
Income taxes	-
Loss on sale, net of tax	(8,141)

The assets and liabilities disposed were as follows:

	2017 **$**
Accounts receivable	716
Inventory	9,679
Prepaid expenses and deposits	269
Property and equipment	1,014
Intangible assets	7,012
Goodwill	8,712
Total assets	**27,402**
Accounts payable and accrued liabilities	6,850
Loan from parent	5,595
Total liabilities	**12,445**
Total net assets	**14,957**

d) Assets held for sale

In 2017, the Company entered into negotiations with a third party regarding the sale of its Norwalk, Connecticut store. Upon classification as assets held for sale, the assets were measured at the lower of their carrying value and fair value less cost to sell. Accordingly, the Company recorded an impairment loss of $5,144 on its property and equipment based on its estimated fair value (note 7). The fair value measurement of these assets held for sale have been categorized in Level 2 in the fair value hierarchy based on observable market inputs, specifically offers from third party buyers for the anticipated transaction. This transaction is expected to close in 2018.

	2017 **$**
Cash	109
Accounts receivable	9
Inventory	2,665
Prepaid expenses and deposits	77
Assets held for sale	**2,860**
Accounts payable and accrued liabilities	1,450
Liabilities directly associated with assets held for sale	**1,450**

e) Abandoned operation

Liquor Stores Massachusetts

In 2017, the Company abandoned its planned operations in Massachusetts and revised its estimated provision to $2,463 for the onerous lease (note 23) based on the negotiated settlement with the landlord which was finalized subsequent to year-end. The loss associated with the abandonment has been recognized as part of selling and distribution expenses of the discontinued operations.

6 Inventory

The cost of inventory recognized as an expense and included in cost of sales for the year ended December 31, 2017 was $456,993 (2016 - $472,075). Included in cost of sales are $462 (2016 – $289) 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

						December 31, 2017
	Buildings	**Leasehold improvements**	**Fixtures and equipment**	**Vehicles**	**Assets under finance lease**	**Total**
Cost	472	63,177	47,716	660	1,623	113,648
Accumulated depreciation and impairment losses	(175)	(39,351)	(23,502)	(518)	(568)	(64,114)
Net book value at December 31, 2017	**297**	**23,826**	**24,214**	**142**	**1,055**	**49,534**

						December 31, 2017
	Buildings	**Leasehold improvements**	**Fixtures and equipment**	**Vehicles**	**Assets under finance lease**	**Total**
Balance at January 1, 2017	311	33,332	28,943	226	862	63,674
Business dispositions	-	(3,942)	(5,747)	(10)	(17)	(9,716)
Net additions	-	8,475	8,931	52	595	18,053
Discontinued operations impairments	-	(6,342)	(1,286)	(9)	-	(7,637)
Discontinued operations depreciation	-	(859)	(1,446)	(13)	(8)	(2,326)
Depreciation	(14)	(6,111)	(4,575)	(98)	(368)	(11,166)
Foreign currency translation	-	(727)	(606)	(6)	(9)	(1,348)
Net book value at December 31, 2017	**297**	**23,826**	**24,214**	**142**	**1,055**	**49,534**

Included in property and equipment are fully amortized assets with a cost of $15,610 (2016 – $15,724) 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 $1,442 (2016– $254).

						December 31, 2016
	Buildings	**Leasehold improvements**	**Fixtures and equipment**	**Vehicles**	**Assets under finance lease**	**Total**
Cost	472	69,956	55,117	713	1,073	127,331
Accumulated depreciation and impairment losses	(161)	(36,624)	(26,174)	(487)	(211)	(63,657)
Net book value at December 31, 2016	**311**	**33,332**	**28,943**	**226**	**862**	**63,674**

							December 31, 2016
	Land	**Buildings**	**Leasehold improvements**	**Fixtures and equipment**	**Vehicles**	**Assets under finance lease**	**Total**
Balance at January 1, 2016	137	381	32,695	30,754	361	453	64,781
Business combination	-	-	1,176	1	-	-	1,177
Net additions	(59)	-	5,607	4,459	(58)	614	10,563
Discontinued operations depreciation	-	-	(983)	(1,193)	(16)	(10)	(2,202)
Depreciation[i]	(71)	(67)	(4,879)	(4,781)	(56)	(194)	(10,048)
Foreign currency translation	(7)	(3)	(284)	(297)	(5)	(1)	(597)
Net book value at December 31, 2016	**-**	**311**	**33,332**	**28,943**	**226**	**862**	**63,674**

i) Depreciation includes a loss on the sale of land.

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).

Impairments

Management noted an indication that an individual store within the USA South CGU grouping may have been impaired as at September 30, 2017. This was based on actual results in the year and decline in management's projections for the future financial performance of this location due to persistent poor financial performance of the location.

The Company completed an impairment test on the specific store location using a discounted cash flow methodology. The recoverable amounts were based on fair value less costs of disposal (FVLCD) using a discounted cash flow (DCF) methodology. The significant assumptions applied in the impairment test are described below:

- Cash flows: Estimated cash flows are based on budgeted 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. Management determined forecasted growth rates of sales based on past performance and its expectations of future performance for this location. Growth rates applied to expenditures in the forecast ranged from 1.5% to 2.0%.

- Discount rate: The WACC was estimated to be 11.2% and is based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, 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 2022 cash flows increased by a terminal growth rate of 2.0% and is based on the industry's expected growth rates, forecast inflation rates, and management's experience.

The Company recorded an impairment charge of $2,493 related to this individual store location in the year ended December 31, 2017 upon completion of the impairment test (included in US operating segment), which has now been included as part of the Company's discontinued operation as described in note 5.

Upon the Company classifying its Norwalk, Connecticut store as assets held for sale, an assessment was performed to test for impairment on the property and equipment of this location. Based on the offers received from third parties, it was determined that the FVLCD of the property and equipment was negligible and as such an impairment charge was recorded. The impairment charge of $5,144 has been recorded for the year ended December 31, 2017, as part of the Company's discontinued operations as described in note 5.

No impairments were recognized on the property and equipment during the year ended December 31, 2016.

8 Intangible assets

							December 31, 2017
	Favorable leases acquired	**Software**	**Non-competes**	**Retail liquor licenses**	**Trade names**	**Other**	**Total**
Cost	4,372	1,777	-	44,933	1,154	261	52,497
Accumulated amortization	(3,859)	(705)	-	-	-	(114)	(4,678)
Accumulated impairment losses	-	-	-	(12,243)	-	-	(12,243)
Net book value at December 31, 2017	**513**	**1,072**	**-**	**32,690**	**1,154**	**147**	**35,576**

							December 31, 2017
	Favorable leases acquired	**Software**	**Non-competes**	**Retail liquor licenses**	**Trade names**	**Other**	**Total**
Balance at January 1, 2017	850	130	748	43,265	1,525	172	46,690
Business disposition	(271)	-	(576)	(10,606)	(371)	-	(11,824)
Net additions	60	1,090	-	-	-	-	1,150
Net (impairments) reversals of previous impairments	-	-	-	1,616	-	-	1,616
Discontinued operations amortization	(1)	-	(167)	-	-	-	(168)
Amortization (i)	(109)	(148)	-	(281)	-	(25)	(563)
Foreign currency translation	(16)	-	(5)	(1,304)	-	-	(1,325)
Net book value at December 31, 2017	**513**	**1,072**	**-**	**32,690**	**1,154**	**147**	**35,576**

i) Amortization includes a loss on the disposal of license of $281.

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

								December 31, 2016
	Favorable leases acquired	**Software**	**Non-competes**	**Retail liquor licenses**	**Trade names**	**Software under develop-ment**	**Other**	**Total**
Balance at January 1, 2016	972	190	-	37,842	1,525	2,586	197	43,312
Business combination	-	-	971	6,986	-	-	-	7,957
Net additions	-	61	-	(4)	-	-	-	57
Net (impairments) reversals of previous impairments	-	-	-	1,131	-	(2,586)	-	(1,455)
Discontinued operations net (impairments) reversals of previous impairments	-	-	-	(1,911)	-	-	-	(1,911)
Discontinued operations amortization	(12)	(1)	(185)	-	-	-	-	(198)
Amortization	(100)	(120)	-	-	-	-	(25)	(245)
Foreign currency translation	(10)	-	(38)	(779)	-	-	-	(827)
Net book value at December 31, 2016	**850**	**130**	**748**	**43,265**	**1,525**	**-**	**172**	**46,690**

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).

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.

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 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 11.2% to 14.2%, 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 2022 cash flows increased by a terminal growth rate of 2.0% and is based on the industry's expected growth rates, forecast inflation rates and management's experience.

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

	2017	**2016**
Weighted average sales growth rates	2.0%	1.8% - 2.8%
Pre-tax royalty rates	1.0% - 5.0%	1.0% - 5.0%
Terminal growth rate	2.0%	2.1% - 2.4%
Discount rate	11.5% – 13.7%	11.2% - 13.2%

Impairment testing was conducted as at October 1, 2017.

Canadian operating segment

Impairments were recorded during the year in the amount of $1,392 (2016- $nil) related to four licenses in its Canadian operating segment where Management's forecasted sales and profitability decreased due to a reduction in continuing operating results. A reversal of previously recorded impairment charges was recorded during the year in the amount of $3,008 (2016 - $1,131) related to eleven licenses (2016 – five licenses) in its Canadian operating segment where Management's forecasted sales and profitability increased due to a sustained improvement in operating results. The carrying value of the licenses of the Canadian operating segment at December 31, 2017 was $22,597. In 2016, the Company incurred an impairment charge of $2,586 related to the derecognition of an asset previously recognized for SAP software under development.

U.S. operating segment

The Company completed its annual impairment tests during the fourth quarter and did not identify any impairment related to its U.S. operating segment licenses (2016 – $1,911) or reversals of previously recorded impairment charges. The carrying value of the licenses of the U.S. operating segment at December 31, 2017 was $10,093.

No impairments were recognized on the intangible assets with finite lives or the trade names during the years ended December 31, 2017 and 2016.

9 Goodwill

	December 31, 2017 $	December 31, 2016 $
Opening balance	158,318	158,987
Additions	-	13,076
Business dispositions	(8,917)	-
Impairment	(3,282)	(12,787)
Foreign currency translation	(600)	(958)
Closing balance	145,519	158,318

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 testing, the Company has grouped its CGUs by operating segment before aggregation, with the two CGU groupings being Canada 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 September 30, 2017 within the Birchfield CGU grouping. This was based on actual results in the year and decline in management's projections for the future financial performance of this goodwill CGU grouping due to a significant increase in competition and continued decline in financial performance that occurred during the third quarter of 2017. As such, the Company performed an impairment test on the goodwill allocated to the Birchfield CGU as at September 30, 2017 (and again at October 1, 2017 with no change in assumptions or results).

Goodwill has been allocated to the CGU groupings as follows:

	December 31, 2017 $	December 31, 2016 $
Canada(i)	145,519	145,725
Birchfield(ii)	-	12,593
Total	145,519	158,318

i) The carrying amount of the goodwill allocated to the Canada CGU grouping as at October 1, 2017 was $145,519 (October 1, 2016 - $145,725).

ii) Birchfield CGU grouping was $8,436 as at October 1, 2017 (October 1, 2016 – $12,304). Prior to the impairment charge recorded at September 30, 2017, the carrying value of the goodwill allocated to the Birchfield CGU grouping was $11,718. The Company's interest in Birchfield was disposed as of November 30, 2017.

b) Key assumptions used for fair value calculations:

	2017		2016	
	Canada $	Birchfield $	Canada $	Birchfield $
Weighted average sales growth rate	2.0%	0.0%	1.8%	2.0%
Terminal growth rate	2.0%	0.5%	2.1%	2.4%
Discount rate	10.7%	12.0%	10.0%	12.2%

Management determined forecasted gross margins based on past performance and its expectations for market trends. Growth rates applied to expenditures in the forecast ranged from 1.0% to 3.0%. The discount rates used reflect specific risks relating to the relevant CGU grouping.

The recoverable amounts were based on fair value less costs of disposal (FVLCD) using discounted cash flows (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 estimated based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, 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 2022 cash flows increased by a terminal growth rate of 0.5% (Birchfield) and 2.0% (Canada) and is based on the industry's expected growth rates, forecast inflation rates, and management's experience.

Canada CGU

The recoverable amount of the Canada CGU grouping exceeded its carrying value by $24.8 million at the midpoint of the valuation range. An increase in the discount rate to approximately 11.6% or a reduction to the weighted average sales growth rate to approximately 1.4% in the fair value calculation would reduce the recoverable amount of the Canada CGU grouping to its carrying value within this range.

Birchfield CGU

As at September 30, 2017, the Company recorded a $3,282 (2016 - $nil) impairment charge to the Birchfield CGU grouping (included in discontinued operations in note 5). The impairment test was performed again on October 1, 2017 with no change in assumptions or result. 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. Note that no further impairments were recorded to this CGU grouping, which was sold on November 30, 2017.

10 Long-term debt

Long-term debt comprises the following:

	Maturity date	2017 effective rate %	December 31, 2017 $	2016 effective rate %	December 31, 2016 $
Credit facility advance[(a)]	September 30, 2019	4.79	29,889	4.63	-
5.85% debentures[(b)]	Redeemed May 3, 2017	8.41	-	8.41	66,197
4.70% debentures[(b)]	January 31, 2022	6.89	74,235	6.89	73,430
Finance lease liability	November 27, 2019 to Jan 31, 2022	2.83 to 7.20	1,064	2.83 to 5.23	993
			105,188		140,620
Unamortized deferred financing costs:					
Credit facility[(a)]			(213)		(497)
Debentures[(b)]			(2,665)		(3,962)
			102,310		136,161
Less: Current portion of finance lease liability			(407)		(323)
			101,903		135,838

a) Credit facility advance

The Company has access to a $CAD 165 million extendible revolving credit facility and a $USD 15 million operating facility 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.

- 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, 2017, with the first tier providing the lowest rate of interest under the credit facility (2016 – first 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 1.50%. 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.

In 2016, financing fees of $592 were incurred to amend and restate the credit facility (2017 – nil). These fees were 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 expiring December 14, 2019 to fix the effective interest rate on a notional $60 million of principal debt with an interest rate equivalent to 1.23% plus the applicable credit spread determined with reference to the credit facility. At December 31, 2017, the estimated fair value of the interest rate swap was an $898 asset (2016 - $52 liability).

Fair value adjustments to the interest rate swap are included in fair value adjustments in the statements of earnings. A $950 gain was recognized in 2017 (2016 – $531 gain). 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 January 1, 2016	**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**
Interest accretion and amortization of transaction costs	472	1,406
Reduction in liability of debenture upon redemption	(65,973)	
Balance at December 31, 2017	**-**	**71,570**

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

In April 2012, Liquor Stores issued $67,500 of convertible unsecured subordinated debentures bearing interest at a rate of 5.85% per annum payable semi-annually in arrears on April 30 and October 31 of each year, with a maturity date of April 30, 2018 (“the 5.85% debentures”).

On May 3, 2017, Liquor Stores redeemed the entire $67,500 of the 5.85% debentures, prior to their maturity date, in accordance with the terms of the trust indenture governing the 5.85% debentures. Of the amount paid, $65,973 million was recorded as a reduction in the liability component of the 5.85% debentures, a non-cash loss on early redemption of $1,196 was recorded as finance costs, $331 was recorded as a decrease in the equity component of the debentures, and $2,997 was reclassified from the equity component of the debentures to contributed surplus.

The payment for the early redemption was allocated to the liability and equity components of the 5.85% debentures based on their relative fair values on the redemption date. The fair value of the liability component was estimated by discounting the remaining contractual cash flows of the 5.85% debentures at a discount rate comprised of a one year Bank of Canada bond yield plus an appropriate credit spread. The fair value of the equity component was estimated as the residual difference between the aggregate market value of the 5.85% debentures on the redemption date and the estimated fair value of the liability component.

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, was 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, was 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 Financing costs

Finance costs comprise the following:

	2017 $	2016 $
		(Restated, note 5)
Interest expense		
Long-term debt[i]	601	1,235
Convertible debentures[ii]	6,876	6,618
Loss on redemption of convertible debentures	1,196	-
	8,673	7,853

i) Included in interest expense on long-term debt was amortization of deferred financing costs of $284 (2016 - $407).

ii) Interest expense on the convertible debentures of $6,876 (2016 - $6,618) represents coupon interest of $4,997 (2016 – $4,883) and $1,879 (2016 – $1,735) 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	2017 $	2016 $
			(Restated, note 5)
Gain on interest rate swap	Level 2	(950)	(531)
Contingent consideration on sale of Kentucky	Level 3	-	-

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 value of the contingent consideration is calculated based on the net present value of the probability-weighted forecast of future sales of the Kentucky assets sold. Management determined that the current fair value of the contingent consideration was negligible based on projected future sales of the Kentucky assets.

13 Hedge of a net investment in foreign operation

The Company previously applied hedge accounting to foreign currency differences arising between the $USD functional currency of Birchfield and the $CAD functional currency of the Company. The Company had 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.

During the year, the Company disposed of its net investment in Birchfield and therefore discontinued hedge accounting for this item. At the time of disposal, exchange differences recorded in accumulated other comprehensive income of $1,850 were recognized as part of the loss on sale of Birchfield, and are included in the results of discontinued operations (note 5).

14 Dividends

	2017 $	2016 $
Dividends declared	9,990	13,238
Dividends paid		
Dividends paid in cash	7,622	13,315
Dividends paid in shares	697	1,563

Dividends were declared on December 15, 2017 in the quarterly amount of $0.09 per common share and were paid on January 15, 2018 to the holders of common shares as at the close of the record date of December 29, 2017.

15 Income tax

a) Income tax expense

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Company's deferred tax assets and liabilities have been remeasured using a tax rate of 21%. Deferred income tax expense of $3,518 has been included in deferred income tax expense from continuing operations for changes in tax rate.

b) Reconciliation of effective tax rate

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:

	2017 **$**	**2016** **$**
Earnings (loss) taxed at statutory rate of 26.87% (i) (2016 – 26.85%)	(4,770)	264
Increase (decrease) in income tax resulting from:		
Impact of difference between US and Canada tax rates	(3,571)	(1,900)
Non-deductible and non-taxable items	3,456	(1,082)
Impairment provision (reversal) not deductible (taxable) for tax purposes	(153)	(143)
Impact of change in substantively enacted tax rates	3,518	3
Change in valuation allowance	11,763	(74)
Adjustment to prior years' deferred tax estimates	471	793
Other	287	170
	11,001	(1,969)
Income tax expense (recovery):		
From continuing operations	5,307	3,663
From discontinued operations	5,694	(5,632)
Total	11,001	(1,969)

c) Deferred tax assets and liabilities

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, 2017 **$**	**December 31, 2016** **$**
Deferred tax assets	8,119	16,819
Deferred tax liabilities	(7,317)	(8,037)
Net deferred tax asset	802	8,782

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

	January 1, 2017 $	Charged to net loss from continuing operations $	Charged to net loss from discontinued operations $	Charged to equity attributable to shareholders $	Exchange differences $	December 31, 2017 $
Deferred tax assets						
Goodwill	3,489	(773)	(3,474)	-	(179)	(937)
Issue and financing costs	1,625	51	236	-	(77)	1,835
Deferred lease inducements	2,034	42	189	-	-	2,265
Inventory	375	(66)	(297)	-	(18)	(6)
Long-term incentive plans	1,207	(138)	(618)	-	(13)	438
Put and purchase options	592	(101)	(456)	-	(35)	-
Foreign exchange	73	(13)	(60)	-	-	-
Non-capital losses	15,883	(1,511)	(6,788)	-	(932)	6,652
	25,278	(2,509)	(11,268)	-	(1,254)	10,247
Deferred tax liabilities						
Intangible assets	2,515	131	587	-	45	3,278
Property and equipment	6,106	(867)	(3,896)	-	(299)	1,044
Partnership income	6,401	(396)	(1,778)	-	(15)	4,212
Convertible debentures	1,474	(103)	(460)	-	-	911
	16,496	(1,235)	(5,547)	-	(269)	9,445
	8,782	(1,274)	(5,721)	-	(985)	802

	January 1, 2016 $	Charged to net earnings from continuing operations $	Charged to net loss from discontinued operations $	Charged to equity attributable to shareholders $	Exchange differences $	December 31, 2016 $
Deferred tax assets						
Goodwill	336	(319)	3,412	-	60	3,489
Issue and financing costs	1,662	3	(30)	-	(10)	1,625
Deferred lease inducements	1,494	(56)	596	-	-	2,034
Inventory	220	(17)	182	-	(10)	375
Long-term incentive plans	748	(48)	517	-	(10)	1,207
Put and purchase options	-	(61)	650	-	3	592
Foreign exchange	-	(7)	80	-	-	73
Non-capital losses	14,898	(143)	1,531	-	(403)	15,883
	19,358	(648)	6,938	-	(370)	25,278
Deferred tax liabilities						
Intangible assets	2,504	-	(2)	-	13	2,515
Property and equipment	5,893	(35)	370	-	(122)	6,106
Partnership income	5,367	(106)	1,140	-	-	6,401
Convertible debentures	577	30	(321)	1,188	-	1,474
	14,341	(111)	1,187	1,188	(109)	16,496
	5,017	(537)	5,751	(1,188)	(261)	8,782

The above includes a net deferred tax asset recorded by a wholly-owned U.S. subsidiary of $8,053 (2016 – $16,647).

During the year, the Company determined that a write down of its deferred tax assets recognized for U.S. non-capital loss carryforwards was required, as it was no longer probable that sufficient taxable income would be available to allow part of the assets to be recovered due to its planned exit from the lower 48 states. In assessing the need for the write down of the deferred tax assets, the Company considered that recent and anticipated profitability were lower than previously planned. Deferred tax assets associated with its operations in Alaska were not impacted, as they do not comprise part of the discontinued operations of the Company.

Deferred income tax expense of $7,609 (2016 – nil) has been recorded in discontinuing operations for the write down of deferred tax assets recognized for U.S. non-capital losses. The accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjust the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies, and changes in tax laws.

The Company has recognized deferred tax assets related to non-capital losses of $24,193 (2016 – $41,711) available in Canadian and certain U.S. subsidiaries to offset income taxes of future years. If not utilized, the non-capital loss carry forwards will expire as follows:

	$
2028	79
2029	2,231
2030	3,383
2031	5,091
2032	4,611
2033	5,439
2034	2,946
2035	413
	24,193

The aggregate amount of non-capital losses for which no deferred income tax asset has been recognized is $32,208. The balance expires in varying annual amounts from 2028 – 2037.

The Company incurred U.S. capital losses of $16,103 in the year for which no deferred income tax asset has been recognized. These U.S. capital loss carryforwards will be carried forward for five years.

Deferred taxes are not recorded on $153 of intangible assets with impairment reversals that are not taxable.

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, 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
Balance – January 1, 2017	27,664,070	251,180
Shares issued under dividend reinvestment plan	72,841	697
Shares issued on settlement of equity based compensation awards	54,651	536
Balance – December 31, 2017	27,791,562	252,413

17 Earnings (loss) per share

	2017 $	2016 $ *(Restated, note 5)*
Net (loss) earnings attributable to continuing operations	(732)	11,573
Net loss attributable to discontinued operations	(29,795)	(10,918)
Net (loss) earnings attributable to common shareholders	(30,527)	655

	2017 \#	2016 \#
Weighted average number of common shares outstanding – Basic	27,744,741	27,594,903
Effect of dilutive securities		
Equity-settled one time grant performance share units	-	30,862
Equity-settled performance share units	-	44,295
Equity-settled restricted share units	-	81,003
Weighted average number of common shares outstanding – Diluted	27,744,741	27,751,063

Basic (loss) earnings per share	2017 $	2016 $
Continuing operations	(0.03)	0.42
Discontinued operations	(1.07)	(0.40)
Attributable to common shareholders	(1.10)	0.02

Diluted (loss) earnings per share	2017 $	2016 $
Continuing operations	(0.03)	0.42
Discontinued operations	(1.07)	(0.40)
Attributable to common shareholders	(1.10)	0.02

For the year ended December 31, 2017 and 2016, potential shares issuable in exchange for equity-settled performance share units have been excluded in the discontinued operations 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, 2017 and 2016.

18 Share-based payments

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

	Cash settled			Equity settled			
Year ended December 31, 2017	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 year	-	106,494	21,037	-	195,388	145,768	109,794
Granted and reinvested dividends	-	33,887	233	-	94,945	191,242	2,328
Settled / exercised	-	(80,047)	(21,270)	-	(61,346)	-	-
Forfeited / expired	-	-	-	-	(170,786)	(235,216)	(91,594)
Outstanding, end of year	-	60,334	-	-	58,201	101,794	20,528

	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 year	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	(6,750)	-	(7,758)	(48,750)	(21,957)	(24,966)	(25,868)
Outstanding, end of year	-	106,494	21,037	-	195,388	145,768	109,794

For the year-ended December 31, 2017, the company recognized compensation expense on equity settled plans of $1,321 (2016 - $1,434) and compensation expense on cash settled plans of $405 (2016 - $512) related to the Company's share-based award plans.

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 remained as at December 31, 2016 and no additional share options were granted.

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.

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 2016 and 2017:

	2017	**2016**
Expected life	3 year vesting period	3 year vesting period
Expected share price volatility of the Company	30.5%	30.1%
Expected share price volatility of comparable companies	12.6% - 171.6%	13.4% - 135.4%
Risk-free interest rate	0.86%	0.51%

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.

The awards vested fully on November 14, 2017, and 20,528 awards were exercisable at December 31, 2017. The date of settlement is at the employee's option but must occur within two years following the vesting date. To date, the Company has achieved the $15.00 minimum weighted share price target resulting in a 50% award multiplier, at a minimum, to be applied to these awards upon settlement. 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

	2017 $	2016 $
Professional fees[i]		
Recognized in operating and administrative expenses	-	50
Included in the initial carrying value of long-term debt	-	34
	-	84

[i] A director of the Company was a partner in a law firm to which the Company incurred professional fees for legal services in the prior year. The individual ceased to be a director of the Company on June 20, 2017.

b) Compensation of key management

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

	2017 $	2016 $
Salaries and short-term benefits	2,934	4,554
Share-based payments	1,747	1,913
Severance costs	5,063	445
	9,744	6,912

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

20 Selling and distribution expenses by nature

	2017 $	2016 $
		(Restated, note 5)
Wages and employee benefits	47,558	46,361
Lease, premises costs, and property tax	38,987	37,912
Advertising and promotion	8,706	5,861
Severance	121	65
Merchant processing fees	5,564	5,553
Utilities	4,669	4,248
Maintenance, janitorial, and operating supplies	3,895	3,619
Store closure costs	85	365
Other	6,721	6,263
Total selling and distribution expenses	116,306	110,247

21 Administrative expenses by nature

	2017 $	2016 $
		(Restated, note 5)
Wages and employee benefits	11,806	12,811
Severance costs	494	954
Share based payments	1,726	1,946
Information technology costs	1,597	1,180
Travel	1,050	947
Legal and accounting fees	1,724	1,116
Lease, premises costs, and property tax	222	736
Consulting	2,438	1,208
Other	550	1,160
Total administrative expenses	21,607	22,058

22 Supplementary disclosure of cash flow information

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

	2017 $	2016 $
Accounts receivable	(10,137)	5,708
Inventory	32,204	10,785
Prepaid expenses and deposits	1,365	878
Assets held for sale	(2,893)	-
Accounts payable and accrued liabilities	1,422	633
Income tax payable	1,001	399
Liabilities directly associated with assets held for sale	1,468	-
	24,430	18,403

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

	2017 $	2016 $
Interest paid	5,757	7,932
Income taxes paid (received)	3,258	(160)

b) Reconciliation of movements in liabilities to cash flows arising from financing activities:

	Credit facility advance $	**Finance lease liability $**	**Subordinated debentures $**
As at January 1, 2017	(497)	993	135,665
Changes from financing cash flows:			
Proceeds and acquisitions from borrowings	130,000	471	-
Redemptions, payments, or repayments	(115,818)	(439)	(67,500)
Change in revolving credit facility	16,816	-	-
Total (repayment of) proceeds from cash flows	30,998	32	(67,500)
Effect of changes in foreign exchange	(1,109)	(6)	-
Non-cash interest expense	284	45	1,879
Loss on redemption of 5.85% Debentures			1,196
Impact of redemption of 5.85% Debentures recorded in equity			331
As at December 31, 2017	29,676	1,064	71,571

23 Financial instruments

a) Financial instruments measured at fair value

Financial instruments recognized at fair value include the interest rate swap which is a level 2 measurement. There have been no transfers of instruments between levels in the hierarchy.

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 legs, determined using applicable yield curves at each measurement date.

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, 2017 and December 31, 2016 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 is $81,506 (2016 - $146,745) and was determined based on market trading values at the statement of financial position date.

Included in accrued liabilities is a $3,254 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. The addition of $4,351 to the provision for onerous contracts in 2017 related to an onerous lease in Massachusetts where the Company determined it would not open a retail location and therefore recorded a provision for the full present value of the lease liability. The Company was in the process of negotiating a full settlement of the lease liability with the landlord in exchange for a cash payment, which resulted in a reduction of the previously recorded provision to $2,463 to the estimated settlement amount. Subsequent to December 31, 2017, the Company finalized the settlement with the landlord and was able to terminate the onerous lease in exchange for a cash payment equivalent to the provision recorded at December 31, 2017.

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

	2017 **$**	**2016** **$**
Provisions, beginning of year	1,800	2,065
Additions	4,351	1,282
Payments	(549)	(1,116)
Accretion	125	-
Reversals	(2,158)	(414)
Foreign exchange	(315)	(17)
Provisions, end of year	3,254	1,800

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 U.S. 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.

	2017 **$**	**2016** **$**
Trade receivables	622	730
Lease inducement receivables	1,705	539
Income tax recoverable	500	253
Rebate and coupon receivables	972	1,358
Receivable on sale of Birchfield	4,429	-
Receivable on sale of Kentucky	9,510	-
Other receivables	1,430	304
	19,168	3,184

Substantially all of the Company's trade receivables are aged less than 60 days. An expense of $53 (2016 - $15) was recorded for bad debts or significant past due accounts. Management does not consider credit risk to be material to current operations.

The Company's lease inducement receivables pertain to current leases for which the lessor has agreed to provide remuneration to the Company for alterations at new or renovated store locations. Due to the nature of the relationship whereby the Company owes these same lessors monthly rent payments, Management does not consider the recoverability of these receivables to be a credit risk material to current operations.

The receivables related to business dispositions of Birchfield and Kentucky were both fully collected subsequent to December 31, 2017.

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 U.S. 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 U.S. intercompany management fees, interest charges, and dividends which totalled US$4,806 (2016 – US$3,680). 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 $481 (2016 - $368).

The Company also has exposure to foreign exchange risk through its U.S. 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 $112 (2016 - $1,207) related to its borrowings.

The Company has exposure to foreign exchange risk on its proceeds receivable of US$11,609 arising from the sale Birchfield and Kentucky which were outstanding at December 31, 2017. 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 $1,161 (2016 – nil). These receivables were fully settled subsequent to December 31, 2017.

Liquidity risk

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

	Current $	**Non-current** $
Accounts payable and accrued liabilities	47,639	-
Dividends payable to shareholders	2,501	-
Finance lease liability (up to January 31, 2022 maturity)	407	657
Credit facility advance (September 30, 2019 maturity)	-	29,889
4.70% convertible debenture (January 31, 2022 maturity)	-	77,625

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

	2017 $	2016 $
Trade payables	20,521	39,543
Wages payable	5,304	7,965
Accrued liabilities	9,764	8,835
Leasehold inducements	4,659	4,313
Indirect taxes payable	2,474	3,733
Provision for onerous contracts	3,254	1,800
Accrued interest	1,663	1,668
	47,639	67,857

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, 2017, the Company had $72,453 of undrawn capacity available under its existing credit facility which matures on September 30, 2019.

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, 2017 and 2016, the Company is in compliance with all covenants. There are no financial covenants attributable to the Company's convertible unsecured subordinated debenture due 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	29,510
Later than one year and not later than five years	86,940
Later than five years	40,132
	156,582

During 2017, the Company recorded $35,035 (2016 – $34,633) as an expense included in the statement of earnings with respect to minimum lease payments of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled $165 (2016 - $189). Current lease terms vary from monthly to twenty years and expire between 2018 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	446	697	-
Less: future finance charges	(39)	(40)	-
Present value of minimum lease payments	407	657	-

25 Operating segments

The Company has two reportable segments: Canadian Operations and U.S. Operations. Prior to the Company's exit from the lower 48 states, the discontinued operations detailed in note 5 were included in the U.S. Operating segment. Segmentation is based on differences in the regulatory environments of Canada and the U.S. and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. The Canada and U.S. segments operate retail liquor stores in their respective jurisdictions. The comparative figures have been restated to remove the discontinued operations from the results from continuing operations.

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 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 from continuing operations, an earnings measure used in the Company's consolidated statement of earnings, 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 from continuing operations 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.

				December 31, 2017
	Canadian Operations $	U.S. Operations $	Corporate and Other Reconciling Items $	Consolidated $
Sales to external customers	520,473	100,888	-	621,361
Operating profit before amortization	45,081	2,523	(26,358)	21,246
Property and equipment amortization				11,166
Intangible asset amortization				563
Gain on sale of liquor store				(1,406)
Finance costs				8,673
Net loss on foreign exchange from financing activities				78
Fair value adjustments				(950)
Reversal of impairment of goodwill and intangible assets (note 8 & 9)				(1,616)
Earnings before income taxes from continuing operations				4,738
Other information				
Expenditures for additions to				
Property and equipment[(i)]	16,100	1,887	-	17,987
Intangible assets[(i)]	1,150	-	-	1,150
Total assets at December 31, 2017[(i)]	299,083	57,319	-	356,402

[(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.

				December 31, 2016
	Canadian Operations $	U.S. Operations $	Corporate and Other Reconciling Items $	Consolidated $
				(Restated, note 5)
Sales to external customers	531,694	105,904	-	637,598
Operating profit before amortization	50,799	4,188	(21,983)	33,004
Property and equipment amortization				10,048
Intangible asset amortization				245
Finance costs				7,853
Net gain on foreign exchange from financing activities				(1,457)
Fair value adjustments				(531)
Provision for impairment of goodwill and intangible assets (note 8 & 9)				1,455
Earnings before income taxes from continuing operations				15,391
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

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

26 Other income

In 2016, a claim was submitted under the Company's insurance policies for business income interruption and property damage resulting from smoke damage to the Company's stores that occurred as a result of the Fort McMurray forest fire. An insurance recovery of $704 was recognized in 2016 within other income in the statement of earnings. The claim was settled and fully received in 2017.

27 Sale of liquor store

On September 28, 2017, the Company completed a transaction with a third party whereby the Company sold store fixtures, a wine-only liquor license and net working capital for a store location in British Columbia for net proceeds of $2,309. The Company has recorded a gain on sale of $1,406 in the statement of earnings.

28 Restructuring charges

In 2017, the Company announced and acted on its formal plan approved by the Board of Directors to close the Company's U.S. head office in Kentucky and terminate its U.S. based executives and management. The plan was fully carried out in the year, and restructuring charges of $4,747 (2016 - $629 of cost incurred to reduce ongoing administrative headcount and costs) were incurred related to severance paid to the former employees.

29 Subsequent events

On February 14, 2018, Liquor Stores' issued 6,900,000 common shares through a private placement to Aurora Cannabis ("Aurora") at a price of $15.00 per share for total gross proceeds of $103,500. As a result, Aurora owns approximately 19.9% of the Company's issued and outstanding common shares.

In addition, Aurora has subscribed for 2,300,000 subscription receipts at a price of $15.00 per subscription receipt for aggregate gross proceeds of $34,500. The subscription receipts are contingent on approval from the Company's shareholders (other than Aurora, its associates, and affiliates) at the next annual general meeting and the satisfaction of other escrow release conditions. If the subscription receipts are approved and the release conditions are met, it will increase Aurora's ownership to approximately 25% of the Company's issued and outstanding shares.

The Company has also issued to Aurora, two classes of share purchase warrants:

- 10,130,000 warrants at an exercise price of $15.75 per common share to allow Aurora to increase its equity interest in the Company to approximately 40%; and
- Up to 1,750,000 warrants exercisable by Aurora at an exercise price of $15.00 contingent upon the conversion of any of the outstanding 4.70% convertible unsecured subordinated debentures of the Company, to allow Aurora to maintain its pro rata equity interest in the Company.

The above warrants are issued conditional upon the approval of the Company's shareholders (other than Aurora, its associates, and affiliates) at the next annual general meeting and subject to other customary closing conditions and approvals.

Pursuant to the related Shareholder Rights Agreement and subject to applicable law, the Company has committed to use a portion of the net proceeds from Aurora and commercially reasonable efforts to open 30 retail cannabis stores in Alberta and 10 retail cannabis stores in British Columbia either through the conversion of existing retail liquor outlets or the acquisition of new stores.