Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

September 30, 2013

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Rocky Mountain Liquor Inc. (the "Company") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Financial Position

(unaudited)

	Sep 30, 2013	Dec 31 2012
ASSETS		
CURRENT		
Cash and cash equivalents	**763,938**	1,123,049
Accounts receivable	**416,936**	287,273
Inventory	**8,123,084**	7,014,417
Prepaid expenses and deposits	**272,245**	263,985
Goods and services tax receivable	**10,685**	-
Income taxes recoverable	**-**	132,106
	9,586,888	8,820,830
PROPERTY AND EQUIPMENT	**4,590,887**	4,037,717
GOODWILL (Note 6)	**11,205,368**	10,828,805
DEFERRED TAX ASSETS	**60,241**	60,241
	25,443,384	23,747,593
LIABILITIES		
CURRENT		
Bank indebtedness	**449,932**	-
Accounts payable and accrued liabilities	**1,279,579**	726,629
Interest rate swap liability (Note 4)	**155,413**	213,359
Current portion of long term debt (Note 7)	**-**	205,356
Current portion of promissory notes (Note 8)	**86,974**	200,000
Current portion of convertible debt (Note 9)	**785,594**	-
Income taxes payable	**14,835**	-
Goods and services tax payable	**-**	46,343
	2,772,327	1,391,687
LONG TERM DEBT (Note 7)	**6,276,458**	5,544,644
PROMISSORY NOTES (Note 8)	**-**	83,986
CONVERTIBLE DEBT (Note 9)	**8,803,414**	9,388,065
	17,852,199	16,408,382
SHAREHOLDERS' EQUITY		
Equity component of convertible debenture (Note 9)	**325,633**	325,633
Share capital (Note 11)	**4,774,481**	4,774,481
Warrants (Note 12)	**210,007**	210,007
Contributed surplus (Note 13)	**537,903**	537,903
Retained earnings	**1,743,161**	1,491,187
	7,591,185	7,339,211
	25,443,384	23,747,593

Approved on behalf of the board:

Frank Coleman
Chair, Board of Directors

Robert Normandeau
Chair, Audit Committee

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Dec 31, 2011	325,633	4,774,481	210,007	549,727	1,299,153	7,159,001
Net comprehensive income for the period	-	-	-	-	192,034	192,034
Share-based payments (Note 14)	-	-	-	(11,824)	-	(11,824)
Balance at Dec 31, 2012	325,633	4,774,481	210,007	537,903	1,491,187	7,339,211
Net comprehensive income for the period	-	-	-	-	251,974	251,974
Balance at Sep 30, 2013	325,633	4,774,481	210,007	537,903	1,743,161	7,591,185

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Comprehensive Income

(unaudited)

	3 months ended Sep 30, 2013	9 months ended Sep 30, 2013	3 months ended Sep 30, 2012	9 months ended Sep 30, 2012
SALES	**15,453,592**	**41,152,034**	15,514,737	40,768,717
COST OF SALES	**11,720,498**	**31,395,630**	12,003,320	31,388,502
	3,733,094	**9,756,404**	3,511,417	9,380,215
OPERATING AND ADMINISTRATIVE EXPENSES	**2,712,305**	**7,747,267**	2,452,161	6,889,483
INCOME FROM OPERATIONS	**1,020,789**	**2,009,137**	1,059,256	2,490,732
OTHER EXPENSES (INCOME)				
Finance costs (Note 10)	**367,099**	**1,046,053**	343,100	980,289
Depreciation	**209,620**	**590,694**	288,148	676,044
Business development costs	**20,557**	**32,472**	11,523	24,604
Other income	**(2,700)**	**(8,100)**	(2,700)	(5,656)
Loss (gain) on disposal of property and equipment	**-**	**3,905**	-	(2,522)
Store closure expenses	**-**	**3,357**	4,314	4,314
	594,576	**1,668,381**	644,385	1,677,073
INCOME BEFORE TAX	**426,213**	**340,756**	414,871	813,659
INCOME TAXES	**111,000**	**88,782**	107,866	210,741
NET COMPREHENSIVE INCOME	**315,213**	**251,974**	307,005	602,918
Basic income per share	**0.01**	**0.00**	0.01	0.01
Diluted income per share	**0.01**	**0.01**	0.01	0.01
Weighted average number of shares - basic	**57,797,788**	**57,797,788**	57,797,788	57,797,788
Weighted average number of shares - diluted	**57,797,788**	**57,797,788**	57,833,627	57,883,401

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Cash Flows

(unaudited)

	3 Months Ended Sep 30, 2013	**9 Months Ended Sep 30, 2013**	3 Months Ended Sep 30, 2012	9 Months Ended Sep 30, 2012
OPERATING ACTIVITIES				
Net comprehensive income	**315,213**	**251,974**	307,005	602,918
Items not affecting cash				
Unrealized gain on interest rate swap (Note 4)	**(10,408)**	**(57,946)**	(25,393)	(83,316)
Net accretive interest (Notes 8 and 9)	**28,507**	**81,944**	32,333	93,845
Amortization of convertible debenture costs (Note 9)	**40,813**	**121,987**	40,812	122,435
Depreciation of property and equipment	**209,620**	**590,694**	288,148	676,044
Loss (gain) on disposal of property and equipment	**-**	**3,905**	-	(2,522)
Deferred tax recovery (expense)	**-**	**-**	(64,034)	15,170
Stock based compensation (Note 14)	**-**	**-**	(1,812)	(11,824)
	583,745	**992,558**	577,059	1,412,750
Changes in non-cash working capital (Note 17)	**(33,663)**	**(431,058)**	1,746,612	823,963
Cash flow from operating activities	**550,082**	**561,500**	2,323,671	2,236,713
INVESTING ACTIVITIES				
Purchase of property and equipment	**(415,415)**	**(1,023,679)**	(173,004)	(364,067)
Business acquisitions net of cash acquired (Note 3)	**(173,322)**	**(673,322)**	(1,505,638)	(2,163,152)
Cash flow used in investing activities	**(588,737)**	**(1,697,001)**	(1,678,642)	(2,527,219)
FINANCING ACTIVITIES				
Proceeds from long term financing (Note 7)	**-**	**526,458**	1,250,000	1,250,000
Proceeds from short term financing (Note 7)	**(389,953)**	**449,932**	-	-
Repayment of promissory note (Note 8)	**(100,000)**	**(200,000)**	(100,000)	(200,000)
Repayment of long term debt	**-**	**-**	-	(976)
Repayment of short term financing	**-**	**-**	(1,276,577)	(39,426)
Cash flow (used in) from financing activities	**(489,953)**	**776,390**	(126,577)	1,009,598
(DECREASE) INCREASE IN CASH	**(528,608)**	**(359,111)**	518,452	719,092
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**1,292,546**	**1,123,049**	1,201,551	1,000,911
CASH AND CASH EQUIVALENTS - END OF PERIOD	**763,938**	**763,938**	1,720,003	1,720,003
CASH FLOWS SUPPLEMENTARY INFORMATION				
Interest paid	**195,395**	**705,793**	218,284	667,824
Income taxes paid	**-**	**74,000**	66,000	104,000

1. NATURE OF OPERATIONS

Rocky Mountain Liquor Inc. (“Rocky Mountain Liquor” or “RML”) is incorporated under the Business Corporations Act (Canada), and is a tier one issuer with its common shares listed on the TSX Venture Exchange (under the initials “RUM”). The Company’s registered corporate office is located at 11478-149 Street, Edmonton, Alberta, T5M 1W7.

Rocky Mountain Liquor is the parent to wholly owned subsidiary, Andersons Liquor Inc. (“Andersons”), acquired through a Reverse Takeover (“RTO”) on Dec 1, 2008.

As at Sep 30, 2013 Andersons operated 46 retail liquor stores in Alberta, selling beer, wine, spirits, ready to drink products, as well as ancillary items such as juice, ice, soft drinks and giftware as well as one convenience store.

These interim consolidated financial statements have been approved for issue by the Board of Directors on Nov 26, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). They have been prepared using the accounting policies that were described in Note 2 to the Company’s annual consolidated financial statements for the year ended December 31, 2012, except as described below. These condensed consolidated financial statements should be read in conjunction with the Company’s 2012 annual consolidated financial statements.

The preparation of these interim consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2012.

The Company’s operations are seasonal in nature, and results for any quarter are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Company historically experiences a higher level of sales in the third and fourth quarters, while the first and second quarters experience lower sales due to shopping patterns. Occupancy related expenses; certain general and administrative expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Certain comparative figures have been changed to conform to the current years’ presentation.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards adopted in the period

Consolidated Financial Statements
The IASB has issued a new standard, IFRS 10, “Consolidated Financial Statements” (“IFRS 10”), which defines control for the purposes of determining which arrangements should be consolidated, including guidance on participating rights. The adoption of the policy did not result in any changes to consolidation of the Company’s subsidiary.

Fair Value Measurement
The IASB has issued a new standard, IFRS 13, “Fair Value Measurement” (“IFRS 13”), which sets out a single IFRS framework for measuring fair value, and establishes disclosure requirements for fair value measurements. This standard was adopted prospectively and did not require any measurement adjustments or adjustments to the valuation techniques employed by the Company to measure fair value.

Accounting standards issued but not effective

New standards have been issued but are not yet effective for the period ending Sep 30, 2013, and accordingly, have not been applied in preparing these interim consolidated financial statements.

Financial Instruments
The IASB has issued a new standard, IFRS 9, “Financial Instruments” (“IFRS 9”), which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2015. The Company does not believe this will have a significant impact on disclosure.

3. BUSINESS ACQUISITIONS

The Company acquired three liquor stores for the nine month period ending Sep 30, 2013 (Sep 2012 – four liquor stores) and one in the three month period ending Sep 30, 2013 (Sep 2012 – two liquor stores). The results of the asset acquisitions are included in the results of the Company from the acquisition date for comparable periods.

Goodwill arose in the acquisitions as the consideration paid for the companies effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those companies. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Acquisition costs of $15,369 for the nine month period ending Sep 30, 2013, (Sep 2012 - $12,323) and $432 for the three month period ending Sep 30, 2013 (Sep 2012 - $4,884) have been excluded from the consideration transferred as they relate to legal and acquisition costs, and have been recognized as an expense in the period in the “operating and administrative expenses” and “business development costs” lines in the interim consolidated Statement of Comprehensive Income.

(continues)

3. BUSINESS ACQUISITIONS (continued)

The purchase price was allocated to the assets acquired as follows:

	3 Months Ended Sep 30, 2013	**9 Months Ended Sep 30, 2013**	3 Months Ended Sep 30, 2012	9 Months Ended Sep 30, 2012
Cash & cash equivalents	**$ 200**	**$ 200**	$ 800	$ 2,900
Inventories	**116,322**	**172,669**	256,438	691,052
Property and equipment	**57,000**	**124,090**	210,875	337,135
Goodwill	**-**	**376,563**	1,038,325	1,134,965
Fair value of net assets acquired	**$ 173,522**	**$ 673,522**	$ 1,506,438	$ 2,166,052
Total cash consideration paid	**$ 148,322**	**$ 648,322**	$ 1,506,438	$ 2,166,052
Gain on purchase of property and equipment	**25,200**	**25,200**	-	-
	$ 173,522	**$ 673,522**	$ 1,506,438	$ 2,166,052

4. INTEREST RATE SWAP

Mark to market value Dec 31, 2011	$	(324,448)
Unrealized gain		111,089
Mark to market value Dec 31, 2012		(213,359)
Unrealized gain		57,946
Mark to market value Sep 30, 2013	**$**	**(155,413)**

The Company entered into a five year Interest Rate Swap Agreement on Apr 6, 2010 expiring Apr 5, 2015 with a Canadian chartered bank ("SWAP Counterparty") to mitigate the interest rate risk associated with the bank indebtedness and long term debt. The notional amount of the SWAP is equal to $4,500,000 of the outstanding principal balance on the bank indebtedness and long term debt.

The Company is obligated to pay the Swap Counterparty an amount based upon a 3.35% interest rate plus spread. The Swap Counterparty is obligated to pay the floating interest rate. The Company will continue to pay the credit spread over Bankers Acceptances on its loans as set by the lending institution.

Fair value of the SWAP was determined using estimated future discounted cash flows using a comparable current market rate of interest. The change in fair value has been accounted for on the interim consolidated Statement of Comprehensive Income, on the Statement of Financial Position, and in Note 10.

5. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

The Company paid rents of $1,620 (Sep 2012 - $14,580) for the nine month period ending Sep 30, 2013 and $nil for the three month period ending Sep 30, 2013 (Sep 2012 - $4,860), in respect of a retail liquor store, to Byrne Alberta Ltd, a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market value.

(continues)

5. RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Compensation

The remuneration of Directors and other members of key management personnel during the period is as follows:

	3 Months Ended Sep 30, 2013	**9 Months Ended Sep 30, 2013**	3 Months Ended Sep 30, 2012	9 Months Ended Sep 30, 2012
Wages and salaries	**$ 130,167**	**$ 432,167**	$ 103,458	$ 292,583
Share based payments	**-**	**2,307**	(437)	(8,077)
Total	**$ 130,167**	**$ 434,474**	$ 103,021	$ 284,506

There is no other short-term, long-term, termination or post-retirement benefits extended to any directors and other members of key management personnel of RML.

6. GOODWILL

Balance Dec 31, 2011	$ 9,693,841
Goodwill acquired	1,134,964
Balance Dec 31, 2012	$ 10,828,805
Goodwill acquired	376,563
Balance Sep 30, 2013	**$ 11,205,368**

Goodwill is comprised of the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those stores. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. An impairment review was performed at Dec 31, 2012. No indications of impairment existed at that date.

7. BANK INDEBTEDNESS AND LONG TERM DEBT

Through its credit agreement with TD Canada Trust, the Company has an available $5,000,000 swingline facility due upon demand, bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. Secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. For the period ending Sep 30, 2013, there was $449,932 in bank indebtedness (Dec 2012 - $nil).

The Company has an available overdraft limit of $50,000 with Beaumont Credit Union which bears interest at prime plus 1%, per annum and is secured by a guarantee and postponement from Peter and Joan Byrne. It was not drawn at Sep 30, 2013 (Dec 2012 – nil).

(continues)

7. BANK INDEBTEDNESS AND LONG TERM DEBT (continued)

		Sep 30, 2013		Dec 31, 2012
TD Canada Trust loan bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. The loan matures Jul 7, 2014 and is secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. If this loan is not extended before the maturity date, the outstanding balance will be due over the ensuing two year period by quarterly principal payments in the amount of 3.57% of the outstanding amount with the balance payable on Jul 7, 2016.	**$**	**6,276,458**	$	5,750,000
Amounts payable within one year		**-**		205,356
	$	**6,276,458**	**$**	**5,544,644**

Principal repayment terms are approximately:

2013	$	-
2014		224,159
2015		6,052,299
	$	**6,276,458**

8. PROMISSORY NOTES

As a result of store acquisitions in 2010 and 2011, two unsecured non-interest bearing promissory notes for $300,000 each were issued in lieu of cash payment. The note issued in 2010 matured Sep 1, 2013. The note issued in 2011 matures Feb 9, 2014 with a final payment of $100,000.

The notes were initially recorded on the balance sheet at the present value of the required installment payments discounted at a rate approximating the interest rate that would have been applicable at the time the note was issued. The notes are subsequently accreted to the principal amount as additional interest over the term of the note. Net accretive interest is $2,988 for the nine month period ending Sep 30, 2013, (Sep 2012 - $24,668) and $963 for the three month period ending Sep 30, 2013, (Sep 2012 - $8,223).

9. CONVERTIBLE DEBENTURES

In 2009 the Company issued an $809,140 unsecured convertible debenture, (“Debenture A”) due on Mar 16, 2014. Debenture A is interest bearing at 8.25% per annum, and the Company has the option to pay interest monthly at 0.6438% per month. Debenture A is convertible to common shares of the Company at a conversion price of $0.315 per common share.

Debenture A was initially recorded on the balance sheet as a debt of $556,108, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Debenture A will be accreted to the principal amount as additional interest over the term of the loan. The difference of $253,032 between the face amount and the estimated fair value of the debt component, less related issue costs of $202, less adjustment for future income taxes is reflected as the equity component of the Debenture A.

(continues)

9. CONVERTIBLE DEBENTURE (continued)

Interest expense for Debenture A is calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Sep 30, 2013 in the amount of $97,844 (Sep 2012 - $90,153), which represents the accretive interest from Dec 31, 2012.

The carrying value of Debenture A is being increased such that the liability at maturity will be equal to the face value of $809,140.

Debt Component

Dec 31, 2011	$	676,177
Accretive interest		120,967
Coupon interest *		(62,511)
Dec 31, 2012	$	734,633
Accretive interest		97,844
Coupon interest *		(46,883)
Sep 30, 2013	$	785,594

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

Equity Component

Balance Dec 31, 2011, Dec 31, 2012 and Sep 30, 2013	$	189,622

In 2011 the Company issued a $9,200,000 unsecured convertible debenture (“Debenture B”) due on Apr 30, 2016. Debenture B is interest bearing at 7.75% payable semi-annually. Debenture B is convertible to common shares of the Company at a conversion price of $0.500 per common share.

Debenture B was initially recorded on the balance sheet as a debt of $9,004,684, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Debenture issue costs relating to the debt portion of the debenture of $690,211 are being amortized over the term of the debenture. Debenture B will be accreted to the principal amount as additional interest over the term of the loan. The difference of $195,316 between the face amount and the estimated fair value of the debt component, less related issue costs of $13,968, less adjustment for future income taxes of $45,337 reflected in the equity component of Debenture B.

The carrying value of debenture B is being increased such that the liability at maturity will be equal to the face value of $9,200,000.

Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Sep 30, 2013 in the amount of $562,745 (Sep 2012 - $560,657), which represents the accretive interest from Dec 31, 2012.

(continues)

9. CONVERTIBLE DEBENTURE (continued)

Debt Component

Dec 31, 2011	$	8,454,964
Accretive interest		747,831
Coupon interest *		(713,000)
Amortization of issue costs		163,637
Dec 31, 2012	$	8,653,432
Accretive interest		562,745
Coupon interest *		(534,750)
Amortization of issue costs		121,987
Sep 30, 2013	$	8,803,414

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

Equity Component

Balance Dec 31, 2011, Dec 31, 2012 and Sep 30, 2013	$	136,011

10. FINANCE COSTS

	3 Months Ended Sep 30, 2013	**9 Months Ended Sep 30, 2013**	3 Months Ended Sep 30, 2012	9 Months Ended Sep 30, 2012
Interest expense	**$ 361,894**	**$ 1,007,212**	$ 327,681	$ 941,710
Gain on purchase of property and equipment (Note 3)	**(25,200)**	**(25,200)**	-	-
Change in fair value of interest rate swap (Note 4)	**(10,408)**	**(57,946)**	(25,393)	(83,316)
Convertible debenture issue costs (Note 9)	**40,813**	**121,987**	40,812	122,435
	$ 367,099	**$ 1,046,053**	$ 343,100	$ 980,829

11. SHARE CAPITAL

Authorized - Unlimited common shares

	Number	Amount
Balance at Dec 31, 2011, Dec 31, 2012 and Sep 30, 2013	57,797,788	$ 4,774,481

12. WARRANTS

	# of warrants	Exercise price	Estimated fair value of warrants
Outstanding Dec 31, 2011, Dec 2012 and Sep 30, 2013	1,000,000	$ 0.3765	$ 210,007

The 1,000,000 warrants outstanding at Dec 31, 2012 are the warrants issued to Roynat Capital as a result of a financing agreement. The warrants are convertible to common shares of the Company at a conversion price of $0.3765 per common share and expire Nov 24, 2014.

The weighted-average fair value of the 1,000,000 warrants granted in 2010 has been estimated at $0.3088 per warrant using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used for the warrants granted:

Risk-free interest rate	1.25%
Estimated volatility	137.8%
Expected life	4 years
Expected dividend yield	NIL

13. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

		Amount
Balance at Dec 31, 2011	$	549,727
Stock-based compensation expense (Note 14)		(11,824)
Balance at Dec 31, 2012	$	537,903
Stock-based compensation expense (Note 14)		-
Balance at Sep 30, 2013	$	537,903

14. STOCK OPTION PLANS

(a) Stock option plan (“Option Plan”)

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

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

(continues)

14. STOCK OPTION PLANS (continued)

Pre-RTO options

As at Dec 31, 2008, an aggregate of 1,250,000 options were issued under the Option Plan, representing 10% of the outstanding common shares at Initial Public Offering ("IPO"), or approximately 2.5% of the current issued and outstanding shares. Options may only be granted to directors, officers, employees, insiders and other specified service providers, subject to the discretion of the Board of Directors. All of these options were vested as a result of the qualifying transaction, and as such the fair value of these options was not recognized as contributed surplus. These options expired Apr 15, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011, Dec 31, 2012	357,137	$ 0.200	$ 31,071
Expired Apr 15, 2013	(357,137)	(0.200)	(31,071)
Outstanding Sep 30, 2013	-	$ -	$ -

Executive/Management Options

An aggregate of 630,000 incentive options were issued under the Option Plan, representing 1.2% of the outstanding common shares, with none outstanding at Sep 30, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011	330,000	$ 0.405	$ 102,783
Expired May 15, 2012	(150,000)	0.290	(30,225)
Outstanding Dec 31, 2012	180,000	$ 0.500	$ 72,558
Expired Jun 2, 2013	(180,000)	$ (0.500)	$ (72,558)
Outstanding Sep 30, 2013	-	$ -	$ -

Stock-based compensation expense was $nil for the nine period ending Sep 30, 2013 (Sep 2012 - $21,604, a reversal in expense from forefeited options) and $nil for the three month period ending Sep 30, 2013 (Sep 2012 - $nil). Unrecognized compensation expense relating to unvested items is $nil at Sep 30, 2013 (Sep 2012 – $nil).

Directors Options

750,000 options were issued to directors under the Option Plan, representing 1.3% of the outstanding common shares, with 150,000 outstanding at Sep 30, 2013, expiring Oct 12, 2014.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011	750,000	$ 0.288	$ 192,138
Expired Jun 29, 2012	(300,000)	0.320	(67,908)
Outstanding Dec 31, 2012	450,000	$ 0.288	$ 124,230
Expired Aug 24, 2013	(300,000)	0.390	(95,250)
Outstanding Sep 30, 2013	150,000	$ 0.219	$ 28,980

The outstanding options have an exercise price of $0.18 in year 1, $0.19 in year 2, and $0.22 in year 3.

(continues)

14. STOCK OPTION PLANS (continued)

All options granted are vested as at Sep 30, 2013.

Stock-based compensation expense of $nil was recognized for the nine month period ending Sep 30, 2013 (Sep 2012 - $9,780) and $nil for the three month period ending Sep 30, 2013 (Sep 2012 - $1,812, a reversal in expense from forefeited options). Unrecognized compensation expense relating to unvested items is $nil at Sep 30, 2013 (Sep 2012 – $nil).

The fair value of the 150,000 options granted Oct 13, 2011 has been estimated at $0.1932 per option using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used:

Risk-free interest rate	1.00%
Estimated volatility	174.4%
Expected life	3 years
Expected dividend yield	NIL

SUMMARY

A summary of the status of the Company's stock options as of Sep 30, 2013 is as follows:

	Number of stock options		Weighted-average exercise price
Outstanding, Dec 31, 2011	1,437,137	$	0.319
Expired in 2012	(450,000)		0.310
Outstanding, Dec 31, 2012	987,137	$	0.299
Expired Apr 15, 2013	(357,137)		0.200
Expired Jun 2, 2013	(180,000)		0.500
Expired Aug 24, 2013	(300,000)		0.390
Outstanding Sep 30, 2013	150,000	$	0.219

Of the options outstanding Sep 30, 2013, all were vested (Sep 2012 – 987,137).

Additional information about the Company's share options outstanding as at Sep 30, 2013 is as follows:

	Number of Options	Range of Weighted Average Exercise Price	Range of Exercise Price	Weighted Average Contractual Life Remaining
Directors Options	150,000	$0.180 - $0.22	$0.180 - $0.22	1.04

15. EMPLOYEE BENEFITS

In accordance with the terms of the Employee Share Savings Plan established Jan 1, 2011, approved by shareholders at a previous annual general meeting, employees with more than six months service with the Company are able to have the Company match one half of an employee's purchase of the Company's shares, up to a maximum of 10% of the employee's annual income. Shares are purchased on the Toronto Stock Exchange at market price. Shares purchased by the Company are restricted from being sold for one year from purchase. These shares are valued at fair value on date of purchase. No compensation expense in excess of Company cash contributions is recognized under this plan. $13,907 was paid by the Company to the plan for the nine month period ending Sep 30, 2013 (Sep 2012 - $16,030), and $3,434 for the three months ending Sep 30, 2013 (Sep 2012 - $5,401). Expected forfeiture rate is 10%.

16. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the three month period ending Sep 30, 2013 was based on interim consolidated net comprehensive income of $315,213 (Sep 2012 – $307,005) and a weighted average number of shares outstanding of 57,797,788 (Sep 2012 – 57,797,788). For the nine month period ending Sep 30, 2013 was based on interim consolidated net comprehensive income of $251,974 (Sep 2012 – $602,918) and a weighted average number of shares outstanding of 57,797,788 (Sep 2012 – 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the three month period ending Sep 30, 2013 was based on interim consolidated net comprehensive income of $315,213 (Sep 2012 – $307,005) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,797,788 (Sep 2012 – 57,833,627). For the nine month period ending Sep 30, 2013 was based on interim consolidated net comprehensive income of $251,974 (Sep 2012 – $602,918) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,797,788 (Sep 2012 – 57,883,401).

17. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	3 Months Ended Sep 30, 2013	**9 Months Ended Sep 30, 2013**	3 Months Ended Sep 30, 2012	9 Months Ended Sep 30, 2012
Cash (used in) provided by				
Accounts receivable	**$ 93,900**	**$ (129,663)**	$ 293,056	$ (107,982)
Income tax recoverable	**110,999**	**146,941**	133,706	204,354
Inventory	**(767,800)**	**(935,999)**	976,599	807,678
Prepaid expense and deposits	**54,057**	**(8,260)**	60,011	(58,895)
Accounts payable and accrued liabilities	**547,293**	**552,951**	281,413	14,907
Goods and services tax payable	**(72,112)**	**(57,028)**	1,827	(36,099)
	$ (33,663)	**$ (431,058)**	$ 1,746,612	$ 823,963

18. FINANCIAL INSTRUMENTS

As at Sep 30, 2013 and Dec 31, 2012 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Sep 30, 2013		Dec 31, 2012	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	**$ 763,938**	**763,938**	$ 1,123,049	$ 1,123,049
Interest rate swap	**155,413**	**155,413**	213,359	213,359
Loans and receivables				
Accounts receivable	**416,936**	**416,936**	287,273	287,273
Other financial liabilities				
Bank indebtedness	**449,932**	**449,932**	-	-
Short term debt	**-**	**-**	205,356	205,356
Promissory notes	**86,974**	**86,974**	283,986	283,986
Accounts payable and accrued liabilities	**1,279,579**	**1,279,579**	726,629	726,629
Long term debt	**6,276,458**	**6,276,458**	5,544,644	5,544,644
Convertible Debenture	**9,589,008**	**9,589,008**	9,388,065	9,388,065

For cash and cash equivalents, accounts receivable, due from related parties, bank indebtedness, short-term debt, accounts payable and accrued liabilities and promissory note the carrying value approximates fair value due to the short-term nature of the instruments.

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

The carrying value of long-term debt approximates the fair value as the interest rate is at a variable market rate, or fixed rates approximate current market conditions.

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

Fair value measurements

For financial instruments recognized in the balance sheet at fair value, the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(continues)

18. FINANCIAL INSTRUMENTS (continued)

The following table presents the Company's financial instruments recognized in the interim consolidated balance sheet at fair value:

	Sep 30, 2013	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	$ 763,938	$ 763,938		
Interest rate swap liability	$ 155,413		$ 155,413	
	Dec 31, 2012	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	$ 1,123,049	$ 1,123,049		
Interest rate swap liability	$ 213,359		$ 213,359	

Risk Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk, and market risk. The significant risks for the Company's financial instruments are discussed below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages its credit risk for its cash and cash equivalents by maintaining bank accounts with Canadian banks.

The Company in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with accounts receivables by credit management policies. All accounts receivable are due from organizations in Alberta's hospitality industry.

Amounts are considered past due when payment has not been received in accordance with a customer agreement, which is typically 60 days. Amounts are considered to be impaired when the Company has exhausted all collection efforts. Maximum exposure to credit risk is $416,936 (Dec 2012 - $287,273). $15,911 (Dec 2012 - $21,675) are over 60 days, but not considered impaired.

For the nine month period ending Sep 30, 2013, $nil (Sep 2012 – $nil) in bad debts was recorded.

At Sep 30, 2013 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

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

	Maturity Date	Current	Non-current
Accounts payable and accrued liabilities		$ 1,279,579	-
TD Canada Trust loan (Note 7)	Jul 7, 2014	-	6,276,458
Promissory note (Note 8)	Feb 9, 2014	86,974	-
8.25% Convertible Debenture (Note 9)	Mar 16, 2014	785,594	-
7.75% Convertible Debenture (Note 9)	Apr 30, 2016	-	8,803,414

(continues)

18. FINANCIAL INSTRUMENTS (continued)

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities.

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities. For purposes of calculating our covenant, rent expense was $1,506,336 (Sep 2012 – $1,382,169) for the nine month period ending Sep 30, 2013 and $486,923 (Sep 2012 - $479,402) for the three month period ending Sep 30, 2013. These are operating leases. The Company does not have any financing leases.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company is comprised of interest rate risk. The Company does not have any significant currency risk, or other price risk.

Interest Rate Risk

The Company is subject to interest rate risk as its bank indebtedness and long term debt bear interest rates that vary in accordance with prime borrowing rates. Assuming outstanding bank indebtedness and long-term debt balance of $6,726,390, the net debt position after deducting the $4,500,000 notional amount of the interest rate swap is $2,226,390. Therefore a one percent change in interest rates would have an immaterial effect on consolidated net income. The Company manages its interest rate risk through credit facility negotiations and interest rate swaps.

19. ECONOMIC DEPENDENCE

The Company is required to purchase all alcohol-based products from the Alberta Gaming and Liquor Commission (“AGLC”). As the majority of the Company’s income is derived from the sale of alcohol based products, its ability to continue operations is dependent upon the relationship with and the sustainability of AGLC. The alcohol-based products are distributed through Connect Logistics Services Inc. and Brewers Distributor Ltd. Any significant disruption in the supply chain for either of these businesses could result in a material adverse effect on the operations of the Company.