

*Interim (unaudited) Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*March 31, 2014*

## TABLE OF CONTENTS

	<u>PAGE</u>
Interim Consolidated Statements of Financial Position	1
Interim Consolidated Statements of Changes in Shareholders' Equity	2
Interim Consolidated Statements of Comprehensive Income	3
Interim Consolidated Statements of Cash Flows	4
Notes to the Interim Consolidated Financial Statements	5-16

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Mar 31, 2014	Dec 31, 2013
<b>ASSETS</b>			
CURRENT			
Cash and cash equivalents		899,074	1,123,004
Accounts receivable		398,785	482,550
Inventory		7,258,899	7,158,515
Prepaid expenses and deposits		302,783	226,488
Goods and services tax receivable		4,195	-
Income taxes recoverable		253,340	84,340
		<b>9,117,076</b>	9,074,897
PROPERTY AND EQUIPMENT		<b>4,507,854</b>	4,439,756
GOODWILL	6	<b>11,205,368</b>	11,205,368
		<b>24,830,298</b>	24,720,021
<b>LIABILITIES</b>			
CURRENT			
Bank indebtedness	7	<b>1,294,216</b>	49,909
Accounts payable and accrued liabilities		<b>1,155,064</b>	872,123
Interest rate swap liability	4	<b>115,903</b>	138,408
Current portion of long term debt	7	<b>224,159</b>	224,159
Current portion of promissory notes	8	-	87,937
Current portion of convertible debt	9	-	803,479
Goods and services tax payable		-	70,521
		<b>2,789,342</b>	2,246,536
DEFERRED TAX LIABILITY		<b>19,659</b>	19,659
LONG TERM DEBT	7	<b>6,052,299</b>	6,052,299
CONVERTIBLE DEBT	9	<b>8,904,354</b>	8,853,884
		<b>17,765,654</b>	17,172,378
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture	9	<b>136,011</b>	325,633
Share capital	11	<b>4,774,481</b>	4,774,481
Warrants	12	<b>210,007</b>	210,007
Contributed surplus	13	<b>727,525</b>	537,903
Retained earnings		<b>1,216,620</b>	1,699,619
		<b>7,064,644</b>	7,547,643
		<b>24,830,298</b>	24,720,021

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

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)

	Note	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Dec 31, 2012		325,633	4,774,481	210,007	537,903	1,491,187	7,339,211
Net comprehensive income for the year		-	-	-	-	208,432	208,432
Balance at Dec 31, 2013		325,633	4,774,481	210,007	537,903	1,699,619	7,547,643
Maturity of convertible debenture	9	(189,622)	-	-	189,622	-	-
Net comprehensive loss for the period		-	-	-	-	(482,999)	(482,999)
Balance at Mar 31, 2014		136,011	4,774,481	210,007	727,525	1,216,620	7,064,644

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

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Comprehensive Income

(unaudited)

For the 3 months ended March 31

	Note	2014	2013
SALES		11,689,774	11,043,431
COST OF SALES		9,115,337	8,470,642
		2,574,437	2,572,789
OPERATING AND ADMINISTRATIVE EXPENSES		2,677,008	2,485,025
INCOME FROM OPERATIONS		(102,571)	87,764
OTHER EXPENSES (INCOME)			
Finance costs	10	334,601	341,456
Depreciation		191,379	260,034
Loss on disposal of property and equipment		5,658	1,953
Business development costs		12,565	2,525
Store closure expenses		-	3,357
Other income		(2,775)	(2,700)
		541,428	606,625
INCOME BEFORE TAX		(643,999)	(518,861)
INCOME TAXES		(161,000)	(134,904)
NET COMPREHENSIVE INCOME		(482,999)	(383,957)
Basic income per share	16	(0.01)	(0.01)
Diluted income per share	16	(0.01)	(0.01)
Weighted average number of shares - basic		57,797,788	57,797,788
Weighted average number of shares - diluted		57,797,788	57,797,788

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

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Cash Flows

(unaudited)

For the 3 months ended March 31

	Note	2014	2013
<b>OPERATING ACTIVITIES</b>			
Net comprehensive income		<b>(482,999)</b>	(383,957)
Items not affecting cash			
Unrealized gain on interest rate swap	4	<b>(22,505)</b>	(10,064)
Depreciation of property and equipment		<b>191,379</b>	260,034
Loss on disposal of property and equipment		<b>5,658</b>	1,953
Net accretive interest	8, 9	<b>27,382</b>	24,634
Amortization of convertible debenture costs	9	<b>40,812</b>	40,363
		<b>(240,273)</b>	(67,037)
Changes in non-cash working capital	17	<b>(53,689)</b>	484,852
Cash flow (used in) from operating activities		<b>(293,962)</b>	417,815
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(276,176)</b>	(194,634)
Proceeds on disposal of property and equipment		<b>11,041</b>	-
Business combinations net of cash acquired	3	-	(500,000)
Cash flow used in investing activities		<b>(265,135)</b>	(694,634)
<b>FINANCING ACTIVITIES</b>			
Proceeds from bank indebtedness	7	<b>1,244,307</b>	675,754
Repayment of promissory note	8	<b>(100,000)</b>	(100,000)
Repayment of convertible debenture	9	<b>(809,140)</b>	-
Cash flow from financing activities		<b>335,167</b>	575,754
(DECREASE) INCREASE IN CASH		<b>(223,930)</b>	298,935
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		<b>1,123,004</b>	1,123,049
CASH AND CASH EQUIVALENTS - END OF PERIOD		<b>899,074</b>	1,421,984
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>			
Interest paid		<b>130,828</b>	108,272
Income taxes paid		<b>8,000</b>	66,000

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

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 Mar 31, 2014 Andersons operated 47 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 May 28, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim 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 Dec 31, 2013, except as described below. These interim consolidated financial statements should be read in conjunction with the Company's 2013 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 annual consolidated financial statements for the year ended Dec 31, 2013.

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)

Significant accounting standards issued but not effective

New standards have been issued but are not yet effective for the period ended Mar 31, 2014, 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 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company does not believe this will have a significant impact on disclosure.

New significant accounting standards adopted in the period

*Levies*

The IASB has issued a new standard, IFRIC 21, "Levies" ("IFRIC 21"), effective for years beginning on or after January 1, 2014. IFRIC 21 provides guidance on when to recognize an obligation to pay a levy other than income tax. The adoption of this standard did not result in any current or retrospective adjustments.

3. BUSINESS COMBINATIONS

The Company did not acquire liquor stores in the period ended Mar 31, 2014 (Mar 2013 – two). In accordance with IFRS, an asset acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. The Company assessed these asset acquisitions and determined that they constitute a business combination. The results of the business combinations are included in the results of the Company from the acquisition date for comparable periods.

Goodwill arises in the acquisitions as the consideration paid for the stores effectively included amounts in relation to 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 as they do not meet the recognition criteria for identifiable intangible assets.

Acquisition costs of \$nil for the period ended Mar 31, 2014, (Mar 2013 - \$14,014) 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 statement of comprehensive income.

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

	<b>Mar 31, 2014</b>	Mar 31, 2013
Cash & cash equivalents	\$ -	\$ -
Inventories	-	56,347
Property and equipment	-	67,090
Goodwill	-	376,563
<b>Fair value of net assets acquired</b>	<b>\$ -</b>	<b>\$ 500,000</b>



4. INTEREST RATE SWAP

Mark to market value Dec 31, 2012	\$ (213,359)
Unrealized gain	74,951
<u>Mark to market value Dec 31, 2013</u>	<u>\$ (138,408)</u>
Unrealized gain	22,505
<u>Mark to market value Mar 31, 2014</u>	<u>\$ (115,903)</u>

The Company entered into a five year Interest Rate Swap Agreement (“SWAP”) 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 Statements of Comprehensive Income, on the interim consolidated Statements of Financial Position, and in Note 10.

5. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

The Company paid rents of \$nil (Mar 2013 - \$1,620) for the period ended Mar 31, 2014, in respect of a retail liquor store, to Byrne Alberta Ltd (“BAL”), a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market rates

Key Management Personnel Compensation

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

	<b>Mar 31, 2014</b>	Mar 31, 2013
Wages and salaries	<b>\$ 102,250</b>	\$ 151,000
Share based payments	-	1,615
Other	<b>568</b>	-
	<b>\$ 102,818</b>	\$ 152,615

Other includes health plan premiums paid on behalf of members of key management. There are no other short-term, long-term, termination or post-retirement benefits extended to any directors and other members of key management personnel of the Company.

ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
March 31, 2014  
(unaudited)

6. GOODWILL

Balance Dec 31, 2012	\$ 10,828,805
Goodwill acquired	376,563
<u>Balance Dec 31, 2013</u>	<u>11,205,368</u>
Goodwill acquired	-
<u>Balance Mar 31, 2014</u>	<u>\$ 11,205,368</u>

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, 2013. No indications of impairment existed at that date.

7. BANK INDEBTEDNESS AND LONG TERM DEBT

Bank Indebtedness

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. It was drawn on at Mar 31, 2014 for \$1,294,216 (Dec 2013 - \$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 a significant shareholder. It was not drawn on at Mar 31, 2014 (Dec 2013 – \$49,909).

Long Term Debt

	Mar 31, 2014	Dec 31, 2013
TD Canada Trust loan bearing interest at prime plus 1.5% or bankers acceptances plus 3.0% 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 the loan is not extended before 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	\$ 6,276,458
Amounts payable within one year	(224,159)	(224,159)
	\$ 6,052,299	\$ 6,052,299

Principal repayment terms are approximately:

2014	\$ 224,159
2015	896,637
2016	5,155,662
	\$ 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, and the note issued in 2011 matured Feb 9, 2014 with a final payment of \$100,000.

The notes were initially recorded on the Consolidated Statements of Financial Position 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 for the 3 month period ended Mar 31, 2014 was \$12,063 (Mar 2013 - \$1,107)

9. CONVERTIBLE DEBENTURES

In 2009 the Company issued an \$809,140 unsecured convertible debenture, ("Debenture A"), which was due and paid in full on Mar 16, 2014. Debenture A was interest bearing at 8.25% per annum, and the Company had the option to pay interest monthly at 0.6438% per month. Debenture A was convertible to common shares of the Company at a conversion price of \$0.315 per common share.

Debenture A was initially recorded on the Consolidated Statements of Financial Position at a fair value 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 was 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 was reflected as the equity component of the Debenture A.

Interest expense for Debenture A is calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Mar 31, 2014 in the amount of \$27,260 (Mar 2013 - \$30,816), which represents the accretive interest for the 3 month period.

Debt Component

Dec 31, 2012	\$ 734,633
Accretive interest	131,357
Coupon interest *	(62,511)
Dec 31, 2013	\$ 803,479
Accretive interest	27,260
Coupon interest *	(21,599)
Repayment of debenture	(809,140)
Mar 31, 2014	\$ -

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

Equity Component

Balance Dec 31, 2012 and 2013	\$ 189,622
Maturity of debenture	(189,622)
Mar 31, 2014	\$ -

(continues)

9. CONVERTIBLE DEBENTURES (continued)

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 Consolidated Statements of Financial Position at a fair value 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 deferred tax is reflected as the equity component of Debenture B.

The carrying value of debenture B is being increased such that the liability at maturity will be equal to the face value of \$9,200,000. Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Mar 31, 2014 in the amount of \$185,466 (Mar 2013 - \$186,589), which represents the accretive interest for the period.

Debt Component

Dec 31, 2012	\$ 8,653,432
Accretive interest	769,307
Coupon interest *	(731,653)
Amortization of issue costs	162,798
Dec 31, 2013	\$ 8,853,884
Accretive interest	185,466
Coupon interest *	(175,808)
Amortization of issue costs	40,812
Mar 31, 2014	<b>\$ 8,904,354</b>

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

Equity Component

Balance Dec 31, 2012, 2013 and Mar 31, 2014	<b>\$ 136,011</b>
---	-------------------

10. FINANCE COSTS

	Note	Mar 31, 2014	Mar 31, 2013
Interest expense		\$ 316,294	\$ 311,156
Change in fair value of interest rate swap	4	(22,505)	(10,063)
Convertible debenture issue costs	9	40,812	40,363
		<b>\$ 334,601</b>	<b>\$ 341,456</b>

11. SHARE CAPITAL

Authorized - Unlimited common shares		
Balance at Dec 31, 2012, 2013 and Mar 31, 2014	57,797,788	\$ 4,774,481

12. WARRANTS

	# of warrants	Exercise price	Estimated fair value of warrants
Outstanding Dec 31, 2012, 2013 and Mar 31, 2014	1,000,000	\$ 0.3765	\$ 210,007

The 1,000,000 warrants outstanding at Mar 31, 2014 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.

13. CONTRIBUTED SURPLUS

	Note	
Balance at Dec 31, 2012, and 2013		\$ 537,903
Maturity of debenture	9	189,622
Mar 31, 2014		\$ 727,525

14. STOCK OPTION PLANS

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)

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 Mar 31, 2014, expiring Oct 12, 2014.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2012	450,000	\$ 0.296	\$ 124,230
Expired Aug 24, 2013	(300,000)	0.390	(95,250)
Outstanding Dec 31, 2013 and Mar 31, 2014	150,000	\$ 0.220	\$ 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.

All options granted are vested as at Mar 31, 2014. Share based compensation expense of \$nil was recognized for the period ended Mar 31, 2014 (Mar 2013 - \$nil).

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. \$3,865 was paid by the Company to the plan for the period ended Mar 31, 2014 (Mar 2013 - \$6,000). Expected forfeiture rate is 10%.

The Company pays 50% of Alberta Blue Cross health premiums for certain employees. For the period ended Mar 31, 2014 the total premiums paid by the Company was \$11,484 (Mar 2013 - \$6,943).

16. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ended Mar 31, 2014 was based on the interim consolidated net comprehensive loss of \$482,999 (Mar 2013 – loss \$383,957) and a weighted average number of shares outstanding of 57,797,788 (Mar 2013 – 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ended Mar 31, 2014 was based on the interim consolidated net comprehensive loss of \$482,999 (Mar 2013 – loss \$383,957) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,797,788 (Mar 2013 – 57,797,788).

ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
March 31, 2014  
(unaudited)

17. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Mar 31, 2014	Mar 31, 2013
Cash provided by (used in)		
Accounts receivable	\$ 83,765	\$ 46,712
Inventory	(100,384)	450,376
Prepaid expenses and deposits	(76,295)	(52,217)
Income tax recoverable	(169,000)	(200,903)
Accounts payable and accrued liabilities	282,941	251,526
Goods and services tax payable	(74,716)	(10,642)
	<b>\$ (53,689)</b>	<b>\$ 484,852</b>

18. FINANCIAL INSTRUMENTS

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.

As at Mar 31, 2014 and Dec 31, 2013 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	\$ 899,074	899,074	\$ 1,123,004	\$ 1,123,004
Interest rate swap	115,903	115,903	138,408	138,408
Loans and receivables				
Accounts receivable	398,785	398,785	482,550	482,550
Other financial liabilities				
Bank indebtedness	1,294,216	1,294,216	49,909	49,909
Short term debt	224,159	224,159	224,159	224,159
Promissory notes	-	-	87,937	87,937
Accounts payable and accrued liabilities	1,155,064	1,155,064	872,123	872,123
Long term debt	6,052,299	6,052,299	6,052,299	6,052,299
Convertible debenture	8,904,354	8,904,354	9,657,363	9,657,363

(continues)

18. FINANCIAL INSTRUMENTS (continued)

Fair value measurements

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

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

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

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

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

	Mar 31, 2014	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 899,074	\$ 899,074		
Interest rate swap liability	\$ 115,903		\$ 115,903	
	Dec 31, 2013	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,123,004	\$ 1,123,004		
Interest rate swap liability	\$ 138,408		\$ 138,408	

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

Risk Management

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

Credit Risk

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

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

*(continues)*



18. FINANCIAL INSTRUMENTS (continued)

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 \$398,785 (Dec 2013 - \$482,550). \$11,954 (Mar 2013 - \$5,137) are over 60 days, but not considered impaired.

For the period ended Mar 31, 2014, \$nil (Mar 2013 – \$nil) in bad debts was recorded.

At Mar 31, 2014 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's liabilities at Mar 31, 2014 have maturities which are summarized below:

	Note	Maturity Date	Current	Non-current
Bank indebtedness			\$ 1,294,216	\$ -
Accounts payable and accrued liabilities			1,155,064	-
TD Canada Trust loan	7	Jul 7, 2014	224,159	6,052,299
7.75% Convertible debenture	9	Apr 30, 2016	-	8,904,354
			<b>\$ 2,673,439</b>	<b>\$ 14,956,653</b>

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 \$569,111 (Mar 2013 – \$499,168) for the period ended Mar 31, 2014. 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 \$7,570,674 the net debt position after deducting the \$4,500,000 notional amount of the interest rate swap is \$3,070,674. Therefore a one percent change in interest rates would have an immaterial effect on interim 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.

20. SEASONAL NATURE OF THE BUSINESS

The Company’s 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.