

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

March 31, 2016

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 Company's management.

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

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ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Mar 31, 2016	Dec 31, 2015
ASSETS			
CURRENT			
Cash and cash equivalents		1,953,041	862,726
Accounts receivable		209,963	209,452
Inventory		6,470,572	6,458,838
Prepaid expenses and deposits		276,758	180,914
Current portion of loans receivable		13,250	13,085
Income taxes recoverable		110,756	23,661
		9,034,340	7,748,676
NON-CURRENT			
LOANS RECEIVABLE		69,844	73,219
PROPERTY AND EQUIPMENT		3,530,978	3,572,541
GOODWILL		11,099,633	11,099,633
		23,734,795	22,494,069
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		643,017	673,188
Bank loan	5	7,646,255	5,574,285
Current portion of convertible debentures	6	8,082,415	8,258,477
Goods and services tax payable		7,953	37,632
		16,379,640	14,543,582
NON-CURRENT			
DEFERRED TAX LIABILITY		200,860	160,065
		16,580,500	14,703,647
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures	6	113,954	117,657
Share capital	8	4,667,442	4,682,551
Contributed surplus	9	987,421	979,412
Retained earnings		1,385,478	2,010,802
		7,154,295	7,790,422
		23,734,795	22,494,069

SUBSEQUENT EVENTS

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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 Jan 1, 2015		136,011	4,774,481	-	937,532	1,722,861	7,570,885
Repurchase of debentures	6	(18,354)	-	-	-	-	(18,354)
Repurchase of shares	8, 9	-	(91,930)	-	41,880	-	(50,050)
Net comprehensive income for the year		-	-	-	-	287,941	287,941
Balance at Dec 31, 2015		117,657	4,682,551	-	979,412	2,010,802	7,790,422
Repurchase of debentures	6	(3,703)	-	-	-	-	(3,703)
Repurchase of shares	8, 9	-	(15,109)	-	8,009	-	(7,100)
Net comprehensive loss for the priod		-	-	-	-	(625,324)	(625,324)
Balance at Mar 31, 2016		113,954	4,667,442	-	987,421	1,385,478	7,154,295

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

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Comprehensive Loss

(unaudited)

For the 3 months ended March 31

	Note	2016	2015
SALES		9,543,365	10,435,548
COST OF SALES	4	7,239,472	7,761,474
		2,303,893	2,674,074
OPERATING AND ADMINISTRATIVE EXPENSES	10	2,579,737	2,670,550
(LOSS) INCOME FROM OPERATIONS		(275,844)	3,524
DEPRECIATION		150,063	153,738
OTHER EXPENSES (INCOME)			
Finance costs	7	236,229	278,517
Gain on repurchase of convertible debenture	6	(40,213)	-
Loss on disposal of property and equipment		7,166	1,003
Other income		(3,765)	(2,700)
		199,417	276,820
LOSS BEFORE TAX		(625,324)	(427,034)
INCOME TAXES		-	(106,758)
NET COMPREHENSIVE LOSS		(625,324)	(320,276)
Basic loss per share	11	(0.01)	(0.01)
Diluted loss per share	11	(0.01)	(0.01)
Weighted average number of shares - basic		56,811,217	57,797,788
Weighted average number of shares - diluted		56,811,217	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	2016	2015
OPERATING ACTIVITIES			
Net comprehensive income		(625,324)	(320,276)
Items not affecting cash			
Depreciation		150,063	153,738
Loss on disposal of property and equipment		7,166	1,003
Deferred tax expense		40,795	-
Gain on repurchase of convertible debenture	6	(40,213)	-
Net accretive interest	6	7,235	10,454
Amortization of convertible debenture issue costs		-	40,363
Change in fair value of interest rate swap		-	(23,234)
Changes in non-cash working capital	13	(255,034)	(1,721,508)
Cash flow used in operating activities		(715,312)	(1,859,460)
INVESTING ACTIVITIES			
Purchase of property and equipment		(115,666)	(62,825)
Proceeds on disposal of property and equipment		-	500
Cash flow used in investing activities		(115,666)	(62,325)
FINANCING ACTIVITIES			
Repayment of loans receivable		3,210	-
Net proceeds from bank loan	5	2,071,970	1,575,235
Repurchase of convertible debenture	6	(146,787)	-
Repurchase of shares	8	(7,100)	-
Cash flow provided by financing activities		1,921,293	1,575,235
INCREASE (DECREASE) IN CASH		1,090,315	(346,550)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		862,726	868,858
CASH AND CASH EQUIVALENTS - END OF PERIOD		1,953,041	522,308
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		70,792	75,124
Income taxes paid		46,300	-

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

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
March 31, 2016
(Unaudited)

1. NATURE OF OPERATIONS

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

Rocky Mountain Liquor is the parent to a wholly owned subsidiary, Andersons Liquor Inc. ("Andersons"), acquired through a reverse takeover on Dec 1, 2008.

As at Mar 31, 2016 Andersons operated 43 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 27, 2016.

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, 2015. These interim consolidated financial statements should be read in conjunction with the Company's 2015 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, 2015.

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.

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
March 31, 2016
(Unaudited)

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the period the Company paid rents of \$15,240 (2015 - \$15,240), in respect of two (2015 – two) retail liquor stores, to privately held companies 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 are as follows:

	Mar 31, 2016	Mar 31, 2015
Wages and salaries	\$ 82,250	\$ 156,000
Other	434	705
	\$ 82,684	\$ 156,705

Other includes health plan and fitness 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.

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the period ended Mar 31, 2016 was \$7,239,472 (2015 - \$7,761,474). No inventory write downs were recognized in 2016 or 2015.

5. BANK LOAN

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. At Mar 31, 2016 there was \$nil in overdraft (Dec 2015 – \$nil).

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014, the Company has an available facility up to a maximum \$10,000,000 due upon demand, bearing interest at prime plus 1.25% or bankers acceptances plus 2.75% per annum. Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Mar 31, 2016 there was \$7,646,255 drawn on the bank loan (Dec 31, 2015 - \$5,574,285). These amounts are disclosed on the interim consolidated statements of cash flows on a net basis as the facility acts as an operating line.

6. CONVERTIBLE DEBENTURES

In 2011 the Company issued a \$9,200,000 unsecured subordinated convertible debenture (“the Debenture”) due on Apr 30, 2016. The Debenture is interest bearing at 7.75% payable semi-annually. The Debenture is convertible to common shares of the Company at a conversion price of \$0.50 per common share.

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
March 31, 2016
(Unaudited)

6. CONVERTIBLE DEBENTURES (continued)

The Debenture was initially recorded on the statement of financial position at a fair value of \$9,004,684, calculated by discounting cash flows at the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Issue costs relating to the debt portion of the Debenture of \$690,211 are being amortized over its term. 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 the Debenture.

The carrying value of the Debenture is being increased such that the liability at maturity will be equal to the face value of \$8,086,000 (Dec 2015 - \$8,273,000). Interest expense for the Debenture is calculated on the face value. Notional accretive interest expense is reflected at Mar 31, 2016 in the amount of \$165,437 (Mar 2015 - \$188,255), which represents the accretive interest for the period.

On Dec 11, 2014 the Company announced a normal course issuer bid ("NCIB") to repurchase the Debenture. The Company was authorized to repurchase for cancellation up to \$920,000 of the principal amount, representing 10% of the Debenture's issued and outstanding. The NCIB began Dec 15, 2014 and expired on Dec 14, 2015. On Dec 15, 2015 the Company announced another NCIB to repurchase the Debenture. The Company is authorized to repurchase for cancellation up to \$844,100 of the principal amount, representing 10% of Debenture's issued and outstanding. The NCIB began Dec 15, 2015 and expires on April 30, 2016, at maturity.

During the period ending Mar 31, 2016, the Company repurchased and cancelled \$187,000 (Mar 2015 - \$nil) principal amount of the Debenture for aggregate consideration of \$151,966. \$183,297 was a reduction to the liability component, \$3,703 was recorded as a reduction to the equity component, \$5,179 was charged to interest expense and \$40,213 was recorded as a gain to the interim consolidated statement of comprehensive loss (Mar 2015 - \$nil).

Debt Component

Balance Dec 31, 2014	\$ 9,057,885
Accretive interest	708,886
Coupon interest *	(682,675)
Amortization of issue costs	83,027
Repurchased and cancelled	(908,646)
Balance Dec 31, 2015	\$ 8,258,477
Accretive interest	165,437
Coupon interest *	(158,202)
Repurchased and cancelled	(183,297)
Balance Mar 31, 2016	\$ 8,082,415

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

Equity Component

Balance Dec 31, 2014	\$ 136,011
Repurchased and cancelled	(18,354)
Balance Dec 31, 2015	\$ 117,657
Repurchased and cancelled	(3,703)
Balance Mar 31, 2016	\$ 113,954

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
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(Unaudited)

7. FINANCE COSTS

	Note	Mar 31, 2016	Mar 31, 2015
Interest expense		\$ 236,229	\$ 261,388
Change in fair value of interest rate swap		-	(23,234)
Amortization of convertible debenture issue costs	6	-	40,363
		\$ 236,229	\$ 278,517

8. SHARE CAPITAL

On Sep 1, 2015 the Company announced an NCIB to repurchase its common shares. The Company is authorized to repurchase for cancellation up to 5% of the issued and outstanding common shares which equals 2,889,889 common shares. The NCIB began Sep 3, 2015 and expires on Sep 2, 2016.

During the period, the Company repurchased and cancelled 142,000 (Mar 2015 – nil) common shares for aggregate consideration of \$7,100. \$15,109 was a reduction to share capital and \$8,009 was recorded as an addition to contributed surplus (Mar 2015 - \$nil).

Authorized - Unlimited common shares

	Number	Amount
Balance Dec 31, 2014	57,797,788	\$ 4,774,481
Repurchased and cancelled	(864,000)	(91,930)
Balance Dec 31, 2015	56,933,788	\$ 4,682,551
Repurchased and cancelled	(142,000)	(15,109)
Balance Mar 31, 2016	56,791,788	\$ 4,667,442

9. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

Balance Dec 31, 2014	\$ 937,532
Repurchase of common shares	41,880
Balance Dec 31, 2015	\$ 979,412
Repurchase of common shares	8,009
Balance Mar 31, 2016	\$ 987,421

10. EXPENSES BY NATURE

	Mar 31, 2016	Mar 31, 2015
Wages and employee benefits	\$ 1,362,740	\$ 1,402,923
Lease and premise costs	910,278	938,851
Other	306,719	328,776
	\$ 2,579,737	\$ 2,670,550

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
March 31, 2016
(Unaudited)

11. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Mar 31, 2016 was based on the interim net comprehensive loss of \$625,324 (Mar 2015 – loss \$320,276) and a weighted average number of shares outstanding of 56,811,217 (Mar 2015 – 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Mar 31, 2016 was based on the interim net comprehensive loss of \$625,324 (Mar 2015 – loss \$320,276) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,811,217 (Mar 2015 – 57,797,788).

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

12. FINANCIAL INSTRUMENTS

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank loan, the carrying value approximates fair value due to the short-term nature of the instruments.

The loans receivable have a fair value equivalent to the carrying value, and are carried at the prevailing interest rate. The convertible debenture has a fair value equivalent to the carrying value, as the discount rate remains unchanged.

As at Mar 31, 2016 and Dec 31, 2015 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Mar 31, 2016		Dec 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,953,041	\$ 1,953,041	\$ 862,726	\$ 862,726
Loans and receivables				
Accounts receivable	209,963	209,963	209,452	209,452
Loans receivable	83,094	83,094	86,304	86,304
Other financial liabilities				
Bank loan	7,646,255	7,646,255	5,574,285	5,574,285
Accounts payable and accrued liabilities	643,017	643,017	673,188	673,188
Convertible debentures	8,082,415	8,082,415	8,258,477	8,258,477

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;

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
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(Unaudited)

12. FINANCIAL INSTRUMENTS (continued)

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 statement of financial position at fair value:

	Mar 31, 2016	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,953,041	\$ 1,953,041		
	Dec 31, 2015	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 862,726	\$ 862,726		

13. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Mar 31, 2016	Mar 31, 2015
Cash (used in) provided by		
Accounts receivable	\$ (511)	\$ 36,364
Inventory	(11,734)	(1,544,587)
Prepaid expenses and deposits	(95,844)	(91,094)
Income taxes recoverable	(87,095)	(106,758)
Accounts payable and accrued liabilities	(30,171)	107,535
Goods and services tax payable	(29,679)	(122,968)
	\$ (255,034)	\$ (1,721,508)

14. SUBSEQUENT EVENTS

On Apr 1, 2016 the Company announced that the holders of its 7.75% convertible unsecured subordinated debentures due Apr 30, 2016 approved the proposed amendments to the debentures. As a result, the maturity date will be extended to Apr 30, 2021, the conversion price will reduce to \$0.25 from \$0.50, and the coupon rate will be reduced to 7.50%.

On May 13, 2016 the Company announced an NCIB pursuant to which it may repurchase for cancellation up to \$807,600 in principal amount, representing 10% of the Debenture's issued and outstanding. The NCIB begins May 13, 2016 and ends May 12, 2017.

Subsequent to Mar 31, 2016 the Company announced its intention to redeem on a pro rata basis 15% of the principal amount of the amended debentures on Jun 10, 2016.