

*Interim (unaudited) Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*March 31, 2017*

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# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Mar 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
CURRENT			
Cash and cash equivalents		496,991	786,285
Accounts receivable		116,472	134,729
Inventory		7,103,843	5,868,662
Prepaid expenses and deposits		242,320	180,747
Goods and services tax receivable		65,791	-
Current portion of loans receivable		13,927	13,755
Income taxes recoverable		164,524	112,824
		<b>8,203,868</b>	7,097,002
NON-CURRENT			
LOANS RECEIVABLE		55,917	59,464
PROPERTY AND EQUIPMENT		3,006,516	2,984,135
GOODWILL		6,677,262	6,677,262
		<b>17,943,563</b>	16,817,863
<b>LIABILITIES</b>			
CURRENT			
Accounts payable and accrued liabilities		953,177	723,299
Bank loan	5	9,176,784	7,349,495
Goods and services tax payable		-	38,441
		<b>10,129,961</b>	8,111,235
NON-CURRENT			
CONVERTIBLE DEBENTURE	6	5,698,697	5,644,535
		<b>15,828,658</b>	13,755,770
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debentures	6	96,694	96,694
Share capital	8	4,667,442	4,667,442
Contributed surplus	9	1,010,727	1,004,483
Accumulated deficit		(3,659,958)	(2,706,526)
		<b>2,114,905</b>	3,062,093
		<b>17,943,563</b>	16,817,863

### 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	Contributed surplus	Accumulated deficit	Total
Opening balance as at Jan 1, 2016		117,657	4,682,551	979,412	2,010,802	7,790,422
Repurchase of debentures	6	(3,901)	-	-	-	(3,901)
Partial redemption of convertible debenture	6	(17,062)	-	17,062	(240,383)	(240,383)
Repurchase of shares	8,9	-	(15,109)	8,009	-	(7,100)
Net comprehensive loss for the year		-	-	-	(4,476,945)	(4,476,945)
Balance at Dec 31, 2016		96,694	4,667,442	1,004,483	(2,706,526)	3,062,093
Share based compensation	9,10	-	-	6,244	-	6,244
Net comprehensive loss for the period		-	-	-	(953,432)	(953,432)
Balance at Mar 31, 2017		96,694	4,667,442	1,010,727	(3,659,958)	2,114,905

*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 Mar 31

	Note	2017	2016
SALES		<b>8,781,529</b>	9,543,365
COST OF SALES	4	<b>6,629,068</b>	7,239,472
		<b>2,152,461</b>	2,303,893
OPERATING AND ADMINISTRATIVE EXPENSES	11	<b>2,530,931</b>	2,579,737
LOSS FROM OPERATIONS		<b>(378,470)</b>	(275,844)
DEPRECIATION		<b>149,632</b>	150,063
OTHER EXPENSES (INCOME)			
Loss on disposal of property and equipment		<b>79,776</b>	7,166
Gain on repurchase of convertible debenture	6	-	(40,213)
Finance costs	7	<b>257,754</b>	236,229
Bad debt expense		<b>8,440</b>	-
Store closure expenses		<b>82,961</b>	-
Other income		<b>(3,601)</b>	(3,765)
		<b>425,330</b>	199,417
LOSS BEFORE TAX		<b>(953,432)</b>	(625,324)
INCOME TAXES		-	-
NET COMPREHENSIVE LOSS		<b>(953,432)</b>	(625,324)
Basic income per share	12	<b>(0.02)</b>	(0.01)
Diluted income per share	12	<b>(0.02)</b>	(0.01)
Weighted average number of shares - basic		<b>56,951,837</b>	56,811,271
Weighted average number of shares - diluted		<b>56,951,837</b>	56,811,271

*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 Mar 31

	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Net comprehensive loss		<b>(953,432)</b>	(625,324)
Items not affecting cash			
Depreciation		<b>149,632</b>	150,063
Loss on disposal of property and equipment		<b>79,776</b>	7,166
Gain on repurchase of convertible debenture	6	-	(40,213)
Net accretive interest	6	<b>54,162</b>	7,235
Share based compensation		<b>6,244</b>	-
Deferred tax expense		-	40,795
Changes in non-cash working capital	14	<b>(1,204,551)</b>	(255,034)
Cash flow used in operating activities		<b>(1,868,169)</b>	(715,312)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(265,739)</b>	(115,666)
Proceeds on disposal of property and equipment		<b>13,950</b>	-
Cash flow used in investing activities		<b>(251,789)</b>	(115,666)
<b>FINANCING ACTIVITIES</b>			
Repayment of loans receivable		<b>3,375</b>	3,210
Net proceeds from bank loan		<b>1,827,289</b>	2,071,970
Repurchase of convertible debenture	6	-	(146,787)
Repurchase of shares	8	-	(7,100)
Cash flow provided by financing activities		<b>1,830,664</b>	1,921,293
(DECREASE) INCREASE IN CASH		<b>(289,294)</b>	1,090,315
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		<b>786,285</b>	862,726
CASH AND CASH EQUIVALENTS - END OF PERIOD		<b>496,991</b>	1,953,041
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>			
Interest paid		<b>76,638</b>	70,792
Income taxes paid		<b>8,700</b>	46,300

*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 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, 2017 Andersons operated 41 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 23, 2017.

## 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, 2016. These interim consolidated financial statements should be read in conjunction with the Company’s 2016 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, 2016.

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.

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the period the Company paid rents of \$15,240 (2016 - \$15,240), in respect of two (2016 – 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:

	<b>Mar 31, 2017</b>	Mar 31, 2016
Wages and salaries	<b>\$ 112,250</b>	\$ 82,250
Other	<b>812</b>	434
	<b>\$ 113,062</b>	\$ 82,684

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, 2017 was \$6,629,068 (2016 - \$7,239,472). No inventory write downs were recognized in 2017 or 2016.

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, 2017 there was \$nil in overdraft (Dec 2016 – \$nil).

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Aug 4, 2016, the Company has an available facility up to a maximum of the lesser of \$10,000,000 and the total of \$4,500,000 and 75% of accounts receivable to a maximum of \$1,000,000, and 70% of the value of inventory less priority payables and statutory payables. The loan is 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, 2017 there was \$9,176,784 drawn on the bank loan (Dec 31, 2016 - \$7,349,495). These amounts are disclosed on the interim consolidated statements of cash flows on a net basis as the facility acts as an operating line.



ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
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6. CONVERTIBLE DEBENTURES

On Apr 1, 2016 the Company received debenture holder approval to restructure the terms of the debenture originally issued Apr 13, 2011 (the "original debenture"). The Company restructured the \$8,076,000 outstanding unsecured subordinated convertible debenture (the "Debenture") on Apr 30, 2016 as follows: the maturity date of the Debenture was extended to Apr 30, 2021; the interest rate payable semi-annually was reduced to 7.50% from 7.75%; and the Debenture is convertible to common shares of the Company at a conversion price of \$0.25 per common share, reduced from \$0.50.

The restructuring was accounted for as an extinguishment, which resulted in a gain on extinguishment of \$1,111,833 after deducting related transaction costs of \$491,253. The original debenture was derecognized and the revised Debenture was measured at fair value on the date of restructuring using an effective interest rate of 13.17%. The fair value of the Debenture of \$6,472,914 was estimated using discounted future cash flows of the principal amount.

Included in the restructure terms was an option for the Company to partially redeem \$1,211,000 of the Debenture at face value. On Jun 10, 2016 the Company exercised this option. The equity component of the Debenture was decreased by \$17,062 and \$240,383 was charged directly to accumulated deficit.

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance Dec 31, 2015	\$ 8,273,000	\$ 8,258,477	\$ 117,657
Repurchased and cancelled	(197,000)	(193,099)	(3,901)
Extinguishment of original debenture	(8,076,000)	(8,076,000)	-
Issuance of convertible debenture	8,076,000	6,472,914	-
Partial redemption	(1,211,000)	(970,617)	(17,062)
Accretive interest	-	152,860	-
Balance Dec 31, 2016	\$ 6,865,000	\$ 5,644,535	\$ 96,694
Accretive interest	-	54,162	-
Balance Mar 31, 2017	<b>\$ 6,865,000</b>	<b>\$ 5,698,697</b>	<b>\$ 96,694</b>

On May 13, 2016 the Company announced a NCIB on the Debenture. The Company is authorized to repurchase for cancellation up to \$807,600 of the principal amount, representing 10% of the restructured Debenture issued and outstanding. The NCIB began May 13, 2016 and expires on May 12, 2017. No debenture NCIB repurchases have been made in 2017.

Under the Normal Course Issuer Bid ("NCIB") in effect from Dec 15, 2015 to Apr 30, 2016, for the period ended Mar 31, 2016 the Company repurchased and cancelled \$187,000 of the principal amount of the original 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 on settlement to the consolidated statement of comprehensive loss.

7. FINANCE COSTS

	Note	Mar 31, 2017	Mar 31, 2016
Bank loan interest		\$ 76,638	\$ 70,791
Convertible debenture interest		126,954	158,203
Accretive interest	6	54,162	7,235
		<b>\$ 257,754</b>	<b>\$ 236,229</b>

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 expired on Sep 2, 2016.

No repurchases have been made in 2017. During the three month period ended Mar 31, 2016, the Company repurchased and cancelled 142,000 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.

Authorized - Unlimited common shares

	Number	Amount
Balance at Dec 31, 2015	56,933,788	\$ 4,682,551
Repurchased and cancelled	(142,000)	(15,109)
Balance at Dec 31, 2016 and Mar 31, 2017	<b>56,791,788</b>	<b>\$ 4,667,442</b>

9. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance Dec 31, 2015		\$ 979,412
Partial redemption of convertible debenture	6	\$ 17,062
Repurchase of common shares	8	8,009
Balance Dec 31, 2016		<b>\$ 1,004,483</b>
Share based compensation	10	6,244
Balance Mar 31, 2017		<b>\$ 1,010,727</b>

10. STOCK OPTION PLAN

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.

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ROCKY MOUNTAIN LIQUOR INC  
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10. STOCK OPTION PLAN (continued)

Management/Employee Options

500,000 incentive options were issued under the Option Plan Jan 17, 2017, representing 0.9% of the outstanding common shares. 300,000 are exercisable per the below vesting schedule and 200,000 are exercisable Jan 18, 2018 if the unadjusted closing price per share for any 10-consecutive trading day period between Oct 20, 2017 and Jan 17, 2018 is equal to or greater than \$0.16. All options expire Jan 18, 2018.

	# of options	Exercise price	Estimated fair value of options	Weighted average exercise price	Weighted average contractual life remaining
Outstanding Dec 31, 2016	-	-	-	-	-
Issued Jan 17, 2017	500,000	0.070	34,563	0.070	0.803
Outstanding Mar 31, 2017	500,000	0.070	34,563	0.070	0.803

75,000 of the options vested Feb 28, 2017. 75,000 vest at each of May 31, 2017, Aug 31, 2017 and Nov 30, 2017 and 200,000 vest Oct 20, 2017. Stock-based compensation expense was \$6,244 for the period ended Mar 31, 2017 (Mar 2016 - \$nil) and was accounted for in operating and administrative expenses. Unrecognized compensation expense relating to unvested items is \$6,751 at Mar 31, 2017 (Mar 2016 - \$nil).

The fair value of the 300,000 options issued Jan 17, 2017 has been estimated at \$0.042 per option and fair value of 200,000 options issued Jan 17, 2017 has been estimated at \$0.110 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	1.3%
Estimated volatility	130.0%
Expected life	1 years
Expected dividend yield	NIL

11. EXPENSES BY NATURE

	Mar 31, 2017	Mar 31, 2016
Wages and employee benefits	\$ 1,389,072	\$ 1,362,740
Lease and premise costs	901,248	993,845
Other	240,611	223,152
	<b>\$ 2,530,931</b>	<b>\$ 2,579,737</b>

## 12. EARNINGS PER COMMON SHARE

### Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Mar 31, 2017 was based on the interim net comprehensive loss of \$953,432 (Mar 2016 – loss \$625,324) and a weighted average number of shares outstanding of 56,951,837 (Mar 2016 – 56,811,217).

### Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Mar 31, 2017 was based on the interim net comprehensive loss of \$953,432 (Mar 2016 – loss \$625,324) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,951,837 (Mar 2016 – 56,811,217). The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the periods ended Mar 31, 2017 and Mar 31, 2016.

## 13. 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, 2017 and Dec 31, 2016 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	<u>Mar 31, 2017</u>		<u>Dec 31, 2016</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Fair value through profit or loss				
Cash and cash equivalents	\$ 496,991	\$ 496,991	\$ 786,285	\$ 786,285
Loans and receivables				
Accounts receivable	116,472	116,472	134,729	134,729
Loans receivable	69,844	69,844	73,219	73,219
Other financial liabilities				
Bank loan	9,176,784	9,176,784	7,349,495	7,349,495
Accounts payable and accrued liabilities	953,117	953,117	723,299	723,299
Convertible debentures	5,698,697	5,148,750	5,644,535	4,462,250

### 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;

*(continues)*

13. 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, 2017	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 496,991	\$ 496,991		
	Dec 31, 2016	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 786,285	\$ 786,285		

14. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Mar 31, 2017	Mar 31, 2016
Cash (used in) provided by		
Accounts receivable	\$ 18,257	\$ (511)
Inventory	(1,235,181)	(11,734)
Prepaid expenses and deposits	(61,573)	(95,844)
Income taxes recoverable	(51,700)	(87,095)
Accounts payable and accrued liabilities	229,878	(30,171)
Goods and services tax payable	(104,232)	(29,679)
	<b>\$ (1,204,551)</b>	<b>\$ (255,034)</b>

15. SUBSEQUENT EVENT

Subsequent to Dec 31, 2016, the Company closed its convenience store. All goodwill attributed to the convenience store was expensed in 2016 as a result of Management's decision to close the store.