Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2010

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To the Shareholders of Rocky Mountain Liquor Inc:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 21, 2011

"Peter J. Byrne"
Chief Executive Officer

"*Sarah Stelmack*"
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Rocky Mountain Liquor Inc:

We have audited the accompanying consolidated financial statements of Rocky Mountain Liquor Inc and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Liquor Inc and its subsidiary as at December 31, 2010 and 2009 and the results of their operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Edmonton, Alberta

April 21, 2011

Chartered Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Balance Sheets

As at December 31

	2010	2009
ASSETS		
Cash and cash equivalents (Note 4)	**5,489,079**	10,955,265
Accounts receivable	**388,814**	353,681
Inventory	**5,801,144**	5,420,583
Prepaid expenses and deposits	**254,660**	139,708
Income tax recoverable	**127,077**	-
Interest rate swap asset (Note 5)	**-**	85,780
Due from related parties (Note 6)	**-**	118
	12,060,774	16,955,135
PROPERTY AND EQUIPMENT (Note 7)	**3,197,721**	2,411,216
GOODWILL (Note 8)	**8,412,409**	4,801,793
FUTURE INCOME TAXES	**58,427**	37,156
	23,729,331	24,205,300
LIABILITIES		
CURRENT		
Bank indebtedness (Note 9)	**2,200,135**	12,478,265
Accounts payable and accrued liabilities	**593,556**	565,210
Goods and services tax payable	**73,864**	48,427
Current portion of long-term debt (Note 11)	**345,366**	481,939
Interest rate swap liability (Note 5)	**203,408**	-
Current portion of promissory note (Note 12)	**100,000**	-
Income tax payable	-	18,421
	3,516,329	13,592,262
LONG TERM DEBT (Note 11)	**11,713,027**	5,195,073
PROMISSORY NOTE (Note 12)	**200,000**	-
CONVERTIBLE DEBT (Note 13)	**626,544**	584,303
	16,055,900	**19,371,638**
SHAREHOLDERS' EQUITY		
Equity component of convertible debtenture (Note 13)	**252,830**	252,830
Share capital (Note 15)	**4,774,481**	1,931,010
Warrants (Note 14 and 16)	**280,009**	886,380
Contributed surplus (Note 17)	**458,652**	111,858
Retained earnings	**1,907,459**	1,651,584
	7,673,431	4,833,662
	23,729,331	24,205,300

COMMITMENTS (Note 19)
SUBSEQUENT EVENTS (Note 25)

Approved on behalf of the board:

Frank Coleman
Chair, Board of Directors

Robert Normandeau
Chair, Audit Committee

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Income, Comprehensive Income and Retained Earnings

For the years ended December 31

	2010	2009
SALES	**47,635,244**	32,717,175
COST OF SALES	**37,570,263**	25,061,014
	10,064,981	7,656,161
OPERATING AND ADMINISTRATIVE EXPENSES	**7,702,205**	5,390,478
INCOME FROM OPERATIONS	**2,362,776**	2,265,683
OTHER EXPENSES (INCOME)		
Amortization	**699,607**	538,282
Business development costs	**46,756**	182,722
Other income	**(19,894)**	(22,567)
Interest on debt	**817,466**	458,688
Loss (Gain) on interest rate swap (Note 5)	**289,189**	(85,780)
Bad debt expense	**35,481**	-
Loss on disposal of property and equipment (Note 7)	**48,674**	-
	1,917,279	1,071,345
INCOME BEFORE TAXES	**445,497**	1,194,338
CURRENT TAXES (Note 10)	**210,893**	253,323
FUTURE TAXES (Note 10)	**(21,271)**	137,479
NET INCOME AND COMPREHENSIVE INCOME	**255,875**	803,536
RETAINED EARNINGS - BEGINNING	**1,651,584**	848,048
RETAINED EARNINGS - ENDING	**1,907,459**	1,651,584
Basic earnings per share	**0.00**	0.01
Diluted earnings per share	**0.00**	0.01
Weighted average number of shares - basic	**53,437,268**	50,450,138
Weighted average number of shares - diluted	**53,814,461**	53,273,686

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Cash Flows

For the years ended December 31

	2010	2009
OPERATING ACTIVITIES		
Net income	**255,875**	803,536
Items not affecting cash		
Amortization of property and equipment	**699,607**	538,282
Loss (gain) on interest rate swap	**289,189**	(85,780)
Loss on disposal of assets	**48,674**	-
Future income taxes	**(21,271)**	137,479
Net accretive interest on convertible debenture (Note 13)	**42,241**	28,195
Stock based compensation (Note 17)	**190,933**	108,856
Amortization of warrant interest (Note 16)	**280,009**	-
Shares cancelled for non-cash consideration	**-**	(12,698)
Amortization of deferred charges	**-**	59,964
	1,785,257	1,577,834
Changes in non-cash working capital (Note 20)	**209,533**	(702,631)
Cash flow from operating activities	**1,994,790**	875,203
INVESTING ACTIVITIES		
Purchase of property and equipment	**(919,710)**	(683,855)
Business acquisitions net of cash acquired (Note 3)	**(4,757,586)**	(3,487,223)
Cash flow used in investing activities	**(5,677,296)**	(4,171,078)
FINANCING ACTIVITIES		
Advances from related parties (Note 6)	**118**	12,543
Proceeds from issuance of shares (Note 16 and 18)	**2,112,952**	220,012
Proceeds from long term financing	**6,392,153**	1,297,072
Proceeds from short term financing (Note 9)	**2,200,135**	12,478,265
Repayment of short term financing	**(12,478,265)**	-
Repayment of long term debt	**(10,773)**	-
Advances to related parties (Note 6)	**-**	(468)
Advances to shareholders	**-**	(58,584)
Convertible debenture issuance costs (Note 13)	**-**	(202)
Cash flow from financing activities	**(1,783,680)**	13,948,638
INCREASE (DECREASE) IN CASH FLOW	**(5,466,186)**	10,652,763
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**10,955,265**	302,502
CASH AND CASH EQUIVALENTS - END OF PERIOD	**5,489,079**	10,955,265
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	**775,225**	430,493
Income taxes paid	**454,899**	285,913

1. NATURE OF OPERATIONS

Humber Capital Corporation changed its name to Rocky Mountain Liquor Inc. by Article of Amendment under Section 177 of the Canada Business Corporations Act on Sep 22, 2009.

Rocky Mountain Liquor Inc. ("Rocky Mountain Liquor") 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").

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 Dec 31, 2010 Andersons operated 32 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include the accounts of Rocky Mountain Liquor and its wholly owned subsidiary, Andersons, resulting in the consolidated entity (the "Company").

Revenue recognition

Revenue from sales of products is recognized when title passes to the customer, which generally coincides with the delivery and acceptance of goods, and collectability is reasonably assured.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank accounts, common shares held at credit unions, and short term investments with maturity dates of three months or less when purchased.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Buildings	4%	declining balance method
Computer equipment	30%	declining balance method
Computer software	100%	declining balance method
Furniture and fixtures	20%	declining balance method
Leasehold improvements	5 years	straight-line method
Motor vehicles	30%	declining balance method

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of long lived assets

Long-lived assets are reviewed for impairment when events or circumstances warrant. Impairments exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over the fair value and is recognized in the net income when determined.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the identifiable net assets acquired. The value of goodwill is assessed annually or when events and circumstances occur, to determine if there has been impairment in value. Assessment of goodwill impairment is a two-step process.

First, the fair value of the net assets of a reporting unit is determined based on the discounted cash flow analysis and compared with its carrying amount, including goodwill. If the carrying amount exceeds the fair value of the assets, the second step is required. The second step allocates the fair value to its underlying assets and liabilities, resulting in an implied fair value of goodwill. If the carrying amount exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net income.

Interest income

Interest income is recognized on an accrual basis.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are likely to reverse. Future income tax assets and liabilities are recorded in the financial statements if realization is considered more likely than not.

Earnings per share

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method whereby all options, warrants and equivalents are assumed, if in-the-money, to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Stock based compensation

The Company accounts for all stock-based compensation using the fair value based method. Under this method, compensation costs attributable to options granted are measured at fair value at the date of grant. Any consideration received upon the exercise of a stock option, along with the amount previously recorded as contributed surplus, is credited to share capital. The expense for stock options is recognized over the vesting period of the stock-based award. The Company's stock-based compensation plan is described in Note 18.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make 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. Such estimates include providing for amortization of property and equipment, net realizable value of inventory, collectability of accounts receivable, fair value of assets for purchase price allocations, impairment of goodwill and the timing and future tax rates applicable to the reversal of temporary differences for future income taxes. Actual results could differ from these estimates.

Financial instruments

The Company has designated its cash and cash equivalents and interest rate swap as held for trading, which is measured at fair value. Accounts receivable and due from related parties are classified as loans and receivables that are measured at amortized cost. Bank indebtedness, promissory notes, accounts payable and accrued liabilities, convertible debt, and long term debt are classified as other financial liabilities which are measured at amortized cost. Transaction costs related to the acquisition or disposition of financial instruments are added to the carrying value as incurred.

Accounting standards issued but not effective

Section 1582 – Business Combinations

In Jan 2009, the CICA issued new Handbook Section 1582, Business Combinations. It provides the Canadian equivalent to IFRS 3, “Business Combinations”. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after Jan 1, 2011. Earlier application is permitted. The Company plans to adopt this new Section for its fiscal year beginning Jan 1, 2011. The Company is currently evaluating the impact on its financial position and results of operation of adopting the new section.

Section 1601 – Consolidated Financial Statements,

In Jan 2009, the CICA issued new Handbook Section 1601, Consolidated Financial Statements, establishing standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after Jan 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company plans to adopt this new Section for its fiscal year beginning Jan 1, 2011. The Company does not expect the new Section to have a material impact on its financial position or results of operations.

Section 1625 - Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, was amended to be consistent with Handbook Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests, which were issued in Jan 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after Jan 1, 2011. The Company does not expect the new Section to have a material on its financial position or results of operations. The Company plans to adopt this new Section for its fiscal year beginning Jan 1, 2011.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

International Financial Reporting Standards

In Feb 2008, the CICA announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board (IASB) effective Jan 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The Company has established a Financial Reporting Team to review the adoption of IFRS. The team has provided updates to management and the Audit Committee. The Company is closely monitoring regulatory developments made by the Canadian Institute of Chartered Accountants and the Canadian Securities Administrator that may affect the timing, nature or disclosure of our adoption of IFRS. The Company is also monitoring developments in accounting made by the Accounting Standards Board of Canada (AcSB) and the International Accounting Standards Board (IASB) to ensure that on adoption of IFRS, we are compliant with IFRS as issued by the IASB.

The Company has completed the evaluation of the accounting impact on its financial position and results of operations adopting these standards will have. The Company has reviewed its accounting policies and will be updating them to incorporate the requirements for IFRS. Rocky Mountain Liquor is on target for the IFRS transition.

3. BUSINESS ACQUISITIONS

The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair value of the assets acquired and the liabilities assumed at the effective date of the purchase.

For the year ending Dec 31, 2010 the Company acquired the assets of four (2009 – six) retail liquor stores, and built two (2009 – one) liquor stores. The operating results of the asset acquisitions are included in the results of the Company from the acquisition date. The purchase price was allocated to the assets acquired as follows:

	2010	2009
Cash	**$ 3,150**	$ 10,270
Inventory	**831,894**	1,338,577
Accounts receivable	**-**	9,913
Property and equipment	**615,076**	470,708
Goodwill	**3,610,616**	2,187,935
Fair value of net assets acquired	**$ 5,060,736**	$ 4,017,403
Total cash consideration paid	**$ 4,576,894**	$ 3,044,096
Convertible debenture issued	**-**	809,140
Promissory note issued	**300,000**	-
Acquisition costs incurred	**183,842**	164,167
	$ 5,060,736	$ 4,017,403

The amount of acquired goodwill deductible for tax is $2,707,962 (2009 - $1,294,486).

4. CASH AND CASH EQUIVALENTS

		2010		2009
Cash	**$**	**3,290,883**	$	960,265
Short term investment		**2,198,196**		9,995,000
	$	**5,489,079**	$	10,955,265

5. INTEREST RATE SWAP

Fair value Dec 31, 2009	$	85,780
Fair value Dec 31, 2010	**$**	**(203,408)**

The Company entered into a five year Interest Rate Swap Agreement ("SWAP") on Feb 12, 2009 expiring Feb 11, 2014 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 the $5,500,000 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 fixed interest rate of 2.14% 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.

The Company has entered into an additional five year Interest Rate Swap Agreement ("SWAP") on Apr 6, 2010 expiring Apr 5, 2015 with the SWAP Counterparty. The notional amount of the SWAP is equal to the $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 above-noted items 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 consolidated statement of income and on the consolidated balance sheet.

6. DUE FROM RELATED PARTIES

		2010		2009
Byrne Alberta Ltd.	**$**	**-**	$	118
	$	**-**	$	118

Advances to related parties are non-interest bearing (unless otherwise indicated), have no set repayment terms and are unsecured. The companies are related through common controlling shareholders. All related party amounts are measured at the exchange amount agreed to by both parties.

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6. DUE FROM RELATED PARTIES *(continued)*

The Company paid rents in respect to of a retail liquor store of $19,440 for the 12 month period ending Dec 2010 (Dec 2009 - $19,440) to Byrne Alberta, a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market value.

7. PROPERTY AND EQUIPMENT

		2010 Cost		2010 Accumulated Amortization		**2010 Net Book Value**
Building	$	285,000		78,619	**$**	**206,381**
Computer equipment		365,462		213,075		**152,387**
Computer software		110,483		76,549		**33,934**
Furniture and fixtures		3,199,219		1,422,950		**1,776,269**
Leasehold improvements		1,346,916		487,848		**859,068**
Motor vehicles		325,404		155,722		**169,682**
	$	5,632,484	$	2,434,763	**$**	**3,197,721**

		2009 Cost		2009 Accumulated Amortization		2009 Net Book Value
Building	$	285,000		70,019	$	214,981
Computer equipment		340,039		222,864		117,175
Computer software		44,202		32,865		11,337
Furniture and fixtures		1,873,589		865,496		1,008,093
Leasehold improvements		1,538,800		648,342		890,458
Motor vehicles		273,341		104,169		169,172
	$	4,354,971	$	1,943,755	$	2,411,216

A loss of $48,674 (2009 – nil) was recognized in the year upon disposal of property and equipment as a result of greater than anticipated wear and tear.

8. GOODWILL

		2010		2009
Balance beginning of period	**$**	**4,801,793**	$	2,613,857
Goodwill acquired		**3,610,616**		2,187,936
Balance end of period	**$**	**8,412,409**	$	4,801,793

Goodwill is tested annually for impairment at the level of the reporting unit to which it has been allocated. The assessment of fair value for purposes of the goodwill impairment test involves assumptions about future conditions for the economy, capital markets, future revenues and cash flows, and specifically, the retail sector. As such, the assessment is subject to a significant degree of measurement uncertainty. As a result, it is reasonably possible, that material changes could be required to the estimates in the future.

9. BANK INDEBTEDNESS

	2010	2009
TD Canada Trust - Andersons	**$ 2,200,135**	$ 2,448,284
Beaumont Credit Union - Andersons	**-**	40,021
Beaumont Credit Union - Rocky Mountain Liquor	**-**	9,989,960
Total bank indebtedness	**$ 2,200,135**	$ 12,478,265

Bank indebtedness from TD Canada Trust for Andersons consists of a committed operating loan in the amount of $2,200,135 (2009 - $2,448,284) to a maximum of $6,000,000 and bears interest pricing based on cash flow leverage. The current pricing is at prime plus 150 basis points or the bankers acceptance discount rate plus a stamping fee of 3.50%. The loan is secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. Financial covenants related to bank indebtedness are as disclosed in Note 21.

The line of credit held with Beaumont Credit Union for Rocky Mountain Liquor was paid in full and cancelled in 2010.

10. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 28.0% (2009 – 29.0%) to the income for the year and is reconciled as follows:

	2010	2009
Income before income taxes	**$ 445,497**	$ 1,194,338
Income tax expense at the combined basic federal and provincial tax rate:	**$ 124,725**	$ 346,358
Increase (decrease) resulting from:		
Non-deductible expenses	**68,571**	40,739
Effect of rate change and other	**(3,674)**	3,705
Effective tax expense	**$ 189,622**	$ 390,802
Current income tax expenses	**210,893**	253,323
Future income tax (recovery) expense	**(21,271)**	137,479
	$ 189,622	$ 390,802

As at Dec 31, 2010, the Company has future income tax assets of $58,427 (2009 - $37,156) arising as a result of unused non-capital losses and finance charges deductible over five years for tax purposes, and timing differences between amortization expense for accounting purposes and capital cost allowance deductions claimed for tax purposes.

11. LONG TERM DEBT

	2010	2009
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 on Jul 11, 2011 and is secured by the same security as in Note 9 for TD Canada Trust. 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 oustanding amount with the balance payable on Jul 11, 2013.	**$ 9,354,770**	$ 5,653,998
Roynat Capital sub-debt financing is a 4-year second lien secured subordinated note with interest at 9.90% per annum, payable monthly. There are no principal payments, with the principal amount of $3,000,000 due at maturity on Nov 24, 2014. Roynat was issued 1,000,000 warrants on Nov 24, 2010 (Note 14 and 16).	**2,691,381**	-
Beaumont Credit Union loan bearing interest at prime plus 1.50% per annum, repayable in monthly blended payments of $966. The loan matures on Jan 1, 2012 and is secured with a specific security agreement and a guarantee in the amount of $50,000 from Peter and Joan Byrne.	**12,242**	23,014
	12,058,393	5,677,012
Amounts payable within one year	**(345,366)**	(481,939)
	$ 11,713,027	$ 5,195,073

Principal repayment terms are approximately:

2011	$ 345,366
2012	1,337,371
2013	7,684,275
Thereafter	2,691,381
	$ 12,058,393

Financial covenants related to long term debt are as disclosed in Note 21.

12. PROMISSORY NOTE

As a result of a store acquisition in the year, an unsecured non-interest bearing promissory note for $300,000 was issued in lieu of cash payment. The interest free note is to be paid $100,000 per annum beginning Sep 1, 2011 with final payment due Sep 1, 2013.

13. CONVERTIBLE DEBENTURE

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

The convertible debentures were 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. The convertible debentures 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, is reflected as the equity component of the convertible debenture.

Interest expense for the debentures is calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Dec 31, 2010 in the amount of $104,751 (2009 – $78,994), which represents the accretive interest from Dec 31, 2009.

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

Debt Component

Balance Dec 31, 2008		-
Issued Mar 16, 2009	$	556,108
Accretive interest		78,994
Coupon interest *		(50,799)
Balance Dec 31, 2009		584,303
Accretive interest		104,751
Coupon interest *		(62,510)
Balance end of year	$	626,544

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

Equity Component

Balance Dec 31, 2009	$	252,830
Balance end of year	$	252,830

14. ROYNAT CAPITAL SUB DEBT FINANCING

In 2010 the Company issued 1,000,000 warrants to Roynat Capital as part of the sub debt financing agreement on Nov 24, 2010. The note is interest bearing at 9.90% per annum, payable monthly. The debentures are convertible to common shares of the Company at a conversion price of $0.3765 per common share.

(continues)

14. ROYNAT CAPITAL SUB DEBT FINANCING *(continued)*

The transaction was initially recorded on the balance sheet as a debt of $2,682,614, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to subordinated debt at the time the loan was issued. The note will be accreted to the principal amount as additional interest over the term of the loan. The difference of $317,386 between the face amount and the estimated fair value of the debt component, less related issue costs of $37,377, is reflected as the fair value of the warrants issued.

Interest expense for the note is calculated on the face value of the note. Notional accretive interest expense is reflected at Dec 31, 2010 in the amount of $8,767 (2009 – nil), which represents the accretive interest from Nov 24, 2010.

The carrying value of the note is being increased such that the liability at maturity will be equal to the face value of $3,000,000.

15. SHARE CAPITAL

Authorized - Unlimited common shares

Issued	Number		Amount
Balance at Dec 31, 2008	49,973,520	$	1,715,448
Exercised warrants	100,000		42,750
Exercised options	944,063		188,812
Cancelled shares	(50,794)		(16,000)
Balance at Dec 31, 2009	50,966,789	$	1,931,010
Exercised warrants (Note 16)	6,493,499		2,775,971
Exercised options (Note 18)	337,500		67,500
Balance at Dec 31, 2010	57,797,788	$	4,774,481

As at Dec 31, 2010, no shares are held in escrow.

16. WARRANTS

	# of warrants		Exercise price		Estimated fair value of warrants
Outstanding Dec 31, 2008	7,979,492	$	0.3150	$	897,630
Exercised May 15, 2009	(100,000)		0.3150		(11,250)
Outstanding Dec 31, 2009	7,879,492	$	0.3150	$	886,380
Exercised Jun 26, 2010	(3,174,604)		0.3150		(357,143)
Exercised Aug 18, 2010	(50,000)		0.3150		(5,625)
Exercised Sep 30, 2010	(1,600,000)		0.3150		(180,000)
Issued Nov 24, 2010	1,000,000		0.3765		280,009
Exercised Nov 30, 2010	(1,668,895)		0.3150		(187,751)
Expired Dec 1, 2010	(1,385,993)		0.3150		(155,861)
Outstanding Dec 31, 2010	1,000,000	$	0.3765	$	280,009

The weighted-average fair value of the 7,879,492 warrants granted has been estimated at $0.1125 each using the Black-Scholes option-pricing model.

(continues)

16. WARRANTS *(continued)*

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

Risk-free interest rate	1.75%
Estimated volatility	79%
Expected life	2 years
Expected dividend yield	NIL

The weighted-average fair value of the 1,000,000 warrants granted has been estimated at $0.3088 each using the Black-Scholes option-pricing model.

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

17. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

		Amount
Balance at Dec 31, 2008	$	-
Stock-based compensation expense		108,556
Accrued benefit from cancellation of shares		3,302
Balance at Dec 31, 2009	$	111,858
Stock-based compensation expense (Note 18)		190,933
Expired warrants (Note 16)		155,861
Balance at Dec 31, 2010	$	458,652

18. 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 but may not be less than the closing price of a Rocky Mountain Liquor common share on the TSX Venture Exchange 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.

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.

(continues)

18. STOCK OPTION PLANS *(continued)*

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2008	1,250,000	$ 0.200	$ 108,750
Exercised during 2009	(892,863)	0.200	(77,679)
Outstanding Dec 31, 2009 and Dec 31, 2010	357,137	$ 0.200	$ 31,071

The weighted-average fair value of the 1,250,000 options granted has been estimated at $0.087 per option using the Black-Scholes option-pricing model.

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

Risk-free interest rate	1.75%
Estimated volatility	50%
Expected life	5 years
Expected dividend yield	NIL

Executive/Management Options

As at Dec 31, 2010, an aggregate of 630,000 incentive options were outstanding under the Option Plan, representing 1.2% of the outstanding common shares at Dec 30, 2010.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2008	-	$ -	$ -
Issued May 15, 2009	300,000	0.290	61,530
Outstanding Dec 31, 2009	300,000	$ 0.290	$ 61,530
Granted Jun 2, 2010	330,000	0.500	133,023
Outstanding Dec 31, 2010	630,000	$ 0.400	$ 194,553

One-third of these options outstanding Dec 31, 2009 vested on May 15, 2009, one-third vested Feb 15, 2010 and one-third vested Nov 15, 2010. Of the new options granted one-third of these options vested Dec 15, 2010, one-third vests Feb 15, 2011 and the remainder vests Nov 15, 2011. Stock-based compensation expense was recognized for the 12 month period ended Dec 31, 2010 in the amount of $113,825 (Dec 31, 2009 – $ 46,203).

The fair value of the 300,000 options granted in 2009 has been estimated at $0.2051 per option using the Black-Scholes option-pricing model.

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

Risk-free interest rate	1.75%
Estimated volatility	119.5%
Expected life	3 years
Expected dividend yield	NIL

The fair value of the 330,000 options granted Jun 2, 2010 has been estimated at $0.4031 per option using the Black-Scholes option-pricing model.

(continues)

18. STOCK OPTION PLANS *(continued)*

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

Risk-free interest rate	1.75%
Estimated volatility	148.3%
Expected life	3 years
Expected dividend yield	NIL

Directors Options

As at Dec 31, 2010, an aggregate of 600,000 options were issued to directors under the Option Plan, representing 0.5% of the outstanding common shares at Dec 31, 2010.

	# of options	Exercise price	value of options
Outstanding Dec 31, 2008	-	$ -	$ -
Issued Jun 29, 2009	300,000	0.320	67,920
Outstanding Dec 31, 2009	300,000	$ 0.320	$ 67,920
Granted Aug 24, 2010	300,000	0.300*	95,238
Outstanding Dec 31, 2010	600,000	$ 0.310	$ 163,158

* The options have an exercise price of $0.30 in year 1, $0.35 in year 2, and $0.39 in year 3.

One-fourth of these options vested on Jun 29, 2009. One-fourth vested on Sep 30, 2009, one-fourth vested Dec 31, 2009, and the remainder vested on Mar 31, 2010. Of the new options granted, one-quarter vested Aug 24, 2010, one-quarter vested Dec 31, 2010, one-quarter vests Mar 30, 2011 and the remainder vests on Jun 30, 2011. Stock-based compensation expense was recognized for the 12 month period ended Dec 31, 2010 in the amount of $77,108 (Dec 31, 2009 - $62,353).

The fair value of the 300,000 options granted in 2009 has been estimated at $0.2264 per option using the Black-Scholes option-pricing model.

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

Risk-free interest rate	1.75%
Estimated volatility	119.5%
Expected life	3 years
Expected dividend yield	NIL

The fair value of the 300,000 options granted Aug 24, 2010 has been estimated at $0.3175 per option using the Black-Scholes option-pricing model.

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

Risk-free interest rate	1.00%
Estimated volatility	134.8%
Expected life	3 years
Expected dividend yield	NIL

(b) Agent option plan

As part of the IPO, 637,500 options were issued to agents. The exercise price was set at $0.20. These options have a term of two years, and were fully vested by virtue of the qualifying transaction.

(continues)

18. STOCK OPTION PLANS *(continued)*

	# of options		Exercise price		Estimated fair value of options
Outstanding Dec 31, 2008	637,500	$	0.200	$	55,463
Exercised	(51,200)		0.200		(4,454)
Outstanding Dec 31, 2009	586,300	$	0.200	$	51,008
Exercised Mar 22, 2010	(337,500)		0.200		(29,363)
Expired Apr 15, 2010	(248,800)		0.200		(21,645)
Outstanding Dec 31, 2010	-	$	-	$	-

The weighted-average fair value of the 637,500 stock options granted has been estimated at $0.087 per option using the Black-Scholes option-pricing model.

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

Risk-free interest rate	1.75%
Estimated volatility	50%
Expected life	2-5 years
Expected dividend yield	NIL

SUMMARY

A summary of the status of the Company's stock options as of Dec 31, 2010 is as follows:

	Number of stock options		Weighted-average exercise price
Outstanding, Dec 31, 2008	1,887,500	$	0.200
Granted	600,000		0.305
Exercised	(944,063)		0.200
Outstanding, Dec 31, 2009	1,543,437	$	0.241
Exercised	(337,500)		0.200
Expired	(248,800)		0.200
Granted	630,000		0.410
Outstanding, Dec 31, 2010	1,587,137	$	0.321

Of the options outstanding Dec 31, 2010 1,117,137 (2009 – 1,268,437) were exercisable.

(continues)

18. STOCK OPTION PLANS *(continued)*

Additional information about the Company's share options outstanding as at Dec 31, 2010 is as follows:

	Number of Options	Weighted Average Exercise Price	Range of Exercise Price	Weighted Average Contractual Life
Pre-RTO Options				
Outstanding Dec 31, 2010	357,137	$ 0.200	$ 0.200	2.3
Executive/Management Options				
Outstanding Dec 31, 2009	300,000	$ 0.290	$ 0.290	2.0
Granted Jun 2, 2010	330,000	$ 0.500	$ 0.500	2.0
Directors Options				
Outstanding Dec 31, 2009	300,000	$ 0.320	$ 0.320	1.9
Granted Aug 24, 2010	300,000	$ 0.347	$0.300 to $0.390	1.9
Balance at Dec 31, 2010	1,587,137	$ 0.331		2.1

19. COMMITMENTS

The Company occupies various leased premises subject to minimum rent payments excluding the Company's proportion of occupancy costs as follows:

2011	1,553,414
2012	1,364,862
2013	1,242,927
2014	974,829
2015	902,903
	$ 6,038,935

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2010	2009
Cash provided (used in) by		
Accounts receivable	**$ (35,133)**	$ (255,079)
Income tax recoverable	**(127,077)**	48,115
Inventory	**451,333**	(569,724)
Prepaid expense and deposits	**(114,952)**	(5,186)
Accounts payable and accrued liabilities	**28,346**	(239,580)
Accounts payable related to business acquisition	**-**	289,230
Income tax payable	**(18,421)**	17,911
Goods and services tax payable	**25,437**	11,682
	$ 209,533	$ (702,631)

21. CAPITAL

The Company's objectives when managing capital are:

- To ensure the Company has capital to support its growth strategy, and operations
- To safeguard the Company's ability to continue as a going concern
- To ensure compliance with all covenants
- To maintain a strong capital base so as to maintain investor, creditor and market confidence

The Company considers capital to include shareholders' equity, short-term and long-term debt, and bank indebtedness offset by cash and cash equivalents.

		2010		2009
Short-term debt	**$**	**445,366**	$	10,471,899
Long-term debt		**11,913,027**		5,195,073
Bank indebtedness		**2,200,135**		2,488,305
Cash and cash equivalents		**(5,489,079)**		(10,955,265)
Net debt		**9,069,449**		7,200,012
Shareholders equity		**7,673,431**		4,833,662
Total capital	**$**	**16,742,880**	$	12,033,674

The Company's capital structure is developed to focus on its growth strategy. Management monitors the adequacy of capital and will adjust the structure accordingly by accessing credit facilities or issuing debt instruments. The Company meets its objectives for managing capital through strategic long-term planning and the annual budgeting process.

The Company is required to comply with covenants relating to its credit facilities and long term debt. These covenants require the Company to maintain certain ratios of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), and fixed coverage charge. There were no changes in the Company's objectives, policies or processes for managing capital from the prior fiscal period. As at Dec 31, 2010 the Company is in compliance with all covenants.

22. FINANCIAL INSTRUMENTS

As at Dec 31, 2010 and Dec 31, 2009 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	2010		2009	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents	**$ 5,489,079**	**$ 5,489,079**	$ 965,304	$ 965,304
Interest rate swap	**203,408**	**203,408**	85,780	85,780
Loans and receivables				
Accounts receivable	**388,814**	**388,814**	364,121	364,121
Due from related parties	**-**	**-**	118	118
Other financial liabilities				
Bank indebtedness	**2,200,135**	**2,200,135**	2,488,305	2,488,305
Short term debt	**345,366**	**345,366**	9,995,000	9,995,000
Promissory notes	**300,000**	**300,000**	-	-
Accounts payable and accrued liabilities	**593,556**	**593,556**	568,809	568,809
Long term debt	**11,713,027**	**11,713,027**	5,677,012	5,677,012
Convertible Debenture	**626,544**	**626,544**	584,303	584,303

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).

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22. FINANCIAL INSTRUMENTS *(continued)*

The following table presents the Company's financial instruments recognized in the consolidated balance sheet at fair value as at December 31, 2010:

	2010	Level 1	Level 2	Level 3
Held for trading				
Cash and cash equivalents	$ 5,489,079	$ 5,489,079		
Interest rate swap liability	$ 203,408		$ 203,408	

	2009	Level 1	Level 2	Level 3
Held for trading				
Cash and cash equivalents	$ 965,304	$ 965,304		
Interest rate swap asset	$ 85,780		$ 85,780	

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.

For the year ending Dec 31, 2010, $35,481 (Dec 2009 - nil) in bad debts was recorded.

At Dec 31, 2010 there are no financial assets that the Company deems to be impaired or that are past due according to their terms and conditions, for which allowances have not been recorded.

Liquidity Risk

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.

(continues)

22. FINANCIAL INSTURMENTS *(continued)*

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 $10,635,991, the net debt position after deducting the $10,000,000 notional amount of the interest rate swap is $635,991. Therefore a one percent change in interest rates would have an effect of $6,360 on consolidated net income. The Company manages its interest rate risk through credit facility negotiations and interest rate swaps.

23. 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.

24. 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.

25. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2010, the Company completed the acquisition of the assets of a liquor store and convenience store in Northern Alberta for approximately $1.3 million and was financed by the existing credit facility.

Subsequent to Dec 31, 2010 the Company engaged in a related party transaction in which it obtained an assignment of a contract for software development from Channel Drugs Limited, an incorporated, privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. Consideration paid was fair market value of $92,789. The transaction was approved by the Board of Directors.

Subsequent to Dec 31, 2010, the Company completed financing of $9,200,000 in convertible unsecured subordinated debentures. The Debentures will bear interest at an annual rate of 7.75% payable semi-annually in arrears on Apr 30 and Oct 31 in each year, commencing Oct 31, 2011. The maturity date of the Debentures will be Apr 30, 2016. The Debentures will be convertible into common shares of the Company at a conversion price of $0.50 per Common Share. $4.8 million of TD Canada Trust loan was paid down partially using these funds.

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25. SUBSEQUENT EVENTS *(continued)*

Subsequent to Dec 31, 2010, the Company cancelled $5.5 million of interest rate swap. It resulted in a gain of $14,700.

26. COMPARATIVE FIGURES

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