

*Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*December 31, 2011*

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## Management's Responsibility

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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 International Financial Reporting Standards 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.

MNP 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 24, 2012

"Peter J. Byrne"  
Chief Executive Officer

"Sarah Stelmack"  
Chief Financial Officer

## Independent Auditor's Report

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To the Shareholders of Rocky Mountain Liquor Inc.:

We have audited the consolidated balance sheets of Rocky Mountain Liquor Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in shareholders' equity, comprehensive income (loss), and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory notes.

### *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 International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or misstatement.

### *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 an audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 misstatement. 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

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

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Liquor Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

April 24, 2012

Edmonton, AB

*MNP* LLP

Chartered Accountants

# ROCKY MOUNTAIN LIQUOR INC

## Consolidated Statements of Financial Position

	<u>Dec 31, 2011</u>	<u>Dec 31, 2010</u>	<u>Jan 1, 2010</u>
<b>ASSETS</b>			
CURRENT			
Cash and cash equivalents (Note 5)	1,000,911	5,489,079	10,955,265
Accounts receivable	300,363	388,814	353,681
Inventory	6,718,528	5,801,144	5,420,583
Prepaid expenses and deposits	238,573	254,660	139,708
Income taxes recoverable	111,718	127,077	-
Interest rate swap asset (Note 6)	-	-	85,780
Due from related party	-	-	118
	<b>8,370,093</b>	12,060,774	16,955,135
PROPERTY AND EQUIPMENT (Note 8)	4,268,258	3,199,757	2,411,216
GOODWILL (Note 9)	9,693,841	8,228,566	4,801,793
DEFERRED TAX ASSETS (Note 10)	79,204	92,265	37,156
	<b>22,411,396</b>	23,581,362	24,205,300
<b>LIABILITIES</b>			
CURRENT			
Bank indebtedness	39,426	2,200,135	12,478,265
Accounts payable and accrued liabilities	717,532	593,556	565,210
Interest rate swap liability (Note 6)	324,448	203,408	-
Current portion of long term debt (Note 11)	161,689	345,366	481,939
Current portion of promissory notes (Note 12)	200,000	100,000	-
Goods and services tax payable	72,327	73,864	48,427
Income taxes payable	-	-	18,421
	<b>1,515,422</b>	3,516,329	13,592,262
LONG TERM DEBT (Note 11)	4,339,287	11,713,027	5,195,073
PROMISSORY NOTES (Note 12)	266,545	200,000	-
CONVERTIBLE DEBT (Note 13)	9,131,141	626,544	584,303
	<b>15,252,395</b>	16,055,900	19,371,638
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture (Note 13)	325,633	252,830	252,830
Share capital (Note 15)	4,774,481	4,774,481	1,931,010
Warrants (Note 16)	210,007	280,009	886,380
Contributed surplus (Note 17)	549,727	467,561	114,110
Retained earnings	1,299,153	1,750,581	1,649,332
	<b>7,159,001</b>	7,525,462	4,833,662
	<b>22,411,396</b>	23,581,362	24,205,300

In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. See Note 3 to these consolidated financial statements for an explanation of the transition to IFRS.

COMMITMENTS (Note 21)  
SUBSEQUENT EVENTS (Note 28)

Approved on behalf of the board:

**Frank Coleman**  
Chair, Board of Directors

**Robert Normandeau**  
Chair, Audit Committee

# ROCKY MOUNTAIN LIQUOR INC

## Consolidated Statements of Changes in Shareholders' Equity

	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Jan 1, 2010	252,830	1,931,010	886,380	114,110	1,649,332	4,833,662
Net income for the period	-	-	-	-	101,249	101,249
Warrants exercised (Note 16)	-	2,775,971	(730,519)	-	-	2,045,452
Warrants issued (Note 16)	-	-	280,009	-	-	280,009
Warrants expired (Note 16)	-	-	(155,861)	155,861	-	-
Share-based payments (Note 18)	-	-	-	197,590	-	197,590
Share options exercised (Note 15)	-	67,500	-	-	-	67,500
Balance at Dec 31, 2010	252,830	4,774,481	280,009	467,561	1,750,581	7,525,462
Net loss for the period	-	-	-	-	(451,428)	(451,428)
Convertible debenture (Note 13)	72,803	-	-	-	-	72,803
Share-based payments (Note 18)	-	-	-	82,166	-	82,166
Deferred income tax adjustment to warrants	-	-	(70,002)	-	-	(70,002)
Balance at Dec 31, 2011	325,633	4,774,481	210,007	549,727	1,299,153	7,159,001

# ROCKY MOUNTAIN LIQUOR INC

## Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

	<u>2011</u>	<u>2010</u>
SALES	52,817,810	47,635,244
COST OF SALES	41,299,223	37,570,263
	11,518,587	10,064,981
OPERATING AND ADMINISTRATIVE EXPENSES	8,895,040	7,722,478
	2,623,547	2,342,503
OTHER EXPENSES (INCOME)		
Depreciation (Note 8)	935,013	699,607
Loss on disposal of property and equipment (Note 8)	5,428	48,674
Finance Costs (Note 14)	2,172,458	1,105,565
Bad debt expense (Note 24)	66,808	35,481
Business development costs	41,676	216,037
Other income	(11,107)	(19,894)
	3,210,276	2,085,470
(LOSS) INCOME BEFORE TAX	(586,729)	257,033
INCOME TAXES (Note 10)	(135,301)	155,784
NET COMPREHENSIVE (LOSS) INCOME	(451,428)	101,249
Basic (loss) earnings per share	(0.01)	0.00
Diluted (loss) earnings per share	(0.01)	0.00
Weighted average number of shares - basic	56,727,797	53,437,268
Weighted average number of shares - diluted	56,727,797	53,814,461

# ROCKY MOUNTAIN LIQUOR INC

## Consolidated Statements of Cash Flows

For the years ended December 31

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>		
Net income	<b>(451,428)</b>	101,249
Items not affecting cash		
Net accretive interest (Notes 11, 12 and 13)	<b>387,638</b>	42,241
Amortization of convertible debenture costs (Note 13)	<b>117,502</b>	-
Loss on interest rate swap (Note 14)	<b>121,040</b>	289,189
Amortization of warrant interest (Note 16)	-	280,009
Stock based compensation (Note 18)	<b>82,166</b>	197,590
Depreciation of property and equipment	<b>935,013</b>	699,607
Loss on disposal of property and equipment	<b>5,428</b>	48,674
Deferred income taxes	<b>87,415</b>	(55,109)
	<b>1,284,774</b>	1,603,450
Changes in non-cash working capital (Note 22)	<b>(500,000)</b>	209,533
Cash flow from operating activities	<b>784,774</b>	1,812,983
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<b>(1,575,898)</b>	(921,746)
Business acquisitions net of cash acquired (Note 4)	<b>(2,066,120)</b>	(4,573,743)
Cash flow used in investing activities	<b>(3,642,018)</b>	(5,495,489)
<b>FINANCING ACTIVITIES</b>		
Repayment of long term debt (Note 11)	<b>(7,866,036)</b>	(10,773)
Repayment of promissory note (Note 12)	<b>(100,000)</b>	-
Proceeds from convertible debenture (Note 13)	<b>8,495,821</b>	-
Repayment of short term financing	<b>(2,200,135)</b>	(12,478,265)
Proceeds from short term financing	<b>39,426</b>	2,200,135
Advances from related parties	-	118
Proceeds from long term financing	-	6,392,153
Proceeds from issuance of shares (Notes 16 and 18)	-	2,112,952
Cash flow used in financing activities	<b>(1,630,924)</b>	(1,783,680)
DECREASE IN CASH FLOW AND CASH EQUIVALENTS	<b>(4,488,168)</b>	(5,466,186)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<b>5,489,079</b>	10,955,265
CASH AND CASH EQUIVALENTS - END OF YEAR	<b>1,000,911</b>	5,489,079
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>		
Interest paid	<b>1,510,755</b>	775,225
Income taxes paid	<b>138,000</b>	454,899



## 1. NATURE OF OPERATIONS

Rocky Mountain Liquor Inc. ("Rocky Mountain Liquor" or "RML") is incorporated under the Business Corporations Act (Canada), and is a tier one issuer with its common shares listed on the TSX Venture Exchange (under the initials "RUM"). The Company's registered corporate office is located at #100, 10520-178 Street, Edmonton, Alberta, T5S 2J1.

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, 2011 Andersons operated 40 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.

These consolidated annual financial statements have been approved for issue by the Board of Directors on Apr 24, 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first consolidated annual financial statements presented in accordance with IFRS.

### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The comparative consolidated figures presented in these consolidated statements are as at Jan 1, 2010 and for the year ended Dec 31, 2010 for the Company and are updated for the transition to IFRS.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 3.

### Basis of consolidation

The consolidated financial statements include the accounts of Rocky Mountain Liquor and its wholly owned subsidiary, Andersons, resulting in the consolidated entity (the "Company"). Inter-company balances and transactions and any unrealized earnings and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Functional and presentation currency*

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Critical accounting judgments, estimates and assumptions

The preparation of these 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.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated statement of financial position are:

*Inventory*

Management has estimated the value of inventory based upon their assessment of the realizable amount less selling costs. No slow moving merchandise has been identified by management.

*Taxation*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in place at the time of the expected reversal.

*Impairment of Goodwill*

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. Goodwill and other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

*Useful lives of property, plant and equipment*

Management has estimated the useful lives of property, plant and equipment as outlined further in this note based on their assessment of the time frame in which these assets will be used by the Company.

*Business Combinations*

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. Goodwill is calculated based on the purchase price less the fair value of the net tangible assets.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial Instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Detailed information with respect to key assumptions used in determining fair value of financial instruments is discussed in Note 24.

*Share Based Compensation*

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

Revenue recognition

Revenue is generated through retail and licensee sales. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*Sale of goods*

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. For this purpose, cash-generating units are set at store level. Acquisition costs are expensed as incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Repairs comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Maintenance costs are expensed as incurred when they are determined not to add life to the asset.

Property and equipment is depreciated over 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

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the net income in the period the item is derecognized.

Impairment of long lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit, calculated using discounted cash flow method, is less than its carrying amount the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest income

Interest income is recognized on an accrual basis.

Income taxes

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Earnings per share

Earnings per share are 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 Black-Scholes option-pricing model. 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. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined. For amounts that have been recognized related to options not yet vested that are subsequently forfeited, the amounts recognized as expense and equity are reversed. The Company's stock-based compensation plan is described in Note 18.

Borrowing Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the net income in the period in which they are incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are classified into one of two categories:

- fair value through profit or loss ("FVTPL");
- loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

Cash and cash equivalents and interest rate swaps are classified as FVTPL and are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Effective interest method*

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

*Derecognition of financial assets*

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. The Company has classified trade and other accounts payable, short-term financial liabilities, convertible debentures and long-term financial liabilities as other financial liabilities.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Accounting standards issued but not effective

New standards have been issued but are not yet effective for the financial year ending Dec 31, 2011, and accordingly, have not been applied in preparing these consolidated financial statements.

(continues)



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Presentation of Financial Instruments*

The IASB has issued an amendment to IAS 1, “*Presentation of Financial Statements*” (“IAS 1 amendment”), requiring companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (“OCI”) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The Company will apply the amendment at the beginning of its 2012 financial year and does not expect the implementation to have a significant impact on the Company’s disclosures.

*Financial Instruments – Disclosures*

The IASB has issued an amendment to IFRS 7, “*Financial Instruments: Disclosures*” (“IFRS 7 amendment”), requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of its 2012 financial year and does not expect the implementation to have a significant impact on the Company’s disclosures.

*Deferred Taxes – Recovery of Underlying Assets*

The IASB has issued an amendment to IAS 12, “*Income Taxes*” (“IAS 12 amendment”), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The IAS 12 amendment is effective for annual periods beginning on or after January 1, 2012. The Company will apply the amendment at the beginning of its 2012 financial year. The Company has yet to assess the impact of the IAS 12 amendment on its results of operations, financial position and disclosures.

The standards below are effective for annual periods commencing on or after Jan 1, 2013, which earlier adoption permitted. The Company is currently evaluating the impact the new standards will have on its financial reporting. There has been no change in accounting policies since Jan 1, 2011.

*Financial Instruments*

The IASB has issued a new standard, IFRS 9, “*Financial Instruments*” (“IFRS 9”), which will ultimately replace IAS 39, “*Financial Instruments: Recognition and Measurement*” (“IAS 39”). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2015. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

*Consolidated Financial Statements*

The IASB has issued a new standard, IFRS 10, “*Consolidated Financial Statements*” (“IFRS 10”), which defines control for the purposes of determining which arrangements should be consolidated, including guidance on participating rights.

*Fair Value Measurement*

The IASB has issued a new standard, IFRS 13, “*Fair Value Measurement*” (“IFRS 3”), which sets out a single IFRS framework for measuring fair value, and establishes disclosure requirements for fair value measurements.

(continues)

### 3. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The Company's consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) until Dec 31, 2010. In preparing the 2011 consolidated financial statements, management has amended certain accounting and valuation methods applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures in respect of 2010 were restated to reflect these adjustments as disclosed in the reconciliations, and descriptions of the effect of the transition from Canadian GAAP to IFRS on the Company's equity and its net income and cash flows are shown below.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended Dec 31, 2011 and the comparative information for the financial year ended Dec 31, 2010. The Company prepared its opening IFRS balance sheet and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of Dec 31, 2011.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP to final IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), elections and exceptions and IFRS policy choices. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial performance, financial position and cash flows is set out in the following tables and the notes that accompany the tables.

#### Elections under IFRS 1, "First-time Adoption of IFRS Standards"

##### *Business Combinations*

The Company has made use of the exemption available under IFRS 1, business combinations, in which it elects to apply IFRS 3 prospectively to business combinations after the date of transition for which the initial carrying amount of assets and liabilities acquired in such business combinations is deemed to be equivalent to cost. The cost of goodwill arising on business combinations prior to Jan 1, 2010 is stated at the previous carrying amount under Canadian GAAP.

##### *Deemed Cost*

The Company elected under IFRS 1 to retain Canadian GAAP carrying values of freehold and leasehold property including revaluations as deemed cost at transition. The final election the Company made refers to borrowing costs. RML elects to capitalize its borrowing costs on the date of transition to IFRS and not retrospectively.

##### *Estimates*

The estimates used under IFRS are consistent with those made, for the same dates, in accordance with previous GAAP, except where they were impacted by a difference in accounting policy.

##### *Leases*

IFRS 1 permits a first-time adopter to determine whether an arrangement contains a lease in accordance with IFRIC 4, "Determining whether an Arrangement contains a Lease" ("IFRIC 4"), based on the facts and circumstances existing at the date of transition rather than at the date the arrangement was entered into. The Company has applied IFRIC 4 on a retrospective basis. There was no impact on the Company's financial position or results of operations as a result of applying IFRIC 4 retrospectively, as there were no such arrangements.

(continues)

3. EXPLANATION OF TRANSITION TO IFRS (continued)

Financial Impacts of Adopting IFRS

The adoption of IFRS 2 “Share-based Payment” has resulted in a change in the accounting policy for share-based payments. Under IFRS, the Company charges the cost of share-based payments to the income statement over the vesting period. There was no impact at date of transition to IFRS for this change. The Company was also required to apply graded vesting to its calculation of compensation expense for options issued. The impact at date of transition to IFRS was an additional compensation expense of \$2,252. This is reflected in the opening Statement of Financial Position at Jan 1, 2010. The 2010 impact is \$6,657 to be expensed as compensation costs under IFRS. The Company was required to estimate forfeitures of options upon adoption of IFRS. The Company does not estimate any forfeiture of options issued upon transition to IFRS. Refer to Schedule 4 for reconciliation.

Adoption of IFRS 3 “Business Combinations” has no impact on the statements at transition date as we elected to apply prospectively. The 2010 impact is \$14,562 in legal and \$169,281 in acquisition costs to be expensed under IFRS. This resulted in an additional deferred tax asset of \$33,838. Refer to Schedule 4 for reconciliation.

Adoption of IAS 23 “Borrowing Costs” has no impact on the statements at transition date as we elected to apply prospectively. The 2010 impact is \$2,036 in capitalized interest costs under IFRS. Refer to Schedule 4 for reconciliation.

The adoption of IFRS did not result in substantial changes to the Company’s accounting policies under Canadian GAAP and as set out in the Company’s financial statements for the year ended December 31, 2011.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of transitioning to IFRS at and Dec 31, 2010 – Schedule 1. The following two reconciliations provide details of the impact of the transition on:

- Reconciliation of Statement of Financial Position at Jan 1, 2010 – Schedule 2
- Reconciliation of Statement of Financial Position at Dec 31, 2010 – Schedule 3
- Reconciliation of Statement of Comprehensive Income for the year ended Dec 31, 2010 – Schedule 4

<b>Schedule 1</b>	
<b>Summary of equity</b>	
	Dec 31, 2010
Total equity in accordance with Canadian GAAP	7,673,431
Deferred tax adjustment	33,838
Expense of legal fees	(14,562)
Expense of acquisition costs	(169,281)
Compensation expense	(8,909)
Contributed surplus	8,909
Capitalize interest	2,036
Change in equity	(147,969)
Total equity in accordance with IFRS	7,525,462

*(continues)*

3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 2**  
**Reconciliation of Statement of Financial Position at Jan 1, 2010**

	<u>Canadian GAAP</u>	<u>IFRS Effect</u>	<u>Jan 1, 2010</u>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents (Note 5)	10,955,265	-	10,955,265
Accounts receivable	353,681	-	353,681
Inventory	5,420,583	-	5,420,583
Prepaid expenses and deposits	139,708	-	139,708
Interest rate swap asset (note 6)	85,780	-	85,780
Due from related party	118	-	118
	<u>16,955,135</u>	-	<u>16,955,135</u>
PROPERTY AND EQUIPMENT (Note 8)	2,411,216	-	2,411,216
GOODWILL (Note 9)	4,801,793	-	4,801,793
DEFERRED TAX ASSETS (Note 10)	37,156	-	37,156
	<u>24,205,300</u>	-	<u>24,205,300</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	12,478,265	-	12,478,265
Accounts payable and accrued liabilities	565,210	-	565,210
Current portion of long term debt (Note 11)	481,939	-	481,939
Goods and services tax payable	48,427	-	48,427
Income taxes payable	18,421	-	18,421
	<u>13,592,262</u>	-	<u>13,592,262</u>
LONG TERM DEBT (Note 11)	5,195,073	-	5,195,073
CONVERTIBLE DEBT (Note 13)	584,303	-	584,303
	<u>19,371,638</u>	-	<u>19,371,638</u>
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture (Note 13)	252,830	-	252,830
Share capital (Note 15)	1,931,010	-	1,931,010
Warrants (Note 16)	886,380	-	886,380
Contributed surplus (Note 17)	111,858	2,252	114,110
Retained earnings	1,651,584	(2,252)	1,649,332
	<u>4,833,662</u>	-	<u>4,833,662</u>
	<u>24,205,300</u>	-	<u>24,205,300</u>

(continues)

3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 3**

**Reconciliation of Statement of Financial Position at Dec 31, 2010**

	<u>Canadian GAAP</u>	<u>IFRS Effect</u>	<u>Dec 31, 2010</u>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents (Note 5)	5,489,079	-	5,489,079
Accounts receivable	388,814	-	388,814
Inventory	5,801,144	-	5,801,144
Prepaid expenses and deposits	254,660	-	254,660
Income taxes recoverable	127,077	-	127,077
	<u>12,060,774</u>	-	<u>12,060,774</u>
PROPERTY AND EQUIPMENT (Note 8)	3,197,721	2,036	3,199,757
GOODWILL (Note 9)	8,412,409	(183,843)	8,228,566
DEFERRED TAX ASSETS (Note 10)	58,427	33,838	92,265
	<u>23,729,331</u>	<u>(147,969)</u>	<u>23,581,362</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	2,200,135	-	2,200,135
Accounts payable and accrued liabilities	593,556	-	593,556
Interest rate swap liability (Note 6)	203,408	-	203,408
Current portion of long term debt (Note 11)	345,366	-	345,366
Current portion of promissory note (Note 12)	100,000	-	100,000
Goods and services tax payable	73,864	-	73,864
	<u>3,516,329</u>	-	<u>3,516,329</u>
LONG TERM DEBT (Note 11)	11,713,027	-	11,713,027
PROMISSORY NOTE (Note 12)	626,544	-	626,544
CONVERTIBLE DEBT (Note 13)	200,000	-	200,000
Total liabilities	<u>16,055,900</u>	-	<u>16,055,900</u>
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture (Note 13)	252,830	-	252,830
Share capital (Note 15)	4,774,481	-	4,774,481
Warrants (Note 16)	280,009	-	280,009
Contributed surplus (Note 17)	458,652	8,909	467,561
Retained earnings	1,907,459	(156,878)	1,750,581
	<u>7,673,431</u>	<u>(147,969)</u>	<u>7,525,462</u>
	<u>23,729,331</u>	<u>(147,969)</u>	<u>23,581,362</u>

*(continues)*

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3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 4**  
**Reconciliation of Comprehensive Income**

	<u>Canadian Gaap</u>	<u>IFRS Entries</u>	<u>Dec 31, 2010</u>
SALES	47,635,244	-	47,635,244
COST OF SALES	37,570,263	-	37,570,263
	10,064,981	-	10,064,981
OPERATING AND ADMINISTRATIVE EXPENSES	7,701,259	21,219	7,722,478
	2,363,722	21,219	2,342,503
OTHER EXPENSES (INCOME)			
Depreciation (Note 8)	699,607	-	699,607
Loss on disposal of property and equipment (Note 8)	48,674	-	48,674
Finance Costs (Note 14)	1,107,601	(2,036) <span style="color: green;">▲</span>	1,105,565
Bad debt expense (Note 24)	35,481	-	35,481
Business development costs	46,756	169,281 <span style="color: green;">▲</span>	216,037
Other income	(19,894)	-	(19,894)
	1,918,225	167,245	2,085,470
INCOME BEFORE TAX	445,497	188,464	257,033
INCOME TAXES (Note 10)	189,622	(33,838)	223,460
NET COMPREHENSIVE INCOME	255,875	154,626	101,249
Basic (loss) earnings per share	0.00		0.00
Diluted (loss) earnings per share	0.00		0.00
Weighted average number of shares - basic	53,437,268		53,437,268
Weighted average number of shares - diluted	53,814,461		53,814,461

4. BUSINESS ACQUISITIONS

The Company acquired four liquor stores for the year ending Dec 31, 2011 and one convenience store (2010 – four liquor stores). The results of the asset acquisitions are included in the results of the Company from the acquisition date for comparable periods.

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

For the year ended Dec 31, 2011 \$1,128,845 (2010 - \$2,707,962) of acquired goodwill is deductible for tax purposes.

Acquisition costs of \$56,161 for the year ending Dec 31, 2011, (2010 - \$183,842) have been excluded from the consideration transferred as they relate to legal and acquisition costs, and have been recognized as an expense in the period in the “operating and administrative expenses” and “business development costs” lines in the statement of comprehensive income.

*(continues)*

4. BUSINESS ACQUISITIONS (continued)

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

	2011	2010
Cash & cash equivalents	\$ 1,830	\$ 3,150
Inventories	427,949	831,894
Property and equipment	433,044	615,076
Goodwill	1,465,275	3,426,773
Fair value of net assets acquired	<b>\$ 2,328,098</b>	<b>\$ 4,876,893</b>
Total cash consideration paid	\$ 2,067,950	\$ 4,576,893
Promissory note issued (Note 12)	260,148	300,000
	<b>\$ 2,328,098</b>	<b>\$ 4,876,893</b>

5. CASH AND CASH EQUIVALENTS

	2011	2010	Jan, 1 2010
Cash	\$ 1,000,911	\$ 3,290,883	\$ 960,265
Short term investment	-	2,198,196	9,995,000
	<b>\$ 1,000,911</b>	<b>\$ 5,489,079</b>	<b>\$ 10,955,265</b>

6. INTEREST RATE SWAP

Fair value Jan 1, 2010	\$ 85,780
Fair value Dec 31, 2010	\$ (203,408)
Fair value Dec 31, 2011	<b>\$ (324,448)</b>

The Company entered into a five year Interest Rate Swap Agreement 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 was equal to \$5,500,000 of the outstanding principal balance on the bank indebtedness and long term debt. On April 13, 2011 the Company cancelled this SWAP which resulted in a \$14,700 gain.

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

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

Fair value of the SWAP was determined using estimated future discounted cash flows using a comparable current market rate of interest. The change in fair value has been accounted for on the consolidated statement of income and on the Statement of Financial Position (Note 14).

7. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of \$19,440 (2010 - \$19,440), in respect of a retail liquor store, to Byrne Alberta Ltd, a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market value.

On Jan 28, 2011, the Company engaged in a related party transaction in which it obtained an assignment of a contract for software development from Channel Drugs Limited, a privately held company in which Peter J. Byrne is a significant shareholder. Consideration paid was fair market value of \$92,789, (2010 - \$nil). \$nil remained payable at year end. The transaction was approved by the Board of Directors.

Key Management Personnel Compensation

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

	2011	2010
Wages and salaries	<b>567,007</b>	612,599
Share based payments	<b>78,802</b>	143,580
Total	<b>\$ 645,809</b>	<b>\$ 756,179</b>

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

8. PROPERTY AND EQUIPMENT

	2011	2011	2011
	Cost	Accumulated Amortization	Net Book Value
Building	\$ 285,000	86,874	<b>\$ 198,126</b>
Computer equipment	427,116	266,697	<b>160,419</b>
Computer software	343,987	131,189	<b>212,798</b>
Furniture and fixtures	3,967,703	1,850,961	<b>2,116,742</b>
Leasehold improvements	2,232,672	818,763	<b>1,413,909</b>
Motor vehicles	381,556	215,292	<b>166,264</b>
	<b>\$ 7,638,034</b>	<b>\$ 3,369,776</b>	<b>\$ 4,268,258</b>

*(continues)*



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8. PROPERTY AND EQUIPMENT (continued)

	Dec 31, 2010 Opening NBV	Additions	Disposal	Transfers	Amortization	Dec 31, 2011 Closing NBV
Building	\$ 206,381	-	-	-	(8,255)	\$ 198,126
Computer equipment	152,387	61,654	-	-	(53,622)	160,419
Computer software	33,934	233,504	-	-	(54,640)	212,798
Furniture and fixtures	1,776,269	771,941	(3,456)	-	(428,012)	2,116,742
Leasehold improvements	861,104	885,691	(1,972)	-	(330,914)	1,413,909
Motor vehicles	169,682	56,152	-	-	(59,570)	166,264
	<b>\$ 3,199,757</b>	<b>\$ 2,008,942</b>	<b>\$ (5,428)</b>	<b>\$ -</b>	<b>\$ (935,013)</b>	<b>\$ 4,268,258</b>

	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	3,199,218	1,422,949	1,776,269
Leasehold improvements	1,348,953	487,849	861,104
Motor vehicles	325,404	155,722	169,682
	<b>\$ 5,634,520</b>	<b>\$ 2,434,763</b>	<b>\$ 3,199,757</b>

	Jan 1, 2010 Opening NBV	Additions	Disposal	Transfers	Amortization	Dec 31, 2010 Closing NBV
Building	\$ 214,980	-	-	-	(8,599)	\$ 206,381
Computer equipment	117,175	93,234	(5,821)	(5,467)	(46,734)	152,387
Computer software	11,336	67,869	-	-	(45,271)	33,934
Furniture and fixtures	1,008,094	687,302	(23,250)	448,088	(343,965)	1,776,269
Leasehold improvements	890,459	618,782	(10,752)	(442,621)	(194,764)	861,104
Motor vehicles	169,172	69,635	(8,851)	-	(60,274)	169,682
	<b>\$ 2,411,216</b>	<b>\$ 1,536,822</b>	<b>\$ (48,674)</b>	<b>\$ -</b>	<b>\$ (699,607)</b>	<b>\$ 3,199,757</b>

A loss of \$5,428 (2010 – \$48,674) was recognized in the year upon disposal of property and equipment as a result of greater than anticipated wear and tear.

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8. PROPERTY AND EQUIPMENT (continued)

	Cost	Accumulated Amortization	Jan 1, 2010 Net Book Value
Building	\$ 285,000	70,020	\$ 214,980
Computer equipment	340,039	222,864	117,175
Computer software	44,202	32,866	11,336
Furniture and fixtures	1,873,589	865,495	1,008,094
Leasehold improvements	1,538,800	648,341	890,459
Motor vehicles	273,341	104,169	169,172
	<b>\$ 4,354,971</b>	<b>\$ 1,943,755</b>	<b>\$ 2,411,216</b>

9. GOODWILL

Balance Jan 1, 2010	\$ 4,801,793
Goodwill acquired	3,426,773
Balance Dec 31, 2010	8,228,566
Goodwill acquired	1,465,275
<b>Balance Dec 31, 2011</b>	<b>\$ 9,693,841</b>

Goodwill is comprised of the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those companies. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. An impairment review was performed at Dec 31, 2011. No indications of impairment existed at that date.

10. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 26.5% (2010 – 28.0%) to the income for the year and is reconciled as follows:

	2011	2010
(Loss) Income before income taxes	\$ (586,729)	\$ 257,033
Income tax (recovery) expense at the combined basic federal and provincial tax rate:	\$ (155,483)	\$ 71,969
Increase (decrease) resulting from:		
Non-deductible expenses	22,702	68,571
Effect of rate change and other	(2,520)	15,244
Effective tax expense	\$ (135,301)	\$ 155,784
Current income tax (recovery) expenses	30,185	210,893
Deferred income tax expense (recovery)	(165,486)	(55,109)
	<b>\$ (135,301)</b>	<b>\$ 155,784</b>

(continues)

ROCKY MOUNTAIN LIQUOR INC  
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10. INCOME TAXES (continued)

The following are the significant deferred tax balances and movements during the current and comparative year.

	Jan 1, 2010	Changes through net income	Dec 2010	Changes through net income	Charged to equity	Dec 2011
Deferred income tax liabilities						
Goodwill	(39,723)	(46,575)	(86,298)	(87,609)	-	<b>(173,907)</b>
Convertible debentures	-	(9,654)	(9,654)	(39,663)	(178,547)	<b>(227,864)</b>
	<u>(39,723)</u>	<u>(56,229)</u>	<u>(95,952)</u>	<u>(127,272)</u>	<u>(178,547)</u>	<b><u>(401,771)</u></b>
Deferred income tax assets						
Financing costs	73,308	(3,311)	69,997	176,701	-	<b>246,698</b>
Non-capital losses	-	-	-	10,037	-	<b>10,037</b>
Property and equipment	27,589	36,728	64,317	78,811	-	<b>143,128</b>
Interest rate swap	(24,018)	77,921	53,903	27,209	-	<b>81,112</b>
	<u>76,879</u>	<u>111,338</u>	<u>188,217</u>	<u>292,758</u>	<u>-</u>	<b><u>480,975</u></b>
Net deferred income tax position	37,156	55,109	92,265	165,486	(178,547)	<b>79,204</b>

As at Dec 31, 2011, the Company has net deferred income tax assets of \$79,204 (2010 - \$92,265, Jan 1 2010 - \$37,156).

11. LONG TERM DEBT

	2011	2010	Jan 1, 2010
<p>TD Canada Trust loan bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. The loan matures Jul 9, 2012 and is secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. If this loan is not extended before the maturity date, the outstanding balance will be due over the ensuing two year period by quarterly principal payments in the amount of 3.57% of the outstanding amount with the balance payable on Jul 9, 2014.</p>	<b>\$4,500,000</b>	\$ 9,354,770	\$ 5,653,998
<p>Beaumont Credit Union loan bearing interest at prime plus 1.50% per annum, repayable in monthly blended payments of \$976. 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.</p>	<b>976</b>	12,242	23,014
<p>Roynat Capital sub-debt financing is a 4-year second lien secured subordinated note with interest at 9.90% per annum, payable monthly. Roynat was issued 1,000,000 warrants on Nov 24, 2010 (Note 16). The difference between the loan amount and carrying amount is accretive interest. This loan was paid in full Nov 25, 2011.*</p>	-	2,691,381	-
	<b>4,500,976</b>	12,058,393	5,677,012
Amounts payable within one year	<b>(161,689)</b>	(345,366)	(481,939)
	<b>\$4,339,287</b>	\$11,713,027	\$ 5,195,073

Principal repayment terms are approximately:

2012	\$ 161,689
2013	642,857
2014	3,696,430
	<b>\$4,500,976</b>

\* \$222,155 in financing fees were recognized into income as a result of the early payout on the Roynat Capital sub-debt financing. Early payout of this loan resulted in a \$265,614 penalty recognized into income in 2011 as disclosed in Note 14. Financial covenants related to long term debt are as disclosed in Note 23.

## 12. PROMISSORY NOTES

As a result of store acquisitions in 2010 and 2011 (Note 4), two unsecured non-interest bearing promissory notes for \$300,000 each were issued in lieu of cash payment. The notes are due in \$100,000 annual payments on Sep 1 and Feb 9 for each note. The notes are initially recorded on the balance sheet at the present value of the required installment payments discounted at a rate approximating the interest rate that would have been applicable at the time the note was issued, \$266,545 (2010 - \$300,000). The notes are subsequently accreted to the principal amount as additional interest over the term of the note. Net accretive interest is \$6,397, (2010 - nil).

## 13. CONVERTIBLE DEBENTURES

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

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

Interest expense for Debenture A is calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Dec 31, 2011 in the amount of \$112,144 (2010 - \$104,751), which represents the accretive interest for the year.

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

### Debt Component

Balance Jan 1, 2010	\$	584,303
Accretive interest		104,751
Coupon interest *		(62,510)
<u>Dec 31, 2010</u>	<u>\$</u>	<u>626,544</u>
Accretive interest		112,144
Coupon interest *		(62,511)
<u>Dec 31, 2011</u>	<u>\$</u>	<u>676,177</u>

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

### Equity Component

Balance Jan 1, 2010	\$	252,830
<u>Balance Dec 31, 2010</u>	<u>\$</u>	<u>252,830</u>
Deferred income tax		(63,208)
<u>Balance Dec 31, 2011</u>	<u>\$</u>	<u>189,622</u>

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

*(continues)*

13. CONVERTIBLE DEBENTURES (continued)

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

Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Dec 31, 2011 in the amount of \$518,128, which represents the accretive interest from Apr 13, 2011.

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

Debt Component

Dec 31, 2010	\$	-
Issued Apr 13, 2011	\$	9,004,684
Deferred issuance costs		(690,211)
Accretive interest		518,128
Coupon interest *		(495,139)
Amortization of issue costs		117,502
Dec 31, 2011	\$	8,454,964

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

Equity Component

Balance Dec 31, 2010	\$	-
Issued Apr 13, 2011	\$	195,316
Issue costs		(13,968)
Deferred income tax		(45,337)
Balance Dec 31, 2011	\$	136,011

14. FINANCE COSTS

	2011	2010
Interest expense	1,436,835	815,430
Early payment penalty on sub-debt (Note 11)	487,769	-
Change in fair value of interest rate swap	121,040	289,189
Convertible debenture issue costs (Note 13)	117,502	-
Roynat sub-debt finance fee	9,312	946
Dec 31	\$ 2,172,458	\$ 1,105,565

15. SHARE CAPITAL

Authorized - Unlimited common shares

Issued	Number	Amount
Balance at Jan 1, 2010	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 and Dec 31, 2011	57,797,788	\$ 4,774,481

As at Dec 31, 2011, no shares are held in escrow.

16. WARRANTS

	# of warrants	Exercise price	Estimated fair value of warrants
Outstanding Jan 1, 2010	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
Deferred income tax adjustment			(70,002)
Outstanding Dec 31, 2011	\$ 1,000,000	\$ 0.3765	\$ 210,007

The 1,000,000 warrants outstanding at Dec 31, 2011 are the warrants issued to Roynat Capital as a result of a financing agreement discussed in Note 11. The warrants are convertible to common shares of the Company at a conversion price of \$0.3765 per common share and expire Nov 24, 2014.

The weighted-average fair value of the 7,879,492 warrants granted in 2009 was estimated at \$0.1125 per warrant using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

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

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

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

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

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

17. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

		Amount
Balance at Jan 1, 2010	\$	114,110
Stock-based compensation expense (Note 18)		197,590
Expired warrants (Note 16)		155,861
Balance at Dec 31, 2010	\$	467,561
Stock-based compensation expense (Note 18)		82,166
Balance at Dec 31, 2011	\$	549,727

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. 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.

Pre-RTO options

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

	# of options	Exercise price	Estimated fair value of options
Outstanding Jan 1, 2010, Dec 31, 2010 and Dec 31, 2011	357,137	\$ 0.200	\$ 31,071

The weighted-average fair value of the 1,250,000 warrants granted has been estimated at \$0.087 per option using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

*(continues)*



18. STOCK OPTION PLANS (continued)

The following weighted-average assumptions were used:

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

Executive/Management Options

As at Dec 31, 2011, an aggregate of 630,000 incentive options were issued under the Option Plan, representing 1.2% of the outstanding common shares at Dec 31, 2011. 150,000 expire May 15, 2012, and 180,000 expire Jun 2, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Jan 1, 2010	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
Forfeited Jul 15, 2011	(300,000)	0.395	(91,230)
Outstanding Dec 31, 2011	330,000	\$ 0.405	\$ 102,783

Of the options outstanding at Jan 1, 2010, all have vested as of Dec 31, 2011. Stock-based compensation expense was recognized for the year ended Dec 31, 2011 in the amount of \$37,028 (2010 - \$121,961). Unrecognized compensation expense relating to unvested items is \$nil at Dec 31, 2011 (2010 - \$37,028). The 150,000 options outstanding Jan 1, 2010, that expire May 15, 2012, are expected to be forfeited.

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. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used:

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. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used:

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

*(continues)*

18. STOCK OPTION PLANS (continued)

Directors Options

As at Dec 31, 2011, an aggregate of 750,000 options were issued to directors under the Option Plan, representing 1.3% of the outstanding common shares at Dec 31, 2011. 300,000 of the options expire Jun 29, 2012, 300,000 expire Aug 24, 2013 and 150,000 expire Oct 12, 2014.

	# of options	Exercise price	Estimated fair value of options
Outstanding Jan 1, 2010	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
Granted Oct 13, 2011	150,000	0.200**	28,980
Outstanding Dec 31, 2011	750,000	\$ 0.288	\$ 192,138

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

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

Of the options granted in 2009 and 2010, all are vested as at Dec 31, 2011. Of the options granted in 2011, one-quarter vested at each of Oct 13, 2011 and Dec 31, 2011 and the remainder vest Mar 31, 2012 and Jun 30, 2012.

Stock-based compensation expense of \$45,138 was recognized for the year ended Dec 31, 2011. (2010 - \$75,629). Unrecognized compensation expense relating to unvested items is \$8,492 at Dec 31, 2011 (2010 - \$26,075).

The fair value of the 300,000 options granted in 2009 was estimated at \$0.2264 per option using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices. The following weighted-average assumptions were used:

Risk-free interest rate	1.75%
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. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used:

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

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

(continues)

18. STOCK OPTION PLANS (continued)

The following weighted-average assumptions were used:

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

(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 had a term of two years, and were fully vested by virtue of the qualifying transaction. 51,200 were exercised in 2009.

	# of options	Exercise price	value of options
Outstanding Jan 1, 2010	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 and Dec 31, 2011	-	\$ -	\$ -

SUMMARY

A summary of the status of the Company's stock options as of Dec 31, 2011 is as follows:

	Number of stock options	Weighted-average exercise price
Outstanding, Jan 1, 2010	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
Forfeited	(300,000)	0.395
Granted	150,000	0.200
Outstanding, Dec 31, 2011	1,437,137	\$ 0.319

Of the options outstanding Dec 31, 2011 1,399,637 (2010 - 1,117,137) were vested.

(continues)

18. STOCK OPTION PLANS (continued)

Additional information about the Company's share options outstanding as at Dec 31, 2011 is as follows:

	Number of Options	Range of Weighted Average Exercise Price	Range of Exercise Price	Range of Weighted Average Contractual Life Remaining
<b>Pre-RTO Options</b>	357,137	\$0.200	\$0.200	1.29
<b>Executive/Management Options</b>	330,000	\$0.290 - \$0.500	\$0.290 - \$0.500	0.94
<b>Directors Options</b>	750,000	\$0.197 - \$0.347	\$0.180 - \$0.390	1.41
<b>Total</b>	<b>1,437,137</b>			

19. EMPLOYEE BENEFITS

In accordance with the terms of the Employee Share Savings Plan established Jan 1, 2011, approved by shareholders at a previous annual general meeting, employees with more than six months service with the Company are able to have the Company match one half of an employee's purchase of the Company's shares, up to a maximum of 10% of the employee's annual income. Shares are purchased on the Toronto Stock Exchange at market price. Shares purchased by the Company are restricted from being sold for one year from purchase. These shares are valued at fair value on date of purchase. No compensation expense in excess of Company cash contributions is recognized under this plan. \$16,122 was paid by the Company to the plan in 2011. Expected forfeiture rate is 10%.

	# of shares	Purchase Price	Fair value of shares
Balance Dec 31, 2010	-	\$ -	\$ -
Purchased in 2011	152,442	0.301	45,885
Balance Dec 31, 2011	152,442	\$ 0.301	\$ 45,885

20. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic net earnings per common share for the year ending Dec 31, 2011 was based on net loss of \$451,428 (net income 2010 – \$101,249) and a weighted average number of shares outstanding of 56,727,797 (2010 – 53,437,268).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2011 was based on net loss of \$451,428 (net income 2010 – \$101,249) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,727,797 (2010 – 53,814,461).

## 21. COMMITMENTS

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

2012	1,648,142
2013	1,496,754
2014	1,180,281
2015	1,143,374
2016	1,081,937
	<u>\$ 6,550,488</u>

## 22. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>2011</u>	<u>2010</u>
Cash provided (used in) by		
Accounts receivable	\$ <b>88,451</b>	\$ (35,133)
Inventory	<b>(489,435)</b>	451,333
Prepaid expense and deposits	<b>16,087</b>	(114,952)
Income tax recoverable	<b>(237,542)</b>	(145,498)
Accounts payable and accrued liabilities	<b>123,976</b>	28,346
Goods and services tax payable	<b>(1,537)</b>	25,437
	<u>\$ <b>(500,000)</b></u>	<u>\$ 209,533</u>

## 23. 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, long-term and convertible debt and bank indebtedness offset by cash and cash equivalents.

*(continues)*

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23. CAPITAL (continued)

	2011	2010	Jan 1, 2010
Convertible debt	\$ 9,131,141	\$ 626,544	\$ 584,303
Long-term debt	4,605,832	11,913,027	5,195,073
Short-term debt	361,689	445,366	481,939
Bank indebtedness	39,426	2,200,135	12,478,265
Cash and cash equivalents	(1,000,911)	(5,489,079)	(10,955,265)
Net debt	13,137,177	9,695,993	7,784,315
Shareholders equity	7,159,001	7,525,462	4,833,662
Total capital	\$ 20,296,178	\$ 17,221,455	\$ 12,617,977

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, 2011 the Company is in compliance with all covenants.

24. FINANCIAL INSTRUMENTS

As at Dec 31, 2011 and Dec 31, 2010 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fair value through profit or loss						
Cash and cash equivalents	\$ 1,000,911	\$ 1,000,911	\$ 5,489,079	\$ 5,489,079	\$ 10,955,265	\$ 10,955,265
Interest rate swap	324,448	324,448	203,408	203,408	(85,780)	(85,780)
Loans and receivables						
Accounts receivable	300,363	300,363	388,814	388,814	353,681	353,681
Due from related parties	-	-	-	-	118	118
Other financial liabilities						
Bank indebtedness	39,426	39,426	2,200,135	2,200,135	12,478,265	12,478,265
Short term debt	161,689	161,689	345,366	345,366	481,939	481,939
Promissory notes	466,545	466,545	300,000	300,000	-	-
Accounts payable and accrued liabilities	717,532	717,532	593,556	593,556	565,210	565,210
Long term debt	4,339,287	4,339,287	11,713,027	11,713,027	5,195,073	5,195,073
Convertible						
Debenture	9,131,141	9,131,141	626,544	626,544	584,303	584,303

*(continues)*

24. FINANCIAL INSTRUMENTS (continued)

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).

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

	Dec 31, 2011	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	\$ 1,000,911	\$ 1,000,911		
Interest rate swap liability	\$ 324,448		\$ 324,448	
	Dec 31, 2010	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	\$ 5,489,079	\$ 5,489,079		
Interest rate swap liability	\$ 203,408		\$ 203,408	
	Jan 1, 2010	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	\$ 10,955,265	\$ 10,955,265		
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.

*(continues)*

24. FINANCIAL INSTRUMENTS (continued)

Credit Risk

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

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

Amounts are considered past due when payment has not been received in accordance with a customer agreement, which is typically 60 days. Amounts are considered to be impaired when the Company has exhausted all collection efforts. Maximum exposure to credit risk is \$300,363 (Dec 2010 - \$388,814, Jan 1, 2010 – \$353,681).

For the period ending Dec 31, 2011, \$66,808 (2010 – \$35,481) in bad debts was recorded.

At Dec 31, 2011 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

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

	Maturity Date	Current	Non-current
TD Canada Trust loan (Note 11)	Jul 9, 2012	\$ 160,713	\$ 4,339,287
Beaumont Credit Union loan (Note 11)	Jan 1, 2012	976	-
Promissory note (Note 12)	Sep 1, 2012	100,000	100,000
Promissory note (Note 12)	Feb 9, 2014	100,000	166,545
8.25% debenture (Note 13)	May 16, 2014	-	8,454,964
7.75% debenture (Note 13)	Apr 30, 2016	-	676,177
		\$ 361,689	\$ 13,736,973

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

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities. For purposes of calculating our covenant, rent expense was \$1,655,561 (2010 – \$1,263,181) for the year ending Dec 31, 2011. These are operating leases. The Company does not have any financing leases.

Market Risk

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

*(continues)*



24. FINANCIAL INSTRUMENTS (continued)

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 \$4,540,402, the net debt position after deducting the \$4,500,000 notional amount of the interest rate swap is \$40,402. Therefore a one percent change in interest rates would have an immaterial effect on consolidated net income. The Company manages its interest rate risk through credit facility negotiations and interest rate swaps.

25. 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.

26. 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.

27. COMPARATIVE FIGURES

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

28. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2011 the Company acquired a store in Beaumont, AB for \$30,000 which was financed by existing credit facilities.

Subsequent to Dec 31, 2011 the Company sold the assets of a store in Edmonton, AB for \$50,000.