

Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2013

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Management's Responsibility

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 23, 2014

"Peter J. Byrne"
Chief Executive Officer

"Sarah Stelmack"
Chief Financial Officer

Independent Auditor's 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 statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of changes in shareholders' equity, comprehensive income, 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 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 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 an audit to obtain reasonable assurance 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 consolidated financial statement presentation.

We believe that the audit evidence 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, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

April 23, 2014

Edmonton, AB

MNP LLP

Chartered Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

As at	Note	Dec 31, 2013	Dec 31, 2012
ASSETS			
CURRENT			
Cash and cash equivalents		1,123,004	1,123,049
Accounts receivable		482,550	287,273
Inventory		7,158,515	7,014,417
Prepaid expenses and deposits		226,488	263,985
Income taxes recoverable		84,340	132,106
		9,074,897	8,820,830
PROPERTY AND EQUIPMENT	6	4,439,756	4,037,717
GOODWILL	7	11,205,368	10,828,805
DEFERRED TAX ASSETS	8	-	60,241
		24,720,021	23,747,593
LIABILITIES			
CURRENT			
Bank indebtedness	9	49,909	-
Accounts payable and accrued liabilities		872,123	726,629
Interest rate swap liability	4	138,408	213,359
Current portion of long term debt	9	224,159	205,356
Current portion of promissory notes	10	87,937	200,000
Current portion of convertible debt	11	803,479	-
Goods and services tax payable		70,521	46,343
		2,246,536	1,391,687
DEFERRED TAX LIABILITY	8	19,659	-
LONG TERM DEBT	9	6,052,299	5,544,644
PROMISSORY NOTES	10	-	83,986
CONVERTIBLE DEBT	11	8,853,884	9,388,065
		17,172,378	16,408,382
SHAREHOLDERS' EQUITY			
Equity component of convertible debenture	11	325,633	325,633
Share capital	13	4,774,481	4,774,481
Warrants	14	210,007	210,007
Contributed surplus	15	537,903	537,903
Retained earnings		1,699,619	1,491,187
		7,547,643	7,339,211
		24,720,021	23,747,593

COMMITMENTS 19
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The accompanying notes form an integral part of these consolidated financial statements

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

	Note	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Dec 31, 2011		325,633	4,774,481	210,007	549,727	1,299,153	7,159,001
Net comprehensive income for the year		-	-	-	-	192,034	192,034
Share-based payments	16	-	-	-	(11,824)	-	(11,824)
Balance at Dec 31, 2012		325,633	4,774,481	210,007	537,903	1,491,187	7,339,211
Net comprehensive income for the year		-	-	-	-	208,432	208,432
Balance at Dec 31, 2013		325,633	4,774,481	210,007	537,903	1,699,619	7,547,643

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

ROCKY MOUNTAIN LIQUOR INC
Consolidated Statements of Comprehensive Income
For the years ended December 31

	Note	2013	2012
SALES		55,915,547	54,638,640
COST OF SALES		42,753,766	42,179,834
		13,161,781	12,458,806
OPERATING AND ADMINISTRATIVE EXPENSES		10,574,232	9,763,549
INCOME FROM OPERATIONS		2,587,549	2,695,257
OTHER EXPENSES (INCOME)			
Finance costs	12	1,423,264	1,301,536
Gain on business combination	3	(25,200)	-
Depreciation	6	827,358	1,020,432
Loss on disposal of property and equipment	6	16,210	59,563
Bad debt expense	22	8,352	470
Business development costs		46,682	36,896
Store closure expenses		23,726	14,643
Other income		(10,782)	(8,938)
Loss on sale of store		-	26,507
		2,309,610	2,451,109
INCOME BEFORE TAX		277,939	244,148
INCOME TAXES	8	69,507	52,114
NET COMPREHENSIVE INCOME		208,432	192,034
Basic income per share	18	0.00	0.00
Diluted income per share	18	0.00	0.00
Weighted average number of shares - basic		57,797,788	57,797,788
Weighted average number of shares - diluted		57,797,788	57,939,385

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Cash Flows

For the years ended December 31

	Note	2013	2012
OPERATING ACTIVITIES			
Net comprehensive income		208,432	192,034
Items not affecting cash			
Gain on business combination	3	(25,200)	-
Unrealized gain on interest rate swap	4	(74,951)	(111,089)
Depreciation of property and equipment	6	827,358	1,020,432
Loss on disposal of property and equipment	6	16,210	59,563
Deferred tax expense	8	79,900	18,963
Net accretive interest	10, 11	110,451	110,728
Amortization of convertible debenture costs	11	162,798	163,637
Stock based compensation	16	-	(11,824)
Loss on sale of store		-	26,507
		1,304,998	1,468,951
Changes in non-cash working capital	20	88,229	345,566
Cash flow from operating activities		1,393,227	1,814,517
INVESTING ACTIVITIES			
Purchase of property and equipment		(1,213,615)	(538,825)
Proceeds on disposal of property and equipment		92,098	-
Business combinations net of cash acquired	3	(648,122)	(2,163,152)
Cash flow used in investing activities		(1,769,639)	(2,701,977)
FINANCING ACTIVITIES			
Proceeds from long term debt	9	526,458	1,250,000
Proceeds from bank indebtedness	9	49,909	-
Repayment of promissory note	10	(200,000)	(200,000)
Repayment of long term debt		-	(976)
Repayment of bank indebtedness		-	(39,426)
Cash flow from financing activities		376,367	1,009,598
(DECREASE) INCREASE IN CASH		(45)	122,138
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		1,123,049	1,000,911
CASH AND CASH EQUIVALENTS - END OF PERIOD		1,123,004	1,123,049
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		1,169,576	1,138,967
Income taxes paid		74,000	170,000

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

1. NATURE OF OPERATIONS

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

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

As at Dec 31, 2013 Andersons operated 46 retail liquor stores in Alberta, selling beer, wine, spirits, ready to drink products, as well as ancillary items such as juice, ice, soft drinks and giftware as well as one convenience store.

These consolidated annual financial statements have been approved for issue by the Board of Directors on Apr 23, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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.

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.

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 discussed below.

Estimates:

Inventory

Management has estimated the value of inventory based upon their assessment of the realizable amount less selling costs. No merchandise has been identified as requiring a write down.

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 annually to determine if their carrying amounts may not be recoverable.

If the recoverable amount of the CGU, 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.

The discounted cash flow model is based on calculations and projections from financial budgets prepared by management. A discount rate range of 6.42% - 7.39%, which is the Company's weighted average cost of capital, was used. Budgeted gross margin was based on past performance. Growth rates were forecasted to be 1.0% based on industry statistics.

Useful lives of property and equipment

Management has estimated the useful lives of property 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. Fair value of tangible assets is based on market price of similar assets.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Shares purchased in the employee share purchase plan are based on fair value at time of purchase.

Judgments:

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. To determine the equity versus liability portion of the convertible debentures issued, management engaged a valuator to estimate the discount rate required for calculation of the net present value of future cash flows which determined the liability component. Detailed information with respect to key assumptions used in determining fair value of financial instruments is discussed in Note 22.

Cash-generating units

The determination of cash-generating units ("CGU") was based on management's judgment and was determined to be each retail location based on their independent cash flows. Management monitors goodwill at a group of CGUs level as the synergies of multiple locations operating under a common regulatory environment are realized across all related retail locations.

Revenue recognition

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

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the consideration paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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 the CGU expected to benefit from the combination's synergies. Acquisition costs are expensed as incurred.

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 and maintenance comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. These 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	lease term	straight line method
Motor vehicles	30%	declining balance method

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 profit or loss 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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recoverable amount of an asset or CGU 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) 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.

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 groups of CGU's expected to benefit from the synergies of the combination. Groups of 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. Goodwill is allocated to the Company's groups of CGU's identified according to business operations. Each retail location is considered a CGU.

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

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity. Current tax is the expected payable on the taxable income for the year using rates enacted or substantially enacted at the year-end, and includes any adjustments to tax payable in respect of previous years.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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 tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and 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

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.

Share based payments

The Company accounts for all share based payments using the Black-Scholes option-pricing model. Under this model, compensation costs attributable to options granted are measured at fair value at the date of grant. Any consideration received upon the exercise of a share based payment, along with the amount previously recorded as contributed surplus, is credited to share capital. The expense for share based payments 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 share based payment plan is described in Note 16.

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

Accounts 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 their fair value, less transaction costs and subsequently carried at amortized cost using the effective interest method less impairment losses. 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 accounts receivables, is directly reduced by the impairment loss. The carrying amount of accounts receivables is reduced through the use of an allowance account. When accounts receivable are 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 accounts payable and accrued liabilities, bank indebtedness, short-term financial liabilities, convertible debentures, promissory notes, long term debt and long-term financial liabilities as other financial liabilities.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

Significant accounting standards issued but not effective

New standards have been issued but are not yet effective for the year ending Dec 31, 2013, and accordingly, have not been applied in preparing these consolidated financial statements.

Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company does not believe this will have a significant impact on disclosure.

Levies

The IASB has issued a new standard, IFRIC 21, "Levies" ("IFRIC 21"), effective for years beginning on or after January 1, 2014. IFRIC 21 provides guidance on when to recognize an obligation to pay a levy other than income tax. The Company does not believe the adoption of this standard will have an impact on reporting.

New significant accounting standards adopted in the period

The Company adopted the following new significant accounting standards in preparing these consolidated statements:

Consolidated Financial Statements

Effective January 1, 2013, the Company adopted 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. The adoption of the policy did not result in any changes to consolidation of the Company's subsidiary.

Fair Value Measurement

Effective January 1, 2013, the Company adopted IFRS 13, "Fair Value Measurement" ("IFRS 13"), which sets out a single IFRS framework for measuring fair value, and establishes disclosure requirements for fair value measurements. This standard was adopted prospectively and did not require any measurement adjustments or adjustments to the valuation techniques employed by the Company to measure fair value. The adoption of IFRS 13 has resulted in additional disclosures in Note 22 to these consolidated financial statements.

Impairment of Assets

The Company early adopted IAS 36, "Impairment of Assets" ("IAS 36") effective January 1, 2013, which was amended to reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of each CGU to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. These amendments are required to be applied retrospectively for years beginning on or after January 1, 2014 with early adoption allowed.

3. BUSINESS COMBINATIONS

The Company acquired three liquor stores for the year ending Dec 31, 2013 (2012 – four). In accordance with IFRS, an asset acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. The Company assessed these asset acquisitions and determined that they constitute a business combination. The results of the business combinations are included in the results of the Company from the acquisition date for comparable periods.

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

For the year ended Dec 31, 2013 \$282,422 (2012 - \$851,224) of acquired goodwill is deductible for tax purposes.

Acquisition costs of \$17,297 for the year ending Dec 31, 2013, (2012 - \$21,600) have been excluded from the consideration transferred as they relate to legal and acquisition costs, and have been recognized as an expense in the period in the “operating and administrative expenses” and “business development costs” lines in the statement of comprehensive income.

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

	2013	2012
Cash & cash equivalents	\$ 200	\$ 2,900
Inventories	172,669	691,052
Property and equipment	124,090	337,136
Goodwill	376,563	1,134,964
Fair value of net assets acquired	\$ 673,522	\$ 2,166,052
Total cash consideration paid	\$ 648,322	\$ 2,166,052
Gain on purchase of property and equipment	25,200	-
	\$ 673,522	\$ 2,166,052

4. INTEREST RATE SWAP

Mark to market value Dec 31, 2011	\$ (324,448)
Unrealized gain	111,089
Mark to market value Dec 31, 2012	\$ (213,359)
Unrealized gain	74,951
Mark to market value Dec 31, 2013	\$ (138,408)

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

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4. INTEREST RATE SWAP (continued)

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 Comprehensive Income, on the Statement of Financial Position, and in Note 12.

5. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rent of \$1,620 (2012 - \$19,440), in respect of a retail liquor store, to Byrne Alberta Ltd ("BAL"), a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market rates. At Dec 31, 2013 \$31,500 (2012 - \$nil) is owing from BAL with respect to amounts paid on their behalf.

Key Management Personnel Compensation

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

	2013	2012
Wages and salaries	\$ 545,575	\$ 556,981
Share based payments	2,308	16,723
Other	1,817	-
	\$ 547,883	\$ 573,704

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

6. PROPERTY AND EQUIPMENT

	2013	2013	2013
	Cost	Accumulated Depreciation	Net Book Value
Building	\$ 285,000	102,407	\$ 182,593
Computer equipment	405,328	276,124	129,204
Computer software	488,388	448,639	39,749
Furniture and fixtures	4,211,938	2,462,635	1,749,303
Leasehold improvements	3,476,651	1,193,095	2,283,556
Motor vehicles	240,344	184,993	55,351
	\$ 9,107,649	\$ 4,667,893	\$ 4,439,756

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ROCKY MOUNTAIN LIQUOR INC
Notes to Consolidated Financial Statements
December 31, 2013

6. PROPERTY AND EQUIPMENT (continued)

	Dec 31, 2012 Opening NBV	Additions	Disposal	Transfers	Depreciation	Dec 31, 2013 Closing NBV
Building	\$ 190,201	-	-	-	(7,608)	\$ 182,593
Computer equipment	171,477	23,774	(13,846)	-	(52,201)	129,204
Computer software	51,266	79,499	-	-	(91,016)	39,749
Furniture and fixtures	1,872,420	289,708	(35,622)	22,545	(399,748)	1,749,303
Leasehold improvements	1,621,629	943,903	(14,014)	(22,545)	(245,417)	2,283,556
Motor vehicles	130,724	821	(44,826)	-	(31,368)	55,351
	\$ 4,037,717	\$ 1,337,705	\$ (108,308)	\$ -	\$ (827,358)	\$ 4,439,756

	2012 Cost	2012 Accumulated Depreciation	2012 Net Book Value
Building	\$ 285,000	94,799	\$ 190,201
Computer equipment	488,842	317,365	171,477
Computer software	413,059	361,793	51,266
Furniture and fixtures	4,048,796	2,176,376	1,872,420
Leasehold improvements	2,577,193	955,564	1,621,629
Motor vehicles	396,084	265,360	130,724
	\$ 8,208,974	\$ 4,171,257	\$ 4,037,717

	Dec 31, 2011 Opening NBV	Additions	Disposal	Transfers	Depreciation	Dec 31, 2012 Closing NBV
Building	\$ 198,126	-	-	-	(7,925)	\$ 190,201
Computer equipment	160,419	65,055	(798)	-	(53,199)	171,477
Computer software	212,798	84,439	(646)	-	(245,325)	51,266
Furniture and fixtures	2,116,742	230,160	(56,325)	39,449	(457,606)	1,872,420
Leasehold improvements	1,413,909	479,120	(28,301)	(39,449)	(203,650)	1,621,629
Motor vehicles	166,264	17,187	-	-	(52,727)	130,724
	\$ 4,268,258	\$ 875,961	\$ (86,070)	\$ -	\$ (1,020,432)	\$ 4,037,717

A loss of \$16,210 (2012 – \$59,563) was recognized in the year upon disposal of property and equipment as a result of the write off of leaseholds due to the closing of a store, as well as greater than anticipated wear and tear on some assets. In 2012 a loss upon sale of a store was recognized in the amount of \$26,507.

7. GOODWILL

Balance Jan 1, 2012	\$ 9,693,841
Goodwill acquired	1,134,964
<u>Balance Dec 31, 2012</u>	<u>10,828,805</u>
Goodwill acquired	376,563
<u>Balance Dec 31, 2013</u>	<u>\$ 11,205,368</u>

Goodwill is comprised of the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those stores. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. An impairment review was performed at Dec 31, 2013. No indications of impairment existed at that date.

8. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 25% (2012 – 25%) to the income for the year and is reconciled as follows:

	2013	2012
<u>Income before income taxes</u>	<u>\$ 277,939</u>	<u>\$ 244,148</u>
Income tax expense at the combined basic		
Federal and provincial tax rate:	\$ 69,488	\$ 61,038
Increase (decrease) resulting from:		
Non-deductible expenses (non-taxable income)	1,133	(8,924)
Effect of rate change and other	(1,114)	-
<u>Effective tax expense</u>	<u>\$ 69,507</u>	<u>\$ 52,114</u>
Current income tax (recovery) expense	(10,393)	33,151
Deferred tax expense	79,900	18,963
	<u>\$ 69,507</u>	<u>\$ 52,114</u>

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

	2012	Changes through net income	2013
<u>Deferred tax liabilities</u>			
Goodwill	\$ (277,343)	\$ (101,138)	\$ (378,481)
Convertible debenture	(159,273)	68,314	(90,959)
	<u>\$ (436,616)</u>	<u>\$ (32,824)</u>	<u>\$ (469,440)</u>
<u>Deferred tax assets</u>			
Financing costs	\$ 168,937	\$ (71,574)	\$ 97,363
Non-capital losses	45,133	22,082	67,215
Property and equipment	229,447	21,154	250,601
Interest rate swap	53,340	(18,738)	34,602
	<u>\$ 496,857</u>	<u>\$ (47,076)</u>	<u>\$ 449,781</u>
<u>Net deferred tax position</u>	<u>\$ 60,241</u>	<u>\$ (79,900)</u>	<u>\$ (19,659)</u>

As at Dec 31, 2013, the Company has net deferred tax liability of \$19,659 (2012 – deferred tax asset of \$60,241).

9. BANK INDEBTEDNESS AND LONG TERM DEBT

Bank Indebtedness

Through its credit agreement with TD Canada Trust, the Company has an available \$5,000,000 swingline facility due upon demand, bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. Secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. It was not drawn on at Dec 31, 2013 (2012 - \$ nil).

The Company has an available overdraft limit of \$50,000 with Beaumont Credit Union which bears interest at prime plus 1%, per annum and is secured by a guarantee and postponement from a significant shareholder. At Dec 31, 2013 there was \$49,909 in bank indebtedness (2012 – \$ nil).

Long Term Debt

	2013	2012
TD Canada Trust loan bearing interest at prime plus 1.5% or bankers acceptances plus 3.0% per annum, interest only payment due monthly. The loan matures Jul 7, 2014 and is secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. If the loan is not extended before maturity date, the outstanding balance will be due over the ensuing two year period by quarterly principal payments in the amount of 3.57% of the outstanding amount, with the balance payable on Jul 7, 2016.	\$ 6,276,458	\$ 5,750,000
Amounts payable within one year	(224,159)	(205,356)
	\$ 6,052,299	\$ 5,544,644

Principal repayment terms are approximately:

2014	\$ 224,159
2015	896,637
2016	5,155,662
	\$ 6,276,458

10. PROMISSORY NOTES

As a result of store acquisitions in 2010 and 2011, two unsecured non-interest bearing promissory notes for \$300,000 each were issued in lieu of cash payment. The note issued in 2010 matured Sep 1, 2013. The note issued in 2011 matures Feb 9, 2014 with a final payment of \$100,000.

The notes were initially recorded on the Statement of Financial Position at the present value of the required installment payments discounted at a rate approximating the interest rate that would have been applicable at the time the note was issued. The notes are subsequently accreted to the principal amount as additional interest over the term of the note. Net accretive interest for the year was \$3,951 (2012 - \$17,441)

11. 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 Statement of Financial Position at a fair value of \$556,108, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Debenture A 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, 2013 in the amount of \$131,357 (2012 - \$120,967), 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

Dec 31, 2011	\$ 676,177
Accretive interest	120,967
Coupon interest *	(62,511)
Dec 31, 2012	\$ 734,633
Accretive interest	131,357
Coupon interest *	(62,511)
Dec 31, 2013	\$ 803,479

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

Equity Component

Balance Dec 31, 2011, 2012 and 2013	\$ 189,622
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In 2011 the Company issued a \$9,200,000 unsecured convertible debenture ("Debenture B") due on Apr 30, 2016. Debenture B is interest bearing at 7.75% payable semi-annually. Debenture B is convertible to common shares of the Company at a conversion price of \$0.500 per common share.

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

The carrying value of debenture B is being increased such that the liability at maturity will be equal to the face value of \$9,200,000. Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Dec 31, 2013 in the amount of \$769,307 (2012 - \$747,831), which represents the accretive interest for the year.

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11. CONVERTIBLE DEBENTURES (continued)

Debt Component

Dec 31, 2011	\$ 8,454,964
Accretive interest	747,831
Coupon interest *	(713,000)
Amortization of issue costs	163,637
Dec 31, 2012	\$ 8,653,432
Accretive interest	769,307
Coupon interest *	(731,653)
Amortization of issue costs	162,798
Dec 31, 2013	\$ 8,853,884

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

Equity Component

Balance Dec 31, 2011, 2012 and 2013	\$ 136,011
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12. FINANCE COSTS

	Note	2013	2012
Interest expense		\$ 1,335,417	\$ 1,248,988
Change in fair value of interest rate swap	4	(74,951)	(111,089)
Convertible debenture issue costs	11	162,798	163,637
		\$ 1,423,264	\$ 1,301,536

13. SHARE CAPITAL

Authorized - Unlimited common shares

	Number	Amount
Balance at Dec 31, 2011, 2012 and 2013	57,797,788	\$ 4,774,481

14. WARRANTS

	# of warrants	Exercise price	Estimated fair value of warrants
Outstanding Dec 31, 2011, 2012 and 2013	1,000,000	\$ 0.3765	\$ 210,007

The 1,000,000 warrants outstanding at Dec 31, 2013 are the warrants issued to Roynat Capital as a result of a financing agreement. The warrants are convertible to common shares of the Company at a conversion price of \$0.3765 per common share and expire Nov 24, 2014.

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

15. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2011		\$ 549,727
Net share-based compensation	16	(11,824)
Balance at Dec 31, 2012 and 2013		\$ 537,903

16. 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 expired Apr 15, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011, Dec 31, 2012	357,137	\$ 0.200	\$ 31,071
Expired Apr 15, 2013	(357,137)	(0.200)	(31,071)
Outstanding Dec 31, 2013	-	\$ -	\$ -

Executive/Management Options

An aggregate of 630,000 incentive options were issued under the Option Plan, representing 1.2% of the outstanding common shares. These options expired Jun 2, 2013.

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16. STOCK OPTION PLANS (continued)

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011	330,000	\$ 0.405	\$ 102,783
Expired May 15, 2012	(150,000)	0.290	(30,225)
Outstanding Dec 31, 2012	180,000	\$ 0.500	\$ 72,558
Expired Jun 2, 2013	(180,000)	\$ (0.500)	\$ (72,558)
Outstanding Dec 31, 2013	-	\$ -	\$ -

Share based compensation expense was \$nil for the year ended Dec 31, 2013 (2012 - reversal of \$21,604).

Directors Options

750,000 options were issued to directors under the Option Plan, representing 1.3% of the outstanding common shares, with 150,000 outstanding at Dec 31, 2013, expiring Oct 12, 2014.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011	750,000	\$ 0.288	\$ 192,138
Expired Jun 29, 2012	(300,000)	0.320	(67,908)
Outstanding Dec 31, 2012	450,000	\$ 0.296	\$ 124,230
Expired Aug 24, 2013	(300,000)	0.390	(95,250)
Outstanding Dec 31, 2013	150,000	\$ 0.220	\$ 28,980

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

All options granted are vested as at Dec 31, 2013. Share based compensation expense of \$nil was recognized for the year ended Dec 31, 2013 (2012 - \$9,780).

SUMMARY

	Number of stock options	Weighted-average exercise price
Outstanding, Dec 31, 2011	1,437,137	\$ 0.293
Expired	(450,000)	0.310
Outstanding, Dec 31, 2012	987,137	\$ 0.299
Expired	(837,137)	0.333
Outstanding, Dec 31, 2013	150,000	\$ 0.220

17. 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.

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17. EMPLOYEE BENEFITS (continued)

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. \$17,730 was paid by the Company to the plan in 2013 (2012 - \$22,525). Expected forfeiture rate is 10%.

The Company pays 50% of Alberta Blue Cross health premiums for certain employees. For the year ended Dec 31, 2013 the total premiums paid by the Company were \$37,413 (2012 - \$nil).

18. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2013 was based on consolidated net comprehensive income of \$208,432 (2012 - \$192,034) and a weighted average number of shares outstanding of 57,797,788 (2012 - 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2013 was based on net comprehensive income of \$208,432 (2012 - \$192,034) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,797,788 (2012 - 57,939,385).

19. COMMITMENTS

The Company occupies various leased premises subject to minimum rent payments excluding the Company's proportion of occupancy costs. Lease commitments are based on the current lease term.

2014	2,249,461
2015	2,239,630
2016	2,173,961
2017	1,850,603
2018	1,803,783
	<u>\$ 10,317,438</u>

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2013	2012
Cash provided by (used in)		
Accounts receivable	\$ (195,277)	\$ 13,090
Inventory	28,571	395,163
Prepaid expenses and deposits	37,497	(25,412)
Income tax recoverable	47,766	(20,388)
Accounts payable and accrued liabilities	145,494	9,097
Goods and services tax payable	24,178	(25,984)
	<u>\$ 88,229</u>	<u>\$ 345,566</u>

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

	2013	2012
Convertible debt	\$ 9,657,363	\$ 9,388,065
Long-term debt	6,052,299	5,628,630
Short-term debt	312,096	405,356
Bank indebtedness	49,909	-
Cash and cash equivalents	(1,123,004)	(1,123,049)
Net debt	\$ 14,948,663	\$ 14,299,002
Shareholders equity	7,581,054	7,339,211
Total capital	\$ 22,529,717	\$ 21,638,213

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, 2013 the Company is in compliance with all covenants.

22. FINANCIAL INSTRUMENTS

For cash and cash equivalents, accounts receivable, due from related parties, bank indebtedness, short-term debt, accounts payable and accrued liabilities and promissory note, the carrying value approximates fair value due to the short-term nature of the instruments.

The interest rate swap has a fair value equivalent to the carrying value and is calculated on a mark to market basis.

The carrying value of long-term debt approximates the fair value as the interest rate is at a variable market rate, or fixed rates approximate current market conditions.

The convertible debenture has a fair value equivalent to the carrying value, as the discount rate remains unchanged.

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ROCKY MOUNTAIN LIQUOR INC
Notes to Consolidated Financial Statements
December 31, 2013

22. FINANCIAL INSTRUMENTS (continued)

As at Dec 31, 2013 and Dec 31, 2012 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	2013		2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,123,004	1,123,004	\$ 1,123,049	\$ 1,123,049
Interest rate swap	138,408	138,408	213,359	213,359
Loans and receivables				
Accounts receivable	482,550	482,550	287,273	287,273
Other financial liabilities				
Bank indebtedness	49,909	49,909	-	-
Short term debt	224,159	224,159	205,356	205,356
Promissory notes	87,937	87,937	283,986	283,986
Accounts payable and accrued liabilities	872,123	872,123	726,629	726,629
Long term debt	6,052,299	6,052,299	5,544,644	5,544,644
Convertible debenture	9,657,363	9,657,363	9,388,065	9,388,065

Fair value measurements

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

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

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

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

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

	Dec 31, 2013	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,123,004	\$ 1,123,004		
Interest rate swap liability	\$ 138,408		\$ 138,408	
	Dec 31, 2012	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	\$ 1,123,049	\$ 1,123,049		
Interest rate swap liability	\$ 213,359		\$ 213,359	

The Interest rate swap liability Level 2 inputs used include quoted prices for similar instruments in active markets, and market interest rates. The asset is valued using the market approach, based upon the mid-market levels at the close of business on Dec 31, 2013.

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22. FINANCIAL INSTRUMENTS (continued)

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. Maximum exposure to credit risk is \$482,550 (2012 - \$287,273). \$11,101 (2012 - \$21,675) are over 60 days, but not considered impaired.

For the period ending Dec 31, 2013, \$8,352 (2012 - \$470) in bad debts was recorded.

At Dec 31, 2013 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's liabilities at Dec 31, 2013 have maturities which are summarized below:

	Note	Maturity Date	Current	Non-current
Bank indebtedness			\$ 49,909	\$ -
Accounts payable and accrued liabilities			872,123	-
Goods and services tax payable		Jan 31, 2014	70,521	-
TD Canada Trust loan	9	Jul 7, 2014	224,159	6,052,299
Promissory note	10	Feb 9, 2014	87,937	-
8.25% Convertible debenture	11	Mar 16, 2014	803,479	-
7.75% Convertible debenture	11	Apr 30, 2016	-	8,853,884
			\$ 2,108,128	\$ 14,906,183

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 \$2,048,666 (2012 - \$1,876,867) for the year ending Dec 31, 2013. These are operating leases. The Company does not have any financing leases.

(continues)

22. FINANCIAL INSTRUMENTS (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 \$6,326,367 the net debt position after deducting the \$4,500,000 notional amount of the interest rate swap is \$1,826,367. 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.

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. COMPARATIVE FIGURES

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

26. SUBSEQUENT EVENTS

On Feb 7, 2014 the Company completed construction and opened a greenfield store in Southern Alberta.

On Mar 16, 2014 the Company repaid Debenture A (Note 11) in full, in accordance with its terms and conditions.