

*Interim (unaudited) Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*September 30, 2011*

**Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Rocky Mountain Liquor Inc. (the "Company") have been prepared by and are the responsibility of the Corporation's management.

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

**ROCKY MOUNTAIN LIQUOR INC**  
**Interim Consolidated Statement of Financial Position**  
(unaudited)

	<u>Sep 30, 2011</u>	<u>Dec 31, 2010</u>	<u>Jan 1, 2010</u>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	4,373,411	5,489,079	10,955,265
Accounts receivable	445,691	388,814	353,681
Inventory	6,511,175	5,801,144	5,420,583
Prepaid expenses and deposits	323,700	254,660	139,708
Income taxes recoverable	49,036	127,077	-
Interest rate swap asset (Note 5)	-	-	85,780
Due from related party (Note 6)	-	-	118
	<b>11,703,013</b>	12,060,774	16,955,135
PROPERTY AND EQUIPMENT	4,282,824	3,199,757	2,411,216
GOODWILL (Note 7)	9,735,834	8,229,224	4,801,793
DEFERRED TAX ASSETS	92,265	92,265	37,156
	<b>25,813,936</b>	23,582,020	24,205,300
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	-	2,200,135	12,478,265
Accounts payable and accrued liabilities	650,098	593,556	565,210
Interest rate swap liability (Note 5)	350,541	203,408	-
Current portion of promissory note (Note 8)	200,000	100,000	-
Current portion of long term debt (Note 10)	164,789	345,366	481,939
Goods and services tax payable	28,115	73,864	48,427
Income taxes payable	-	-	18,421
	<b>1,393,543</b>	3,516,329	13,592,262
LONG TERM DEBT (Note 10)	7,095,359	11,713,027	5,195,073
PROMISSORY NOTE (Note 8)	300,000	200,000	-
CONVERTIBLE DEBT (Note 9)	8,054,958	626,544	584,303
	<b>16,843,860</b>	16,055,900	19,371,638
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture (Note 9)	1,554,415	252,830	252,830
Share capital (Note 11)	4,774,481	4,774,481	1,931,010
Warrants (Note 12)	280,009	280,009	886,380
Contributed surplus (Note 13)	521,950	467,561	114,110
Retained earnings	1,839,221	1,751,239	1,649,332
	<b>8,970,076</b>	7,526,120	4,833,662
	<b>25,813,936</b>	23,582,020	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.

Approved on behalf of the board:

**Frank Coleman**  
**Chair, Board of Directors**

**Robert Normandeau**  
**Chair, Audit Committee**

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Opening balance as at Jan 1, 2011	252,830	4,774,481	280,009	467,561	1,751,239	7,526,120
Net income for the period	-	-	-	-	87,982	87,982
Convertible debenture (Note 9)	1,301,585	-	-	-	-	1,301,585
Share-based payments (Note 13)	-	-	-	54,389	-	54,389
Balance at Sep 30, 2011	1,554,415	4,774,481	280,009	521,950	1,839,221	8,970,076
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	-	-	-	-	224,531	224,531
Warrants exercised (Note 12)	-	-	(542,768)	-	-	(542,768)
Share-based payments (Note 13)	-	-	-	114,445	-	114,445
Share options exercised (Note 12 and 14)	-	2,130,018	-	-	-	2,130,018
Balance at Sep 30, 2010	252,830	4,061,028	343,612	228,555	1,873,863	6,759,888

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statement of Comprehensive Income

(unaudited)

	3 months ended Sep 30, 2011	9 months ended Sep 30, 2011	3 months ended Sep 30, 2010	9 months ended Sep 30, 2010
SALES	15,138,591	39,544,163	13,547,456	34,801,263
COST OF SALES	11,820,170	30,947,762	10,668,341	27,406,913
	3,318,421	8,596,401	2,879,115	7,394,350
OPERATING AND ADMINISTRATIVE EXPENSES	2,262,470	6,307,217	2,089,914	5,393,356
INCOME FROM OPERATIONS	1,055,951	2,289,184	789,201	2,000,994
OTHER COMPREHENSIVE EXPENSES (INCOME)				
Amortization	270,429	723,448	197,071	539,311
Business development costs	5,113	19,790	49,449	117,674
Other income	(3,791)	(31,696)	(6,833)	(20,581)
Interest on debt	520,247	1,289,914	281,735	540,986
Loss on interest rate swap	144,199	147,133	168,128	456,449
Bad debt expense	25,745	25,745	20,258	20,258
Loss on disposal of property and equipment	-	-	-	2,598
	961,942	2,174,334	709,808	1,656,695
INCOME BEFORE TAX	94,009	114,850	79,393	344,299
TAX	23,720	26,868	13,008	119,768
NET INCOME AND COMPREHENSIVE INCOME	70,289	87,982	66,385	224,531
RETAINED EARNINGS - BEGINNING	1,768,932	1,751,239	1,807,478	1,649,332
RETAINED EARNINGS - ENDING	1,839,221	1,839,221	1,873,863	1,873,863
Basic earnings per share	0.00	0.00	0.00	0.00
Diluted earnings per share	0.00	0.00	0.00	0.00
Weighted average number of shares - basic	56,727,797	56,727,797	54,502,263	52,328,371
Weighted average number of shares - diluted	59,078,135	59,139,269	58,080,328	55,945,483

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Cash Flows

(unaudited)

	3 Months Ended Sep 30, 2011	9 Months Ended Sep 30, 2011	3 Months Ended Sep 30, 2010	9 Months Ended Sep 30, 2010
<b>OPERATING ACTIVITIES</b>				
Net income	70,289	87,982	66,385	224,531
Items not affecting cash				
Amortization of property and equipment	270,429	723,448	197,071	539,311
Loss on interest rate swap	144,199	147,133	168,128	456,449
Net accretive interest on convertible debentures (Note 9)	68,361	135,344	10,948	31,293
Amortization of convertible debenture costs	35,645	65,866	-	-
Stock based compensation (Note 13)	7,681	54,389	84,923	114,445
Future income taxes	-	-	(145,020)	(38,260)
Loss on disposal of property and equipment	-	-	-	2,598
	596,604	1,214,162	382,435	1,330,367
Changes in non-cash working capital (Note 16)	201,748	(384,331)	227,353	(445,883)
Cash flow from operating activities	798,352	829,831	609,788	884,484
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(343,007)	(1,411,087)	(258,326)	(712,156)
Business acquisitions net of cash acquired (Note 4)	(988,895)	(1,962,566)	(1,765,596)	(4,685,766)
Cash flow used in investing activities	(1,331,902)	(3,373,653)	(2,023,922)	(5,397,922)
<b>FINANCING ACTIVITIES</b>				
Repayment of long term debt	(2,583)	(4,763,700)	(2,707)	(8,034)
Repayment of promissory note	(100,000)	(100,000)	-	-
Proceeds from convertible debenture (Note 9)	-	8,491,989	-	-
Repayment of short term financing	-	(2,220,135)	-	-
Proceeds from short term financing	-	-	2,634,216	2,634,216
Advances from related parties	-	-	-	118
Proceeds from long term financing	-	-	1,500,000	3,700,773
Proceeds from issuance of shares (Note 14)	-	-	519,750	1,587,250
Cash flow from (used in) financing activities	(102,583)	1,408,154	4,651,259	7,914,323
(DECREASE) INCREASE IN CASH FLOW	(636,133)	(1,135,668)	3,237,125	3,400,885
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	5,009,544	5,509,079	(1,359,240)	(1,523,000)
CASH AND CASH EQUIVALENTS - END OF PERIOD	4,373,411	4,373,411	1,877,885	1,877,885
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>				
Interest paid	203,898	723,766	270,787	509,693
Income taxes paid	48,000	72,000	162,596	371,383

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 Sep 30, 2011 Andersons operated 39 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 interim financial statements have been approved for issue by the Board of Directors on Nov, 23, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated, condensed financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011. As these interim consolidated financial statements are the Company's second financial statements prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in these financial statements for the comparative annual period. The interim consolidated financial statements for the three and nine months ended Sep 30, 2011 have been prepared in accordance with IFRS 1 - First-time Adoption of IFRS, as they are part of the period covered by the Company's first IFRS financial statements for the year ending Dec 31, 2011.

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 for the three and nine months ending Sep 30, 2010 for the Company which is updated for the transition to IFRS. These interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements, with consideration given to the IFRS transition disclosures included in Note 13 to these interim consolidated financial statements and the additional annual disclosures included herein.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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"). Intra-company balances and transactions and any unrealized earnings and expenses arising from intra-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 interim consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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.

*Impairment of Goodwill*

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. 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 in Note 2 based on their assessment of the time frame in which these assets will be used by the Company.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 and intangible assets not yet available for use 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 13.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Financial assets, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. 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

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.

With the exception of AFS equity instruments, 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
- if 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

*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.

*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, 2013. 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.

*Joint Arrangements*

The IASB has issued a new standard, IFRS 11, "Joint Arrangements" ("IFRS 11"), which classifies arrangements based on rights and obligations rather than legal structure.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Disclosure of Interests in Other Entities*

The IASB has issued a new standard, IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), which provides new requirements to disclose significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.

*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.

These standards 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.

3. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2, these are the Company's second consolidated, condensed 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 three and nine months ended Sep 30, 2011 and the comparative information for the financial year ended Dec 31, 2010, and three and nine months ended Sep 30, 2010. The Company will ultimately prepare 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.

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3. EXPLANATION OF TRANSITION TO IFRS (continued)

*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.

*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.

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 balance sheet 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 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 \$2,694 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 31 December 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 Sep 30, 2010 and Dec 31, 2010 – schedule 1. The following three reconciliations provide details of the impact of the transition on:

- Equity at Sep 30, 2010 – schedule 2
- Equity at Dec 31, 2010 – schedule 3
- Comprehensive income for the three and nine months ended Sep 30, 2010 and year ended Dec 31, 2010 – schedule 4

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3. EXPLANATION OF TRANSITION TO IFRS (continued)

<b>Schedule 1</b>		
<b>Summary of equity</b>		
	Sep 30, 2010	Dec 31, 2010
Total equity in accordance with Canadian GAAP	6,817,532	7,673,431
Deferred tax adjustment	29,338	33,838
Expense of legal fees	(14,562)	(14,562)
Expense of acquisition costs	(75,114)	(169,281)
Compensation expense	2,222	8,909
Contributed surplus	(2,222)	(8,909)
Capitalize interest	2,694	2,694
Change in equity	(57,644)	(147,311)
Total equity in accordance with IFRS	6,759,888	7,526,120

*(continues)*

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3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 2**  
**Reconciliation of equity at Sep 30, 2010**

	<u>Canadian GAAP</u>	<u>IFRS Effect</u>	<u>Sep 30, 2010</u>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	1,877,885	-	1,877,885
Accounts receivable	580,697	-	580,697
Inventory	5,978,024	-	5,978,024
Prepaid expenses and deposits	201,242	-	201,242
Income taxes recoverable	191,763	-	191,763
	<u>8,829,611</u>	-	<u>8,829,611</u>
PROPERTY AND EQUIPMENT	3,211,101	-	3,211,101
GOODWILL	8,413,009	(86,982)	8,326,027
DEFERRED TAX ASSETS	46,078	29,338	75,416
	<u>20,499,799</u>	<u>(57,644)</u>	<u>20,442,155</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	2,634,216	-	2,634,216
Accounts payable and accrued liabilities	353,282	-	353,282
Goods and services tax payable	38,753	-	38,753
Current portion of long term debt	10,772	-	10,772
Current portion of promissory note	100,000	-	100,000
Interest rate swap liability	370,670	-	370,670
	<u>3,507,693</u>	-	<u>3,507,693</u>
LONG TERM DEBT	9,358,978	-	9,358,978
PROMISSORY NOTE	200,000	-	200,000
CONVERTIBLE DEBT	615,596	-	615,596
	<u>13,682,267</u>	-	<u>13,682,267</u>
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debenture	252,830	-	252,830
Share capital	4,061,028	-	4,061,028
Warrants	343,612	-	343,612
Contributed surplus	226,333	2,222	228,555
Retained earnings	1,933,729	(59,866)	1,873,863
	<u>6,817,532</u>	<u>(57,644)</u>	<u>6,759,888</u>
	<u>20,499,799</u>	<u>(57,644)</u>	<u>20,442,155</u>

(continues)

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3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 3**  
**Reconciliation of equity 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	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	3,197,721	2,036	3,199,757
GOODWILL	8,412,409	(183,185)	8,229,224
DEFERRED TAX ASSETS	58,427	33,838	92,265
	<u>23,729,331</u>	<u>(147,311)</u>	<u>23,582,020</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness	2,200,135	-	2,200,135
Accounts payable and accrued liabilities	593,556	-	593,556
Goods and services tax payable	73,864	-	73,864
Current portion of long term debt	345,366	-	345,366
Interest rate swap liability (Note 5)	203,408	-	203,408
Promissory note (Note 8)	100,000	-	100,000
	<u>3,516,329</u>	-	<u>3,516,329</u>
LONG TERM DEBT	11,713,027	-	11,713,027
PROMISSORY NOTE (Note 8)	626,544	-	626,544
CONVERTIBLE DEBT (Note 9)	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	252,830	-	252,830
Share capital (Note 11)	4,774,481	-	4,774,481
Warrants (Note 12)	280,009	-	280,009
Contributed surplus (Note 13)	458,652	8,909	467,561
Retained earnings	1,907,459	(156,220)	1,751,239
	<u>7,673,431</u>	<u>(147,311)</u>	<u>7,526,120</u>
	<u>23,729,331</u>	<u>(147,311)</u>	<u>23,582,020</u>

(continues)

3. EXPLANATION OF TRANSITION TO IFRS (continued)

**Schedule 4**  
**Reconciliation of comprehensive earnings**

<b>Summary of Income</b>	3 Months ended	9 Months ended	12 Months Ended
	Sep 30, 2010	Sep 30, 2010	Dec 31, 2010
Comprehensive (loss) income in accordance with Canadian GAAP	89,969	282,145	255,875
Income tax	21,626	29,338	33,838
Expense of legal fees	(8,936)	(14,562)	(14,562)
Expense of acquisition costs	(39,087)	(75,114)	(169,281)
Compensation cost	1,554	(2,222)	(8,909)
Capitalize interest	1,259	2,694	2,694
Change in income	(23,584)	(59,866)	(156,220)
Adjusted (loss) income in accordance with IFRS	66,385	222,279	99,655

4. BUSINESS ACQUISITIONS

The Company acquired two stores in the 3 month period ending Sep 30, 2011 (2010 – one) and three stores for the 9 month period ending Sep 30, 2011 (2010 – four). The results of the asset acquisitions are included in the results of the Company from the acquisition date for comparable periods.

The Company's strategy is to grow by increasing the number of customer transactions as well as through new store development and acquisitions.

Acquisition costs of \$52,772 for the nine months ending Sep 30, 2011, (2010 - \$86,982) 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:

	<b>3 Months Ending</b>	<b>9 Months Ending</b>	3 Months Ending	9 Months Ending
	<b>Sep 30, 2011</b>	<b>Sep 30, 2011</b>	Sep 30, 2010	Sep 30, 2010
Cash & cash equivalents	400	1,700	750	2,550
Inventories	189,295	362,783	265,087	831,894
Property and equipment	202,120	393,173	147,910	615,076
Goodwill	597,480	1,506,610	1,652,599	3,538,796
<b>Fair value of net assets acquired</b>	<b>989,295</b>	<b>2,264,266</b>	<b>2,066,346</b>	<b>4,988,316</b>
Total cash consideration paid	989,295	1,962,783	1,765,087	4,576,894
Promissory note issued	-	300,000	300,000	300,000
Capitalized interest	-	1,483	1,259	2,694
Acquisition costs incurred	-	-	-	108,728
	<b>989,295</b>	<b>2,264,266</b>	<b>2,066,346</b>	<b>4,988,316</b>

5. INTEREST RATE SWAP

Fair value Jan 1, 2010	85,780
Fair value Dec 31, 2010	(203,408)
Fair value Sep 30, 2011	<b>\$ (350,541)</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 is equal to the \$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 the \$4,500,000 of the outstanding principal balance on the bank indebtedness and long term debt.

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

Fair value of the 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 balance sheet.

6. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

The Company paid rents of \$14,580 (2010 - \$14,580) for the nine months ending Sep 30, 2011, 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, an incorporated, privately held company in which Peter J. Byrne, CEO of Rocky Mountain Liquor is a significant shareholder. Consideration paid was fair market value of \$92,789, (2010 - \$nil). The transaction was approved by the Board of Directors.

7. GOODWILL

Balance Jan 1, 2010	\$ 4,801,793
Goodwill acquired	3,427,431
<hr/>	
Balance Dec 31, 2010	8,229,224
Goodwill acquired	1,506,610
<b>Balance Sep 30, 2011</b>	<b>\$ 9,735,834</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 Jan 1, 2011. No indications of impairment existed at that date.

8. PROMISSORY NOTE

As a result of a store acquisition in 2011, an unsecured non-interest bearing promissory note for \$300,000 was issued in lieu of cash payment. The note is to be paid \$100,000 per annum beginning Feb 9, 2012 with final payment due Feb 9, 2014.

As a result of a store acquisition in 2010, an unsecured non-interest bearing promissory note for \$300,000 was issued in lieu of cash payment. The first \$100,000 annual payment was made Sep 1, 2011. Two payments remain with final payment on Sep 1, 2013.

9. 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, 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 Sep 30, 2011 in the amount of \$83,621 (2010 - \$78,175), which represents the accretive interest from Dec 31, 2010.

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.

*(continues)*

9. CONVERTIBLE DEBENTURE (continued)

Debt Component

Balance Jan 1, 2010	\$ 584,303
Accretive interest	104,751
Coupon interest *	(62,510)
<u>Dec 31, 2010</u>	<u>\$ 626,544</u>
Accretive interest	83,621
Coupon interest *	(46,883)
<u>Sep 30, 2011</u>	<u>\$ 663,282</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>\$ 252,830</u>
<u>Balance Sep 30, 2011</u>	<u>\$ 252,830</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.

Debenture B was initially recorded on the balance sheet as a debt of \$7,790,533, 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 \$563,329 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 \$1,409,467 between the face amount and the estimated fair value of the debt component, less related issue costs of \$107,882, 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 Sep 30, 2011 in the amount of \$98,606, 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

<u>Dec 31, 2010</u>	<u>\$ -</u>
Issued Apr 13, 2011	\$ 7,790,533
Deferred issuance costs	(563,329)
Accretive interest	415,495
Coupon interest *	(316,889)
Amortization of issue costs	65,866
<u>Sep 30, 2011</u>	<u>\$ 7,391,676</u>

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

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9. CONVERTIBLE DEBENTURE (continued)

Equity Component

Balance Dec 31, 2010	\$ -
Issued Apr 13, 2011	\$ 1,409,467
Issue costs	(107,882)
Balance Sep 30, 2011	\$ 1,301,585

10. LONG TERM DEBT

	Sep 30 2011	Dec 31 2010
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 June, 11 2012.	\$ 4,500,000	\$ 9,354,770
Roynat Capital sub-debt financing is a 4-year second lien secured subordinated note with interest at 9.90% per annum, payable monthly. There are no principal payments, with the principal amount of \$3,000,000 due at maturity on Nov 24, 2014. Roynat was issued 1,000,000 warrants on Nov 24, 2010.	2,756,073	2,691,381
Beaumont Credit Union loan bearing interest at prime plus 1.50% per annum, repayable in monthly blended payments of \$966. The loan matures on Jan 1, 2012 and is secured with a specific security agreement and a guarantee in the amount of \$50,000 from Peter and Joan Byrne.	4,075	12,242
	<b>7,260,148</b>	12,058,393
Amounts payable within one year	<b>(164,789)</b>	(345,366)
	<b>\$ 7,095,359</b>	\$ 11,713,027

Interest expense for the note is calculated on the face value of the note. Notional accretive interest expense is reflected at Sep 30, 2011 in the amount of \$57,708 (2010 - \$nil) which represents the accretive interest from Dec 31, 2010. \$6,984 in transaction costs (2010 - \$nil) were amortized in the nine month period and \$2,354 in the three month period (2010 - \$nil).

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

Balance Jan 1, 2010	\$ 2,691,381
Accretive interest	57,708
Amortization of issue costs	6,984
Sep 30, 2011	\$ 2,756,073

11. SHARE CAPITAL

Authorized - Unlimited common shares

Issued	Number	Amount
Balance at Jan 1, 2010	50,966,789	\$ 1,931,010
Exercised warrants (Note 12)	6,493,499	2,775,971
Exercised options (Note 14)	337,500	67,500
Balance at Dec 31, 2010	57,797,788	4,774,481
Balance at Sep 30, 2011	57,797,788	\$ 4,774,481

As at Sep 30, 2011, no shares are held in escrow, Dec 31, 2010 - 30,970,098.

12. WARRANTS

	# of warrants	Exercise price	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 and Sep 30, 2011	1,000,000	\$ 0.3765	\$ 280,009

The 1,000,000 warrants outstanding at Sep 30, 2011 are the warrants issued to Roynat Capital as explained in Note 10. The warrants are convertible to common shares of the Company at a conversion price of \$0.3765 per common share.

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.

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.

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

13. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Amount
Balance at Jan 1, 2010	\$ 114,110
Stock-based compensation expense (Note 14)	195,338
Expired warrants (Note 12)	155,861
Balance at Dec 31, 2010	\$ 465,309
Stock-based compensation expense (Note 14)	54,389
Balance at Sep 30, 2011	\$ 519,698

14. 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.

	# of options	Exercise price	Estimated fair value of options
Outstanding Jan 1, 2010, Dec 31, 2010 and Sep 30, 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.

*(continues)*

14. 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 Jun 30, 2011, an aggregate of 630,000 incentive options were issued under the Option Plan, representing 1.2% of the outstanding common shares at Jun 30, 2011.

	# 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
Expired Jul 15, 2011	(300,000)	0.400	(91,230)
Outstanding Sep 30, 2011	330,000	\$ 0.405	\$ 102,783

Of the options outstanding Dec 31, 2009, all have vested as of Sep 30, 2011. Of the new options granted in 2010 one-third of these options vested Dec 15, 2010, one-third vested Feb 15, 2011 and the remainder vests Nov 15, 2011. Stock-based compensation expense was recognized for the 9 month period ended Sep 30, 2011 in the amount of \$30,702 (2010 - \$73,544) and 3 month period ended Sep 30, 2011 in the amount of \$7,681 (2010 - \$49,578). Unrecognized compensation expense relating to unvested items is \$3,842 at Sep 30, 2011 (2010 - \$75,236). 300,000 options expired in the period. No options 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.

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.

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)*

14. STOCK OPTION PLANS (continued)

Directors Options

As at Jun 30, 2011, an aggregate of 600,000 options were issued to directors under the Option Plan, representing 0.5% of the outstanding common shares at Jun 30, 2011.

	# 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 and Sep 30, 2011	600,000	\$ 0.310	\$ 163,158

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

One-fourth of the options granted in 2009 vested at each of Jun 29, 2009, Sep 30, 2009, Dec 31, 2009, and Mar 31, 2010. Of the options granted in 2010, one-quarter vested at each of Aug 24, 2010, Dec 31, 2010, Mar 30, 2011 and the remainder on Sep 30, 2011. Stock-based compensation expense was recognized for the 9 month period ended Sep 30, 2011 \$23,687 (2010 - \$40,901) 3 month period ended Sep 30, 2011 in the amount of \$nil (2010 - \$35,345). Unrecognized compensation expense relating to unvested items is \$nil at Sep 30, 2011 (2010 - \$nil).

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.

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.

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

(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.

(continues)

14. STOCK OPTION PLANS (continued)

	# of options	Exercise price	Estimated fair 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 Sep 30, 2011	-	\$ -	\$ -

The weighted-average fair value of the 637,500 stock options granted in 2008 was estimated at \$0.087 per option using the Black-Scholes option-pricing model.

The following weighted-average assumptions were used:

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

(c) Employee Share Plan

In accordance with the terms of the plan established Jan 1, 2011, as 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 purchased by the Company vest one year from purchase. These shares are valued at fair value on date of purchase.

	# of shares	Purchase Price	Fair value of shares
Balance Dec 31, 2010	-	\$ -	\$ -
Purchased in 2011	104,444	0.309	32,273
Balance Sep 30, 2011	104,444	\$ 0.309	\$ 32,273

One eighth will vest at each of Feb 2, 2012, Mar 2, 2012, Apr 3, 2012, May 2 2012, Jun 3, 2012, Jul 6 2012, Aug 3 2012 and Sep 3, 2012. Of the shares not yet vested, none are expected to be forfeited.

(continues)

14. STOCK OPTION PLANS (continued)

SUMMARY

A summary of the status of the Company's stock options as of Sep 30, 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
Expired	(300,000)	0.395
Outstanding, Sep 30, 2011	1,287,137	\$ 0.321

Of the options outstanding Sep 30, 2011 1,227,137 were vested.

Additional information about the Company's share options outstanding as at Sep 30, 2011 is as follows:

	Number of Options	Weighted Average Exercise Price	Range of Exercise Price	Weighted Average Contractual Life
<b>Pre-RTO Options</b>				
Outstanding Mar 31, 2011	357,137	\$ 0.200	\$ 0.200	1.54
<b>Executive/Management Options</b>				
Outstanding Jan 1, 2010	300,000	\$ 0.290	\$ 0.290	1.17
Granted Jun 2, 2010	330,000	\$ 0.500	\$ 0.500	1.17
Expired	(300,000)	\$ 0.395	\$ 0.290 to \$ 0.500	
<b>Directors Options</b>				
Outstanding Jan 1, 2010	300,000	\$ 0.320	\$ 0.320	1.32
Granted Aug 24, 2010	300,000	\$ 0.347	\$ 0.300 to \$ 0.390	1.32

15. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic net earnings per common share for the 3 months ending Sep 30, 2011 was based on net income of \$70,289 (2010 – \$66,385) and a weighted average number of shares outstanding (basic) of 56,727,797 (2010 – 54,502,263). For the 6 months ending Sep 30, 2011, the calculation was based on net income of \$87,982 (2010 - \$224,531) and a weighted average number of shares outstanding (basic) of 56,727,797 (2010 – 52,328,371).

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15. EARNINGS PER COMMON SHARE (continued)

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the 3 months ending Sep 30, 2011 was based on net income of \$70,289 (2010 – \$66,385) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 59,078,135 (2010 – 58,080,328). For the 9 months ending Sep 30, 2011, the calculation was based on net income of \$87,982 (2010 - \$224,531) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 59,139,269 (2010 – 55,945,483)

16. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<b>3 months ending</b>	<b>9 months ending</b>	3 months ending	9 months ending
	<b>Sep 30, 2011</b>	<b>Sep 30, 2011</b>	Sep 30, 2010	Sep 30, 2010
Cash provided (used in) by				
Accounts receivable	\$ 263,349	\$ (56,877)	\$ 76,072	\$ (227,016)
Income tax recoverable	(24,280)	78,041	58,048	(210,184)
Inventory	(391,890)	(347,248)	(462)	274,453
Prepaid expense and deposits	78,496	(69,040)	109,226	(61,534)
Accounts payable and accrued liabilities	276,952	56,542	56,140	(211,928)
Goods and services tax payable	(879)	(45,749)	(71,671)	(9,674)
	<b>\$ 201,748</b>	<b>\$ (384,331)</b>	<b>\$ 227,353</b>	<b>\$ (445,883)</b>

17. FINANCIAL INSTRUMENTS

As at Sep 30, 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.

	<b>Sep 30, 2011</b>		<b>Dec 31, 2010</b>	
	<b>Carrying Value</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>	<b>Estimated Fair Value</b>
Fair value through profit or loss				
Cash and cash equivalents	\$ 4,373,411	\$ 4,373,411	\$ 5,489,079	\$ 5,489,079
Interest rate swap	350,541	350,541	203,408	203,408
Loans and receivables				
Accounts receivable	445,691	445,691	388,814	388,814
Other financial liabilities				
Bank indebtedness	-	-	2,200,135	2,200,135
Short term debt	164,789	164,789	345,366	345,366
Promissory notes	500,000	500,000	300,000	300,000
Accounts payable and accrued liabilities	650,098	650,098	593,556	593,556
Long term debt	7,095,359	7,095,359	11,713,027	11,713,027
Convertible Debenture	8,054,958	8,054,958	626,544	626,544

*(continues)*



17. 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 as at Sep 30, 2011:

	Sep 30, 2011	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and bank balances	\$ 4,373,411	\$ 4,373,411		
Interest rate swap liability	\$ 350,541		\$ 350,541	
	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	

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)*

17. 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.

For the period ending Sep 30, 2011, \$25,745 (2010 – \$20,258) in bad debts was recorded.

At Sep 30, 2011 there are no financial assets that the Company deems to be impaired or that are past due according to their terms and conditions, for which allowances have not been recorded.

Liquidity Risk

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

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities. For purposes of calculating our covenant, rent expense was \$1,214,558 (2010 – \$919,374) for the 9 month period, and \$436,288 (2010 - \$344,283) for the 3 month period ending Sep 30, 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.

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 \$7,324,914, the net debt position after deducting the \$4,500,000 notional amount of the interest rate swap is \$2,824,914. Therefore a one percent change in interest rates would have an effect of \$28,249 on consolidated net income. The Company manages its interest rate risk through credit facility negotiations and interest rate swaps.

#### 18. 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.

#### 19. 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.

#### 20. COMPARATIVE FIGURES

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

#### 21. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Company announced its intent to voluntarily pay off its \$3,000,000 in Sub-Debt with Roynat in full on November 25, 2011.

Subsequent to September 30, 2011, the Company announced it had requested that its total senior bank facility of \$25,000,000 be decreased to \$20,000,000 to reduce commitment fees associated with these facilities.