

*Interim (unaudited) Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*March 31, 2018*

**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 Company's management.

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

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# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Mar 31, 2018	Dec 31, 2017
<b>ASSETS</b>			
CURRENT			
Cash and cash equivalents		816,407	818,786
Accounts receivable		27,120	63,300
Inventory		6,134,153	5,870,760
Prepaid expenses and deposits		216,832	156,858
Current portion of loans receivable		14,639	14,458
		<b>7,209,151</b>	6,924,162
NON-CURRENT			
LOANS RECEIVABLE		41,278	45,006
PROPERTY AND EQUIPMENT		2,531,978	2,550,492
GOODWILL		6,548,188	6,548,188
		<b>16,330,595</b>	16,067,848
<b>LIABILITIES</b>			
CURRENT			
Accounts payable and accrued liabilities		884,133	675,157
Income taxes payable		1,994	1,994
Bank loan	5	8,912,314	8,306,135
Goods and services tax payable		23,870	56,875
		<b>9,822,311</b>	9,040,161
NON-CURRENT			
CONVERTIBLE DEBENTURE	6	5,933,698	5,872,607
		<b>15,756,009</b>	14,912,768
<b>SHAREHOLDERS' EQUITY</b>			
Equity component of convertible debentures	6	96,694	96,694
Share capital	8	4,667,442	4,667,442
Contributed surplus	9	1,014,911	1,014,911
Accumulated deficit		(5,204,461)	(4,623,967)
		<b>574,586</b>	1,155,080
		<b>16,330,595</b>	16,067,848

GOING CONCERN 2

SUBSEQUENT EVENTS 15

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

Approved on behalf of the board:

**Frank Coleman**  
Chair, Board of Directors

**Robert Normandeau**  
Chair, Audit Committee

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Note	Equity component of convertible debenture	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at Dec 31, 2016		96,694	4,667,442	1,004,483	(2,706,526)	3,062,093
Share based compensation	9,10	-	-	10,428	-	10,428
Net comprehensive loss for the period		-	-	-	(1,917,441)	(1,917,441)
Balance at Dec 31, 2017		96,694	4,667,442	1,014,911	(4,623,967)	1,155,080
Net comprehensive loss for the period		-	-	-	(580,494)	(580,494)
Balance at Mar 31, 2018		96,694	4,667,442	1,014,911	(5,204,461)	574,586

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

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Comprehensive Loss

(unaudited)

For the 3 months ended Mar 31

	Note	2018	2017
SALES		<b>8,769,924</b>	8,781,529
COST OF SALES	4	<b>6,691,968</b>	6,629,068
		<b>2,077,956</b>	2,152,461
OPERATING AND ADMINISTRATIVE EXPENSES	11	<b>2,209,069</b>	2,530,931
LOSS FROM OPERATIONS		<b>(131,113)</b>	(378,470)
DEPRECIATION		<b>121,565</b>	149,632
OTHER EXPENSES (INCOME)			
Finance costs	7	<b>291,413</b>	257,754
Loss on disposal of property and equipment		<b>8,041</b>	79,776
Store closure expenses		<b>29,091</b>	82,961
Other income		<b>(729)</b>	(3,601)
Bad debt expense		-	8,440
		<b>327,816</b>	425,330
LOSS BEFORE TAX		<b>(580,494)</b>	(953,432)
INCOME TAXES		-	-
NET COMPREHENSIVE LOSS		<b>(580,494)</b>	(953,432)
Basic income per share	12	<b>(0.01)</b>	(0.02)
Diluted income per share	12	<b>(0.01)</b>	(0.02)
Weighted average number of shares - basic		<b>56,791,788</b>	56,951,837
Weighted average number of shares - diluted		<b>56,791,788</b>	56,951,837

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

**ROCKY MOUNTAIN LIQUOR INC**  
**Interim Consolidated Statements of Cash Flows**  
(unaudited)

For the 3 months ended Mar 31

	Note	2018	2017
<b>OPERATING ACTIVITIES</b>			
Net comprehensive loss		<b>(580,494)</b>	(953,432)
Items not affecting cash			
Depreciation		<b>121,565</b>	149,632
Loss on disposal of property and equipment		<b>8,041</b>	79,776
Notional accretive interest	6	<b>61,091</b>	54,162
Share based compensation	10	-	6,244
Changes in non-cash working capital	14	<b>(111,216)</b>	(1,204,551)
Cash flow used in operating activities		<b>(501,013)</b>	(1,868,169)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(111,892)</b>	(265,739)
Proceeds on disposal of property and equipment		<b>800</b>	13,950
Cash flow used in investing activities		<b>(111,092)</b>	(251,789)
<b>FINANCING ACTIVITIES</b>			
Repayment of loans receivable		<b>3,547</b>	3,375
Net proceeds from bank loan		<b>606,179</b>	1,827,289
Cash flow provided by financing activities		<b>609,726</b>	1,830,664
DECREASE IN CASH		<b>(2,379)</b>	(289,294)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		<b>818,786</b>	786,285
CASH AND CASH EQUIVALENTS - END OF PERIOD		<b>816,407</b>	496,991
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>			
Interest paid		<b>103,367</b>	76,638
Income taxes paid		-	8,700

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

1. NATURE OF OPERATIONS

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

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

As at Mar 31, 2018 Andersons operated 34 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 interim consolidated financial statements have been approved for issue by the Board of Directors on May 16, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). They have been prepared using the accounting policies that were described in Note 2 to the Company's annual consolidated financial statements for the year ended Dec 31, 2017. These interim consolidated financial statements should be read in conjunction with the Company's 2017 annual consolidated financial statements.

As at Mar 31, 2018, the Company had negative cash flow from operations of \$131,113, and net comprehensive loss of \$580,494. These conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations to meet current and future obligations. The Company expects that the investment it has made in 2017 and 2018 in rebranding of eleven of its stores to the Great Canadian Liquor ("GCL") brand, and investments in sales and marketing programs, which it expects to continue throughout 2018, will result in an increase in revenue and profits. If, for any reason, the Company is unable to continue as a going concern, it could impact the Company's ability to realize assets at their recognized values and to meet its liabilities in the ordinary course of business at the amounts stated these consolidated financial statements.

The preparation of these interim consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended Dec 31, 2017.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective January 1, 2018, the Company adopted IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized and includes expanded disclosure requirements for annual financial statements. Adoption of IFRS 15 has had no material impact on the Company’s interim financial statements.

Effective January 1, 2018, the Company adopted IFRS 9 “Financial Instruments”. IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”. The standard includes requirements for recognition, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. The Company has taken the modified retrospective approach to adopting the standard. The adoption of IFRS 9 has had no significant impact on the Company’s interim financial statements. Refer to Note 13 for changes to the classification of financial assets and financial liabilities as a result of IFRS 9.

The Company’s operations are seasonal in nature, and results for any quarter are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Company historically experiences a higher level of sales in the third and fourth quarters, while the first and second quarters experience lower sales due to shopping patterns. Occupancy related expenses; certain general and administrative expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

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

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the period the Company paid rents of \$15,240 (2017 - \$15,240), in respect of two (2017 – two) retail liquor stores, to privately held companies in which a key member of management is a significant shareholder. The rent is at market rates. Included in accounts payable at Mar 31, 2018 is \$120,000 due to a key member of management.

Key Management Personnel Compensation

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

	<b>Mar 31, 2018</b>	Mar 31, 2017
Wages and salaries	<b>\$ 126,000</b>	\$ 124,751
Other	<b>731</b>	718
	<b>\$ 126,731</b>	\$ 125,469

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

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the period ended Mar 31, 2018 was \$6,691,968 (2017 - \$6,629,068). No inventory write downs were recognized in 2018 or 2017.

5. BANK LOAN

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Dec 18, 2017, the Company has an available facility up to a maximum of the lesser of \$10,000,000 and the total of \$4,400,000 and 75% of accounts receivable to a maximum of \$1,000,000, and 70% of the value of inventory less priority payables and statutory payables. The loan is due upon demand, bearing interest at prime plus 1.9% or bankers acceptances plus 3.4% per annum. Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Mar 31, 2018 there was \$8,912,314 drawn on the bank loan (Dec 31, 2017 - \$8,306,135). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

6. CONVERTIBLE DEBENTURES

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

Included in the restructure terms was an option for the Company to partially redeem \$1,211,000 of the Debenture at face value. The Company exercised this option on Jun 10, 2016, reducing the face value of the outstanding debenture to \$6,865,000.

The fair value of the Debenture of \$6,472,914 was estimated using discounted future cash flows of the principal amount. The equity component of the Debenture was decreased to \$96,694.

	Liability Component	
	Face Value	Carrying Value
Balance Dec 31, 2016	\$ 6,865,000	\$ 5,644,535
Notional accretive interest	-	228,072
Balance Dec 31, 2017	\$ 6,865,000	\$ 5,872,607
Notional accretive interest	-	61,091
Balance Mar 31, 2018	<b>\$ 6,865,000</b>	<b>\$ 5,933,698</b>

	Equity Component
	Carrying Value
Balance Dec 31, 2016, Dec 31, 2017 and Mar 31, 2018	<b>\$ 96,694</b>

ROCKY MOUNTAIN LIQUOR INC  
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(Unaudited)

7. FINANCE COSTS

	Note	Mar 31, 2018	Mar 31, 2017
Bank loan interest		\$ 103,367	\$ 76,638
Convertible debenture interest		126,955	126,954
Accretive interest	6	61,091	54,162
		<b>\$ 291,413</b>	<b>\$ 257,754</b>

8. SHARE CAPITAL

Authorized - Unlimited common shares

	Number	Amount
Balance at Dec 31, 2016, 2017 and Mar 31, 2018	<b>56,791,788</b>	<b>\$ 4,667,442</b>

9. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2016		\$ 1,004,483
Share based compensation	10	10,428
Balance at Dec 31, 2017 and Mar 31, 2018		<b>\$ 1,014,911</b>

10. STOCK OPTION PLAN

Stock option plan ("Option Plan")

The maximum number of common shares that may be reserved for issuance under the Option Plan is 2,500,000 shares.

The exercise price of each option is determined on the basis of the market price at the time the option is granted. If the option has a discount to market price as an incentive for early redemption the exercise price may not be less than the discounted market price as defined by the policies of the TSX Venture Exchange ("TSXV"). For options that have no early redemption incentives, the exercise price may not be less than the closing price of a Rocky Mountain Liquor common share on the TSXV on the last trading day before the day the option is granted. The shares purchased on the exercise of an option must be paid for in full at the time of exercise. The Company operates equity-settled compensation plans. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement.

On Jan 17, 2017, 500,000 incentive options were issued under the Option Plan, representing 0.9% of the outstanding common shares. 300,000 were exercisable per the below vesting schedule. 200,000 were exercisable Jan 18, 2018 if the unadjusted closing price per share for any 10-consecutive trading day period between Oct 20, 2017 and Jan 17, 2018 was equal to or greater than \$0.16. All options expired Jan 18, 2018 and none were exercised.

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ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
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10. STOCK OPTION PLAN (continued)

	# of options	Exercise Price	Estimated fair value of options	Weighted average exercise price	Weighted average contractual life remaining
Outstanding Dec 31, 2016	-	-	-	-	-
Issued Jan 17, 2017	500,000	0.070	34,563	0.070	0.553
Outstanding Dec 31, 2017 and Mar 31, 2018	<b>500,000</b>	<b>0.070</b>	<b>34,563</b>	<b>0.070</b>	<b>0.053</b>

75,000 of the options vested on each of Feb 28, 2017, May 31, 2017, Aug 31, 2017 and Nov 30, 2017. 200,000 vested Oct 20, 2017. Share based compensation expense was \$nil at Mar 31, 2018 (2017 – \$6,244). This was accounted for in operating and administrative expenses in the consolidated statements of comprehensive loss.

The fair value of the 300,000 options issued Jan 17, 2017 was estimated at \$0.042 per option using the Black-Scholes option-pricing model and applying the following weighted-average assumptions:

Risk-free interest rate	1.3%
Estimated volatility	130.0%
Expected life	1 years
Expected dividend yield	NIL
Expected forfeiture rate	27.0%

The fair value of the 200,000 options issued Jan 17, 2017 was estimated at \$0.110 per option using the Black-Scholes option-pricing model and applying the following weighted-average assumptions:

Risk-free interest rate	1.3%
Estimated volatility	130.0%
Expected life	1 years
Expected dividend yield	NIL
Expected forfeiture rate	93.8%

11. EXPENSES BY NATURE

	Mar 31, 2018	Mar 31, 2017
Wages and employee benefits	\$ 1,181,555	\$ 1,395,316
Lease and premise costs	801,001	901,248
Other	226,513	234,367
	<b>\$ 2,209,069</b>	<b>\$ 2,530,931</b>

12. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Mar 31, 2018 was based on the interim net comprehensive loss of \$580,494 (2017 – loss \$953,432) and a weighted average number of shares outstanding of 56,791,788 (2017 – 56,951,837).

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12. EARNINGS PER COMMON SHARE (continued)

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Mar 31, 2018 was based on the interim net comprehensive loss of \$580,494 (2017 – loss \$953,432) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,791,788 (2017 – 56,951,837). The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the periods ended Mar 31, 2018 and Mar 31, 2017.

13. FINANCIAL INSTRUMENTS

Upon transition to IFRS 9, classification of financial instruments changed. Below is summary of the classification of the Company's financial instruments under each standard.

<b>Financial Instrument</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Cash and cash equivalents	Fair value through profit or loss	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bank loan	Other financial liabilities	Amortized cost
Convertible debenture	Other financial liabilities	Fair value through profit loss

There has been no adjustment to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9.

Fair value measurements

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

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ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
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13. FINANCIAL INSTRUMENTS (continued)

	Mar 31, 2018		Dec 31, 2017		Fair Value Hierarchy
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Financial Assets					
Cash and cash equivalents	\$ 816,407	\$ 816,407	\$ 818,786	\$ 818,786	Level 1
Accounts receivable	27,120	27,120	63,300	63,300	Level 2
Loans receivable	55,917	55,917	59,464	59,464	Level 2
Financial Liabilities					
Accounts payable and accrued liabilities	884,133	884,133	675,157	675,157	Level 2
Bank loan	8,912,314	8,912,314	8,306,135	8,306,135	Level 2
Convertible debenture	5,933,698	2,299,775	5,872,607	2,231,125	Level 2

14. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Mar 31, 2018	Mar 31, 2017
Cash (used in) provided by		
Accounts receivable	\$ 36,180	\$ 18,257
Inventory	(263,393)	(1,235,181)
Prepaid expenses and deposits	(59,974)	(61,573)
Income taxes recoverable	-	(51,700)
Accounts payable and accrued liabilities	208,976	229,878
Goods and services tax payable	(33,005)	(104,232)
	\$ (111,216)	\$ (1,204,551)

15. SUBSEQUENT EVENT

Subsequent to Mar 31, 2018, the Company sold a liquor store in Southern Alberta.