

*Interim (unaudited) Consolidated Financial Statements of*

**ROCKY MOUNTAIN LIQUOR INC**

*September 30, 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.

## TABLE OF CONTENTS

|  | <u>PAGE</u> |
|--|-------------|
| Interim Consolidated Statements of Financial Position              | 1           |
| Interim Consolidated Statements of Changes in Shareholders' Equity | 2           |
| Interim Consolidated Statements of Comprehensive Loss              | 3           |
| Interim Consolidated Statements of Cash Flows                      | 4           |
| Notes to the Interim Consolidated Financial Statements             | 5-13        |

# ROCKY MOUNTAIN LIQUOR INC

## Interim Consolidated Statements of Financial Position

(unaudited)

| As at                                      | Note | Sep 30, 2018      | Dec 31, 2017 |
|--|------|-------------------|--------------|
| <b>ASSETS</b>                              |      |                   |              |
| CURRENT                                    |      |                   |              |
| Cash and cash equivalents                  |      | 624,653           | 818,786      |
| Accounts receivable                        |      | 32,045            | 63,300       |
| Inventory                                  |      | 6,211,932         | 5,870,760    |
| Prepaid expenses and deposits              |      | 180,395           | 156,858      |
| Current portion of loans receivable        |      | 15,010            | 14,458       |
|  |      | <b>7,064,035</b>  | 6,924,162    |
| NON-CURRENT                                |      |                   |              |
| LOANS RECEIVABLE                           |      | 33,737            | 45,006       |
| PROPERTY AND EQUIPMENT                     |      | 2,459,200         | 2,550,492    |
| GOODWILL                                   | 6    | 6,307,819         | 6,548,188    |
|  |      | <b>15,864,791</b> | 16,067,848   |
| <b>LIABILITIES</b>                         |      |                   |              |
| CURRENT                                    |      |                   |              |
| Accounts payable and accrued liabilities   |      | 819,229           | 675,157      |
| Bank loan                                  |      | 8,693,650         | 8,306,135    |
| Goods and services tax payable             |      | 72,001            | 56,875       |
| Income taxes payable                       |      | -                 | 1,994        |
|  |      | <b>9,584,880</b>  | 9,040,161    |
| NON-CURRENT                                |      |                   |              |
| CONVERTIBLE DEBENTURE                      | 8    | 6,064,667         | 5,872,607    |
|  |      | <b>15,649,547</b> | 14,912,768   |
| <b>SHAREHOLDERS' EQUITY</b>                |      |                   |              |
| Equity component of convertible debentures | 8    | 96,694            | 96,694       |
| Share capital                              | 10   | 4,667,442         | 4,667,442    |
| Contributed surplus                        | 11   | 1,014,911         | 1,014,911    |
| Accumulated deficit                        |      | (5,563,803)       | (4,623,967)  |
|  |      | <b>215,244</b>    | 1,155,080    |
|  |      | <b>15,864,791</b> | 16,067,848   |

GOING CONCERN 2

SUBSEQUENT EVENTS 17

*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<br>of convertible<br>debenture | Share<br>capital | Contributed<br>surplus | Accumulated<br>deficit | Total       |
|---------------------------------------|-------|---|------------------|------------------------|------------------------|-------------|
| Balance at Dec 31, 2016               |       | 96,694  | 4,667,442        | 1,004,483              | (2,706,526)            | 3,062,093   |
| Share based compensation              | 11,12 | -   | -                | 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 |       | -   | -                | -                      | (939,836)              | (939,836)   |
| Balance at Sep 30, 2018               |       | 96,694  | 4,667,442        | 1,014,911              | (5,563,803)            | 215,244     |

*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 and 9 months ended Sep 30

|  |      | 3 months ended | 9 months ended | 3 months ended | 9 months ended |
|--|------|----------------|----------------|----------------|----------------|
|  | Note | Sep 30, 2018   | Sep 30, 2018   | Sep 30, 2017   | Sep 30, 2017   |
| SALES  |      | 12,064,114     | 32,705,110     | 12,325,553     | 32,872,263     |
| COST OF SALES  | 4    | 9,440,813      | 25,483,429     | 9,476,631      | 25,148,365     |
|  |      | 2,623,301      | 7,221,681      | 2,848,922      | 7,723,898      |
| OPERATING AND ADMINISTRATIVE EXPENSES                          | 13   | 2,181,419      | 6,573,543      | 2,492,945      | 7,604,815      |
| INCOME FROM OPERATIONS   |      | 441,882        | 648,138        | 355,977        | 119,083        |
| DEPRECIATION   |      | 145,236        | 397,780        | 154,651        | 469,395        |
| OTHER EXPENSES (INCOME)  |      |                |                |                |                |
| Finance costs  | 9    | 318,254        | 919,794        | 276,236        | 811,076        |
| (Gain) loss on disposal of property and equipment and goodwill |      | (1,391)        | 153,867        | 56,475         | 78,045         |
| Store closure expenses   |      | 23,550         | 118,643        | 26,215         | 109,176        |
| Other income   |      | (698)          | (2,110)        | (816)          | (6,187)        |
| Bad debt expense   |      | -              | -              | -              | 8,491          |
|  |      | 339,715        | 1,190,194      | 358,110        | 1,000,601      |
| LOSS BEFORE TAX  |      | (43,069)       | (939,836)      | (156,784)      | (1,350,913)    |
| INCOME TAXES   |      | -              | -              | -              | -              |
| NET COMPREHENSIVE LOSS   |      | (43,069)       | (939,836)      | (156,784)      | (1,350,913)    |
| Basic income per share   | 14   | (0.00)         | (0.02)         | (0.00)         | (0.02)         |
| Diluted income per share                                       | 14   | (0.00)         | (0.02)         | (0.00)         | (0.02)         |
| Weighted average number of shares - basic                      |      | 56,791,788     | 56,791,788     | 56,791,788     | 56,791,788     |
| Weighted average number of shares - diluted                    |      | 56,791,788     | 56,791,788     | 56,791,788     | 56,791,788     |

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 and 9 months ended Sep 30

|  | Note | 3 months ended<br>Sep 30, 2018 | 9 months ended<br>Sep 30, 2018 | 3 months ended<br>Sep 30, 2017 | 9 months ended<br>Sep 30, 2017 |
|--|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES</b>                                    |      |                                |                                |                                |                                |
| Net comprehensive loss   |      | (43,069)                       | (939,836)                      | (156,784)                      | (1,350,913)                    |
| Items not affecting cash                                       |      |                                |                                |                                |                                |
| Depreciation   |      | 145,236                        | 397,780                        | 154,651                        | 469,395                        |
| (Gain) Loss on disposal of property and equipment and goodwill |      | (1,391)                        | 153,867                        | 56,475                         | 78,045                         |
| Notional accretive interest                                    | 9    | 66,081                         | 192,060                        | 58,270                         | 169,802                        |
| Share based compensation                                       | 12   | -                              | -                              | -                              | 10,428                         |
| Changes in non-cash working capital                            | 16   | 155,027                        | (176,250)                      | 431,730                        | (55,090)                       |
| Cash flow from (used in) operating activities                  |      | 321,884                        | (372,379)                      | 544,342                        | (678,333)                      |
| <b>INVESTING ACTIVITIES</b>                                    |      |                                |                                |                                |                                |
| Purchase of property and equipment                             |      | (223,182)                      | (531,921)                      | (113,570)                      | (557,670)                      |
| Proceeds on disposal of property and equipment                 |      | 150,065                        | 311,935                        | 65,000                         | 167,550                        |
| Cash flow used in investing activities                         |      | (73,117)                       | (219,986)                      | (48,570)                       | (390,120)                      |
| <b>FINANCING ACTIVITIES</b>                                    |      |                                |                                |                                |                                |
| Repayment of loans receivable                                  |      | 3,578                          | 10,717                         | 3,460                          | 10,252                         |
| (Net repayment) proceeds from bank loan                        |      | (491,697)                      | 387,515                        | (557,120)                      | 981,429                        |
| Cash flow (used in) provided by financing activities           |      | (488,119)                      | 398,232                        | (553,660)                      | 991,681                        |
| DECREASE IN CASH   |      | (239,352)                      | (194,133)                      | (57,888)                       | (76,772)                       |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD                |      | 864,005                        | 818,786                        | 767,401                        | 786,285                        |
| CASH AND CASH EQUIVALENTS - END OF PERIOD                      |      | 624,653                        | 624,653                        | 709,513                        | 709,513                        |
| <b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>                    |      |                                |                                |                                |                                |
| Interest paid  |      | 122,397                        | 597,957                        | 88,189                         | 511,255                        |
| Income taxes paid  |      | -                              | 3,493                          | -                              | 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 Sep 30, 2018 Andersons operated 31 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 Nov 27, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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.

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.

Going Concern

As at Sep 30, 2018 the Company had a net comprehensive loss of \$939,836 and had incurred negative cash flow from operations for the twelve month period ending Dec 31, 2017, and three month period ending Mar 31, 2018. 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 fifteen of its stores to the Great Canadian Liquor ("GCL") brand, and investments made in sales and marketing programs 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

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.

Changes in Accounting Policies

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 15 for changes to the classification of financial assets and financial liabilities as a result of IFRS 9.

Effective January 1, 2019, the Company will adopt IFRS 16, "Leases." The new standard is described in our 2017 financial statements. We continue to assess the impact of this standard on our consolidated financial statements and are progressing with the implementation of the standard. As at the date of these interim financial statements, there have been no significant changes to the disclosure related to the implementation of this standard that was included in our 2017 financial statements. We intend to disclose the estimated financial effects in our annual audited 2018 consolidated statements.

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 three month period ended Sep 30, 2018 the Company paid rents of \$21,540 (2017 - \$15,240), and \$52,020 for the nine month period (2017 - \$45,720) in respect of three (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 Sep 30, 2018 is \$200,000 due to a key member of management (Dec 31 - \$nil).

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ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
September 30, 2018  
(Unaudited)

3. RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Compensation

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

|                    | <b>3 months ended</b> | <b>9 months ended</b> | 3 months ended    | 9 months ended    |
|--------------------|-----------------------|-----------------------|-------------------|-------------------|
|                    | <b>Sep 30, 2018</b>   | <b>Sep 30, 2018</b>   | Sep 30, 2017      | Sep 30, 2017      |
| Wages and salaries | \$ 126,000            | \$ 378,000            | \$ 124,750        | \$ 374,250        |
| Other              | 710                   | 2,141                 | 838               | 2,461             |
|                    | <b>\$ 126,710</b>     | <b>\$ 380,141</b>     | <b>\$ 125,588</b> | <b>\$ 376,711</b> |

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 three month period was \$9,440,813 (2017 - \$9,476,631) and \$25,483,429 (2017 - \$25,148,365) for the nine month period. No inventory write downs were recognized in 2018 or 2017.

5. DISPOSAL OF RETAIL STORES

During the nine months ending Sept 30, 2018 the company sold three retail stores and two during the same period in 2017. The proceeds were allocated to the assets as follows:

| Carrying Value                                | Note | 2018              | 2017              |
|---|------|-------------------|-------------------|
| Cash and cash equivalents                     |      | \$ 500            | \$ 507            |
| Inventory                                     |      | 309,345           | 83,664            |
| Property and equipment                        |      | 89,201            | 66,479            |
| Goodwill                                      | 6    | 240,369           | 45,020            |
| <b>Carrying value of net assets sold</b>      |      | <b>\$ 639,415</b> | <b>\$ 195,670</b> |
| Total cash consideration received             |      | \$ 619,845        | \$ 149,171        |
| (Gain) Loss on sale of property and equipment |      | (220,799)         | 1,479             |
| Loss on disposal of goodwill                  | 6    | 240,369           | 45,020            |
|   |      | <b>\$ 639,415</b> | <b>\$ 195,670</b> |

Cash consideration received in the nine month period ending Sep 30, 2018 was for payment of: cash and cash equivalents \$500, inventory \$309,345, and property and equipment \$310,000, based on fair value. Cash consideration received in the nine month period ending Sep 30, 2017 was for payment of: cash and cash equivalents \$507, inventory \$83,664, and property and equipment \$65,000, based on fair value.

ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
September 30, 2018  
(Unaudited)

6. GOODWILL

|                      | Note |                     |
|----------------------|------|---------------------|
| Balance Dec 31, 2016 |      | \$ 6,677,262        |
| Goodwill disposed    |      | (129,074)           |
| Balance Dec 31, 2017 |      | \$ 6,548,188        |
| Goodwill disposed    | 5    | (240,369)           |
| Balance Sep 30, 2018 |      | <b>\$ 6,307,819</b> |

In the nine month period ending Sep 30, 2018 the Company sold three liquor stores resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of \$240,369, included in loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive loss.

7. BANK LOAN

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Sept 20, 2018, the Company has an available facility up to a maximum of the lesser of \$10,000,000 and the total of \$4,102,000 and 75% of accounts receivable to a maximum of \$1,000,000, and 70% of the value of inventory less trade payables related to liquor and unremitted source deductions. The loan is due upon demand, bearing interest at prime plus 2.65% or bankers' acceptances plus 4.15% per annum. A covenant included in this agreement requires the Company to maintain a ratio of earnings before interest, taxes, depreciation, and amortization (EBITDA) to projected EBITDA. As at Sep 30, 2018 the Company is in compliance with this covenant.

Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Sep 30, 2018 there was \$8,343,583 drawn on the bank loan net of cash in transit (Dec 31, 2017 - \$7,990,886). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

Previous agreement provided 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 trade payables related to liquor and unremitted source deductions. The previous agreement bore interest at prime plus 1.9% or bankers' acceptances plus 3.4% per annum.

8. 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.

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ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
September 30, 2018  
(Unaudited)

8. CONVERTIBLE DEBENTURES (continued)

|                             | 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 | -                   | 192,060             |
| Balance Sep 30, 2018        | <b>\$ 6,865,000</b> | <b>\$ 6,064,667</b> |

|  | Equity Component |
|--|------------------|
|  | Carrying Value   |
| Balance Dec 31, 2016 and 2017 and Sep 30, 2018 | <b>\$ 96,694</b> |

9. FINANCE COSTS

|                                | Note | 3 Months          | 9 Months          | 3 Months          | 9 Months          |
|--------------------------------|------|-------------------|-------------------|-------------------|-------------------|
|                                |      | Sep 30, 2018      | Sep 30, 2018      | Sep 30, 2017      | Sep 30, 2017      |
| Bank loan interest             |      | \$ 122,397        | \$ 342,637        | \$ 88,189         | \$ 256,176        |
| Convertible debenture interest |      | 129,776           | 385,097           | 129,777           | 385,098           |
| Notional accretive interest    | 8    | 66,081            | 192,060           | 58,270            | 169,802           |
|                                |      | <b>\$ 318,254</b> | <b>\$ 919,794</b> | <b>\$ 276,236</b> | <b>\$ 811,076</b> |

10. SHARE CAPITAL

Authorized - Unlimited common shares

|  | Number            | Amount              |
|--|-------------------|---------------------|
| Balance at Dec 31, 2016 and 2017, and Sep 30, 2018 | <b>56,791,788</b> | <b>\$ 4,667,442</b> |

11. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

|   | Note | Amount              |
|---|------|---------------------|
| Balance at Dec 31, 2016                   |      | \$ 1,004,483        |
| Share based compensation                  | 12   | 10,428              |
| Balance at Dec 31, 2017, and Sep 30, 2018 |      | <b>\$ 1,014,911</b> |

12. 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.

|                                 | # 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        | 500,000      | 0.070          | 34,563                          | 0.070                           | 0.053                                       |
| Expired Jan 17, 2018            | (500,000)    | -              | -                               | -                               | -   |
| <b>Outstanding Sep 30, 2018</b> | <b>-</b>     | <b>-</b>       | <b>-</b>                        | <b>-</b>                        | <b>-</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 Sep 30, 2018 (2017 - \$4,184) for the three month period, and \$nil (2017 - \$10,428) for the nine month period. 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%   |

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ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
September 30, 2018  
(Unaudited)

12. STOCK OPTION PLAN (continued)

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%   |

13. EXPENSES BY NATURE

|                             | <b>3 Months</b>     | <b>9 Months</b>     | 3 Months            | 9 Months            |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
|                             | <b>Sep 30, 2018</b> | <b>Sep 30, 2018</b> | Sep 30, 2017        | Sep 30, 2017        |
| Wages and employee benefits | \$ 1,167,158        | \$ 3,512,844        | \$ 1,333,042        | \$ 4,133,710        |
| Lease and premise costs     | 747,489             | 2,310,652           | 866,187             | 2,647,297           |
| Other                       | 266,772             | 750,047             | 293,716             | 823,808             |
|                             | <b>\$ 2,181,419</b> | <b>\$ 6,573,543</b> | <b>\$ 2,492,945</b> | <b>\$ 7,604,815</b> |

14. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the three month period ending Sep 30, 2018 was based on the interim net comprehensive loss of \$43,069 (2017 – loss \$156,784), and for the nine month period interim net comprehensive loss of \$939,836 (2017 – loss \$1,350,913).

Weighted average number of shares outstanding of 56,791,788 (2017 – 56,791,788) was used for both the three and nine month periods.

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the three month period ending Sep 30, 2018 was based on the interim net comprehensive loss of \$43,069 (2017 – loss \$156,784), and for the nine month period interim net comprehensive loss of \$939,836 (2017 – loss \$1,350,913).

Weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 56,791,788 (2017 – 56,791,788) was used for both the three and nine month periods. The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the periods ended Sep 30, 2018 and Sep 30, 2017.

15. 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.

| Financial Instrument                     | IAS 39   | IFRS 9                         |
|--|--|--------------------------------|
| Cash and cash equivalents                | Loans and receivables                            | Amortized cost                 |
| Accounts receivable                      | Loans and receivables                            | Amortized cost                 |
| Loans receivable                         | Loans and receivables                            | Amortized cost                 |
| Accounts payable and accrued liabilities | Financial liabilities measured at amortized cost | Amortized cost                 |
| Bank loan                                | Financial liabilities measured at amortized cost | Amortized cost                 |
| Convertible debenture                    | Fair value through profit loss                   | 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).

|  | Sep 30, 2018   |                      | Dec 31, 2017   |                      |
|--|----------------|----------------------|----------------|----------------------|
|  | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial Assets                         |                |                      |                |                      |
| Cash and cash equivalents                | \$ 624,653     | \$ 624,653           | \$ 818,786     | \$ 818,786           |
| Accounts receivable                      | 32,045         | 32,045               | 63,300         | 63,300               |
| Loans receivable                         | 48,747         | 48,747               | 59,464         | 59,464               |
| Financial Liabilities                    |                |                      |                |                      |
| Bank loan                                | 8,693,650      | 8,693,650            | 8,306,135      | 8,306,135            |
| Accounts payable and accrued liabilities | 819,229        | 819,229              | 675,157        | 675,157              |
| Convertible debenture                    | 6,064,667      | 4,599,550            | 5,872,607      | 2,231,125            |

ROCKY MOUNTAIN LIQUOR INC  
Notes to Interim Consolidated Financial Statements  
September 30, 2018  
(Unaudited)

16. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

|  | <b>3 Months</b>     | <b>9 Months</b>     | 3 Months          | 9 Months           |
|--|---------------------|---------------------|-------------------|--------------------|
|  | <b>Sep 30, 2018</b> | <b>Sep 30, 2018</b> | Sep 30, 2017      | Sep 30, 2017       |
| Cash (used in) provided by               |                     |                     |                   |                    |
| Accounts receivable                      | \$ 9,276            | \$ 31,255           | \$ 26,349         | \$ 74,084          |
| Inventory                                | 162,166             | (341,172)           | 391,923           | (273,033)          |
| Prepaid expenses and deposits            | 32,885              | (23,537)            | 42,299            | (18,733)           |
| Income taxes recoverable                 | -                   | (1,994)             | -                 | 99,765             |
| Accounts payable and accrued liabilities | (93,146)            | 144,072             | (31,083)          | 60,002             |
| Goods and services tax payable           | 43,846              | 15,126              | 2,242             | 2,825              |
|  | <b>\$ 155,027</b>   | <b>\$ (176,250)</b> | <b>\$ 431,730</b> | <b>\$ (55,090)</b> |

17. SUBSEQUENT EVENT

Subsequent to Sep 30, 2018, the Company closed a store in Central Alberta.