

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

September 30, 2019

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	5-16

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Sep 30, 2019	Dec 31, 2018
ASSETS			
CURRENT			
Cash and cash equivalents		196,920	574,497
Accounts receivable		107,524	43,704
Inventory		6,010,640	5,385,849
Prepaid expenses and deposits		209,210	185,751
Current portion of loans receivable		33,737	15,198
Income tax receivable		-	10,694
		6,558,031	6,215,693
NON-CURRENT			
PROPERTY AND EQUIPMENT		2,004,026	2,290,017
GOODWILL		6,307,819	6,307,819
RIGHT-OF-USE ASSETS	2	12,509,473	-
LOANS RECEIVABLE		-	29,866
		27,379,349	14,843,395
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		515,807	595,544
Income tax payable		203,886	-
Goods and services tax payable		51,192	87,438
Current portion of lease liabilities	2	1,727,083	-
Bank loan	6	8,524,687	8,091,238
		11,022,655	8,774,220
NON-CURRENT			
LEASE LIABILITIES	2	11,038,911	-
CONVERTIBLE DEBENTURE	7	-	6,130,748
		22,061,566	14,904,968
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures	7	-	96,694
Share capital	9	7,377,311	4,667,442
Contributed surplus	10	1,014,911	1,014,911
Accumulated deficit		(3,074,439)	(5,840,620)
		5,317,783	(61,573)
		27,379,349	14,843,395

GOING CONCERN 2

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

Approved on behalf of the board:

Peter J. Byrne
Chair, Board of Directors

Robert Normandeau
Chair, Audit Committee

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Note	Number of Shares	Equity component of convertible debenture	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at Dec 31, 2017		56,791,788	96,694	4,667,442	1,014,911	(4,623,967)	1,155,080
Net comprehensive loss for the period			-	-	-	(1,216,653)	(1,216,653)
Balance at Dec 31, 2018		56,791,788	96,694	4,667,442	1,014,911	(5,840,620)	(61,573)
Redemption of convertible debenture	7	180,657,895	(96,694)	2,709,869	-	96,694	2,709,869
Share consolidation	9	(189,959,746)	-	-	-	-	-
Net comprehensive income for the period			-	-	-	2,669,487	2,669,487
Balance at Sep 30, 2019		47,489,937	-	7,377,311	1,014,911	(3,074,439)	5,317,783

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, 2019	Sep 30, 2019	Sep 30, 2018	Sep 30, 2018
SALES		11,785,005	32,867,193	12,064,114	32,705,110
COST OF SALES	4	9,189,173	25,676,893	9,440,813	25,483,429
		2,595,832	7,190,300	2,623,301	7,221,681
OPERATING AND ADMINISTRATIVE EXPENSES	12	1,686,852	5,071,879	2,181,419	6,573,543
INCOME FROM OPERATIONS		908,980	2,118,421	441,882	648,138
PROPERTY AND EQUIPMENT DEPRECIATION		111,161	333,761	145,236	397,780
RIGHT-OF-USE ASSETS DEPRECIATION	2	349,713	1,036,670	-	-
OTHER EXPENSES (INCOME)					
Finance costs on lease liabilities	2	173,217	514,003	-	-
Gain on redemption of convertible debenture	7	(3,472,811)	(3,472,811)	-	-
Finance costs	8	151,246	836,033	318,254	919,794
Loss (gain) on disposal of property and equipment and goodwill		813	(1,466)	(1,391)	153,867
Other income		(453)	(1,500)	(698)	(2,110)
Store closure expenses		-	358	23,550	118,643
		(3,147,988)	(2,125,383)	339,715	1,190,194
INCOME BEFORE TAX		3,596,094	2,873,373	(43,069)	(939,836)
INCOME TAXES		203,886	203,886	-	-
NET COMPREHENSIVE INCOME		3,392,208	2,669,487	(43,069)	(939,836)
Basic income (loss) per share	13	0.02	0.02	(0.00)	(0.02)
Diluted income (loss) per share	13	0.02	0.02	(0.00)	(0.02)
Weighted average number of shares - basic	13	217,004,099	110,782,750	56,791,788	56,791,788
Weighted average number of shares - diluted	13	217,004,099	110,782,750	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 Sep 30, 2019	9 months ended Sep 30, 2019	3 months ended Sep 30, 2018	9 months ended Sep 30, 2018
OPERATING ACTIVITIES					
Net comprehensive income (loss)		3,392,208	2,669,487	(43,069)	(939,836)
Items not affecting cash					
Property and equipment depreciation		111,161	333,761	145,236	397,780
Right-of-use assets depreciation		349,713	1,036,670	-	-
Loss (gain) on disposal of property and equipment and goodwill		813	(1,466)	(1,391)	153,867
Finance costs on lease liabilities	2	173,217	514,003	-	-
Notional accretive interest	7	1,628	143,915	66,081	192,060
Gain on redemption of convertible debenture	7	(3,472,811)	(3,472,811)	-	-
Changes in non-cash working capital	15	73,982	(613,473)	155,027	(176,250)
Cash flow from (used in) operating activities		629,911	610,086	321,884	(372,379)
INVESTING ACTIVITIES					
Purchase of property and equipment		(6,757)	(56,843)	(223,182)	(531,921)
Proceeds on disposal of property and equipment		-	10,540	150,065	311,935
Cash flow used in investing activities		(6,757)	(46,303)	(73,117)	(219,986)
FINANCING ACTIVITIES					
Repayment of loans receivable		3,823	11,327	3,578	10,717
Lease payments	2	(440,068)	(1,294,152)	-	-
Convertible debenture redemption transaction costs	7	(91,984)	(91,984)	-	-
Net (repayment) proceeds from bank loan		(360,323)	433,449	(491,697)	387,515
Cash flow (used in) provided by financing activities		(888,552)	(941,360)	(488,119)	398,232
DECREASE IN CASH		(265,398)	(377,577)	(239,352)	(194,133)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		462,318	574,497	864,005	818,786
CASH AND CASH EQUIVALENTS - END OF PERIOD		196,920	196,920	624,653	624,653
CASH FLOWS SUPPLEMENTARY INFORMATION					
Interest paid		181,821	426,859	122,397	597,957
Income taxes paid		-	-	-	3,493

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 (the "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, 2019 Andersons operated 29 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 26, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Going Concern

These interim consolidated financial statements have been prepared on a going concern basis, in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). The application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and can realize its assets and discharge its liabilities and commitments in the normal course of operation.

These interim consolidated financial statements should be read in connection with the Company's 2018 annual consolidated financial statements.

For the three month period ending Sep 30, 2019 the Company had net income before tax and gain on redemption of convertible debenture of \$123,283. Due to recent previous periods with net losses, there exists an uncertainty which may cast doubt about the Company's ability to continue as a going concern. The profitable operations from the three month period ending Sep 30, 2019 are a result of the strategic initiative that occurred during 2017 and 2018 to rebrand fifteen of its stores to Great Canadian Liquor ("GCL") and from ongoing investments in related sales and marketing programs. The Company's ability to continue as a going concern is dependent on its ability to continue to generate profitable operations going forward as well as meet the terms of its loan agreement as discussed in Note 6. 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 in 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. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in Accounting Policies

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, 2018 except for leases, as discussed below.

IFRS 16 Leases

Effective Jan 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16"), which supersedes previous accounting standards for leases, including IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on our Interim Consolidated Statements of Financial Position, as well as a decrease to operating expenses (for the removal of base rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use assets), and an increase to finance costs (due to accretion of the lease liability). Tenant improvement allowances receivable become part of the lease liability under IFRS 16. Leasehold inducements, store closure costs and average rent adjustments are included in the calculation of right-of-use assets.

Leasing Activities

The Company leases properties for its retail stores and head office. Lease contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Accounting Policy

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, we assess whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lessee Accounting

Effective Jan 1, 2019, leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments included in the measurement of the lease liability include the net present value of the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security.

Right-of-use assets are initially measured at cost, comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs
- Restoration costs

The right-of-use assets are depreciated on a straight-line basis over the lease term. The lease term consists of:

- The non-cancellable period of the lease;
- Periods covered by options to extend the lease, where we are reasonably certain to exercise the option; and
- Periods covered by options to terminate the lease, where we are reasonably certain not to exercise the option.

If the Company expects to obtain ownership of the leased asset at the end of the lease, we depreciate the right-of-use asset over the underlying asset's estimated useful life. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact. There is also estimation uncertainty arising from certain leases containing variable lease terms that are linked to operational results or an index or rate.

Judgments

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the lease will be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee.

Adjustment as a Result of IFRS 16

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The Company has recognized new assets and liabilities for all leases that were previously classified as operating leases, other than those that were excluded due to elected practical expedients. The below practical expedients were elected upon transition:

- The previous determination pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease has been maintained for existing contracts;
- The Company has elected to use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- The Company has elected to use hindsight to determine the lease term where the lease contracts contain options to extend or terminate the lease;
- The Company has exercised the option not to apply the new recognition requirements to short-term leases with a term of 12 months or less and no purchase option; and
- For the purpose of initial measurement of the right-of-use assets as at Dec 30, 2018, initial direct costs were not taken into account.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates ranging from 4.8% to 5.1% on Jan 1, 2019, depending on relevant facts and circumstances, geographical location, and lease term duration of the leased property. The associated right-of-use assets were measured as if the standard has been applied since the effective date, discounted using the Company's estimated incremental borrowing rate as of Jan 1, 2019. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders' equity balance as at Jan 1, 2019.

A reconciliation of lease commitments as at Jan 1, 2019, outlining the effect of the transition to IFRS 16 is outlined below.

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
September 30, 2019
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating lease commitments disclosed at Dec 31, 2018	\$ 4,958,540
Extension options	12,963,637
Lease obligation without discounting at the incremental borrowing rate	17,922,177
Effect from discounting at the incremental borrowing rate at Jan 1, 2019	(4,376,034)
Lease liability recognized at Jan 1, 2019	\$ 13,546,143
<hr/>	
Current portion of lease liabilities	1,707,815
Non-current lease liabilities	11,838,328
	\$ 13,546,143

A reconciliation of the effect of transition to IFRS 16 on those accounts impacted in the Company's Interim Consolidated Statement of Financial Position at Jan 1, 2019 is outlined below:

	As reported Dec 31, 2018	Effect of IFRS 16 Transition	Jan 1, 2019
ASSETS			
NON-CURRENT			
RIGHT-OF-USE ASSETS	\$ -	\$ 13,546,143	\$ 13,546,143
TOTAL ASSETS	\$ 14,843,395	\$ 13,546,143	\$ 28,389,538
LIABILITIES			
Current portion of lease liabilities	\$ -	\$ 1,707,815	\$ 1,707,815
	\$ -	\$ 1,707,815	\$ 1,707,815
NON-CURRENT			
LEASE LIABILITIES	\$ -	\$ 11,838,328	\$ 11,838,328
	\$ -	\$ 13,546,143	\$ 13,546,143
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 14,843,395	\$ 13,546,143	\$ 28,389,538

Below is a summary of the activity related to right-of-use assets for the period ended Sep 30, 2019:

Balance at Jan 1, 2019	\$ 13,546,143
Right-of-use assets depreciation	(346,325)
Balance at Mar 31, 2019	13,199,818
Right-of-use assets depreciation	(340,632)
Balance at Jun 30, 2019	\$ 12,859,186
Right-of-use assets depreciation	(349,713)
Balance at Sep 30, 2019	\$ 12,509,473

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
September 30, 2019
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Below is a summary of the activity related to lease liabilities for period ended Sep 30, 2019:

Balance at Jan 1, 2019	\$ 13,546,143
Finance costs on lease liabilities	171,805
Lease payments	(427,652)
Balance at Mar 31, 2019	\$ 13,290,296
Finance costs on lease liabilities	168,981
Lease payments	(426,432)
Balance at Jun 30, 2019	\$ 13,032,845
Finance costs on lease liabilities	173,217
Lease payments	(440,068)
Balance at Sep 30, 2019	\$ 12,765,994
Current portion of lease liabilities	\$ 1,727,083
Non-current lease liabilities	11,038,911
Balance at Sep 30, 2019	\$ 12,765,994

Nature of Operations

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 and weather. Occupancy related expenses; certain general and administrative expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the three month period ended Sep 30, 2019 the Company paid rents of \$22,275 (2018 - \$21,540), and \$65,355 for the nine month period (2018 - \$52,020) in respect of three retail liquor stores (2018 – three) to privately held companies in which a key member of management is a significant shareholder. Nine month 2018 rents are lower than 2019 as a building with a store operated by Andersons was purchased by the same member of management during the second quarter of 2018, increasing rents paid to a related party. The rents are at market rates.

Key Management Personnel Compensation

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

	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30, 2019	Sep 30, 2019	Sep 30, 2018	Sep 30, 2018
Wages and salaries	\$ 123,750	\$ 375,917	\$ 126,000	\$ 378,000
Other	800	2,250	710	2,141
	\$ 124,550	\$ 378,167	\$ 126,710	\$ 380,141

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3. RELATED PARTY TRANSACTIONS (continued)

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 \$9,189,173 (2018 - \$9,440,813) and \$25,676,893 (2018 - \$25,483,429) for the nine month period. No inventory write downs were recognized in 2019 or 2018.

5. DISPOSAL OF RETAIL STORES

During the nine month period for 2018, the Company sold three retail liquor stores. There were no stores sold in 2019. The proceeds were allocated to the assets as follows:

Carrying Value	2019	2018
Cash and cash equivalents	\$ -	\$ 500
Inventory	-	309,345
Property and equipment	-	89,201
Goodwill	-	240,369
Carrying value of net assets sold	\$ -	\$ 639,415
Total cash consideration received	\$ -	\$ 619,845
Gain on sale of property and equipment	-	(220,799)
Loss on disposal of goodwill	-	240,369
	\$ -	\$ 639,415

Cash consideration received in 2018 was for payment of: cash and cash equivalents \$500, inventory \$309,345, and property and equipment \$310,000, based on fair value.

6. BANK LOAN

Through its credit agreement with The Toronto-Dominion Bank, effective Oct 6, 2014 and amended Sep 20, 2018, the Company has an available facility up to a maximum of the lesser of \$9,500,000 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 plus goods and services tax and bottle deposits, 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. Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. As at Sep 30, 2019 there was \$8,524,687 drawn on the bank loan (Dec 31, 2018 - \$8,091,238). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

7. CONVERTIBLE DEBENTURE

The Company had a \$6,865,000 unsecured subordinated convertible debenture (the "Debenture") due Apr 30, 2021 with an interest rate payable semi-annually of 7.50%. It was convertible to common shares of the Company at a conversion price of \$0.25 per common share. The fair value of the Debenture of \$6,472,914 was estimated using discounted future cash flows of the principal amount with an equity component of \$96,694.

Pursuant to the terms of the Debenture agreement, the Company had the option to redeem the Debenture through issuance of common shares, at a rate of 95% of the Current Market Price. Current Market Price is based on the weighted average price per share over 20 consecutive trading days ending on the fifth trading day preceding the date of notification to Debenture holders. On Jul 3, 2019 the Company settled its Debenture by issuing 180,657,895 common shares calculated using a Current Market Price of \$0.038. Interest due up to the redemption date was paid in cash to holders.

The market value per share on Jul 3, 2019 was \$0.015, resulting in a fair value of \$2,709,868 of the 180,657,895 shares issued. The carrying value of the Debenture was \$6,274,663 at the redemption date, resulting in a gain on redemption of \$3,472,811 net of transaction costs of \$91,984. The equity component of the Debenture of \$96,694 was reclassified to accumulated deficit.

Notional accretive interest for the three month period was \$1,628 (2018 - \$66,081) and \$143,915 (2018 - \$192,060) for the nine month period.

The following tables illustrate the continuities relating to the liability and equity components of the Debenture.

	Liability Component	
	Face Value	Carrying Value
Balance Dec 31, 2017	\$ 6,865,000	\$ 5,872,607
Notional accretive interest	-	258,141
Balance Dec 31, 2018	\$ 6,865,000	\$ 6,130,748
Notional accretive interest	-	143,915
Fair value of shares issued Jul 3, 2019	-	(2,709,868)
Transaction costs	-	(91,984)
Gain on redemption Jul 3, 2019	-	(3,472,811)
Redemption Jul 3, 2019	(6,865,000)	-
Balance Sep 30, 2019	\$ -	\$ -

	Equity Component	
	Carrying Value	
Balance Dec 31, 2017 and 2018	\$	96,694
Reclassified to accumulated deficit		(96,694)
Balance Sep 30, 2019	\$	-

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
September 30, 2019
(Unaudited)

8. FINANCE COSTS

	Note	3 Months Sep 30, 2019	9 Months Sep 30, 2019	3 Months Sep 30, 2018	9 Months Sep 30, 2018
Bank loan interest		\$ 146,763	\$ 433,941	\$ 122,397	\$ 342,637
Convertible debenture interest		2,855	258,177	129,776	385,097
Notional accretive interest	7	1,628	143,915	66,081	192,060
		\$ 151,246	\$ 836,033	\$ 318,254	\$ 919,794

9. SHARE CAPITAL

Authorized - Unlimited common shares

	Note	Number	Amount
Balance Dec 31, 2017, 2018		56,791,788	\$ 4,667,442
Issued upon debenture redemption Jul 3, 2019	7	180,657,895	2,709,869
Consolidated Sep 23, 2019		(189,959,746)	-
Balance Sep 30, 2019		47,489,937	\$ 7,377,311

On Sep 23, 2019, the Company consolidated its issued and outstanding common shares on the basis of five pre-consolidation common shares for each one post-consolidation common share (the "Share Consolidation"). As a result of the Share Consolidation, the 237,449,683 pre-consolidation shares were consolidated to 47,489,937 post-consolidation shares.

10. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Amount
Balance Dec 31, 2017, 2018 and Sep 30, 2019	\$ 1,014,911

11. 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.

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
September 30, 2019
(Unaudited)

12. EXPENSES BY NATURE

	3 Months	9 Months	3 Months	9 Months
	Sep 30, 2019	Sep 30, 2019	Sep 30, 2018	Sep 30, 2018
Wages and employee benefits	\$ 1,201,448	\$ 3,570,896	\$ 1,167,158	\$ 3,512,844
Lease and premise costs	256,916	836,036	747,489	2,310,652
Other	228,488	664,947	266,772	750,047
	\$ 1,686,852	\$ 5,071,879	\$ 2,181,419	\$ 6,573,543

Lease and premise costs are reduced at Sep 30, 2019 by \$440,068 for the three month period ending Sep 30, 2019 and \$1,302,156 for the nine month period ending Sep 30, 2019 as a result of the adoption of IFRS 16, as explained in Note 2.

13. 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, 2019 was based on the interim net comprehensive income of \$3,392,208 (2018 – loss \$43,069), and for the nine month period interim net comprehensive income of \$2,669,487 (2018 – loss \$939,836).

Weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 217,004,099 was applied to the three month period in 2019 and 110,782,750 was applied to the nine month period in 2019 (2018 – 56,791,788 was applied to 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 period ended Sep 30, 2018.

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the three month period ending Sep 30, 2019 was based on the interim net comprehensive income of \$3,392,208 (2018 – loss \$43,069), and for the nine month period interim net comprehensive income of \$2,669,487 (2018 – loss \$939,836).

Weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 217,004,099 was applied to the three month period in 2019 and 110,782,750 was applied to the nine month period in 2019 (2018 – 56,791,788 was applied to 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 period ended Sep 30, 2018.

14. FINANCIAL INSTRUMENTS

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank loan, the carrying value approximates fair value due to the short-term nature of the instruments.

The loans receivable have a fair value equivalent to the carrying value as they bear interest at the prevailing market interest rate.

(continues)

14. FINANCIAL INSTRUMENTS (continued)

The convertible debentures fair value was determined based on market trading values at the statement of financial position date.

As at Sep 30, 2019 and Dec 31, 2018 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

Fair value measurements

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

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

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

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

	Sep 30, 2019		Dec 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	\$ 196,920	\$ 196,920	\$ 574,497	\$ 574,497
Accounts receivable	107,524	107,524	43,704	43,704
Loans receivable	33,737	33,737	45,064	45,064
Financial Liabilities				
Accounts payable and accrued liabilities	515,807	515,807	595,544	595,544
Lease liabilities	12,765,994	12,765,994	-	-
Bank loan	8,524,687	8,524,687	8,091,238	8,091,238
Convertible debenture	-	-	6,130,748	2,299,775

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
September 30, 2019
(Unaudited)

15. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	3 Months	9 Months	3 Months	9 Months
	Sep 30, 2019	Sep 30, 2019	Sep 30, 2018	Sep 30, 2018
Cash (used in) provided by				
Accounts receivable	\$ 473,588	\$ (63,820)	\$ 9,276	\$ 31,255
Inventory	(118,466)	(624,791)	162,166	(341,172)
Prepaid expenses and deposits	29,708	(23,459)	32,885	(23,537)
Income tax recoverable	10,694	10,694	-	(1,994)
Accounts payable and accrued liabilities	(547,100)	(79,737)	(93,146)	144,072
Income tax payable	203,886	203,886		
Goods and services tax payable	21,672	(36,246)	43,846	15,126
	\$ 73,982	\$ (613,473)	\$ 155,027	\$ (176,250)