

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

March 31, 2020

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, 2020 \$	Dec 31, 2019 \$
ASSETS			
CURRENT			
Cash and cash equivalents		201,170	253,219
Accounts receivable		135,537	328,236
Inventory		4,909,157	5,015,371
Prepaid expenses and deposits		188,050	249,022
Current portion of loans receivable		25,888	29,807
		5,459,802	5,875,655
NON-CURRENT			
PROPERTY AND EQUIPMENT		1,771,623	1,913,468
GOODWILL	6	6,281,287	6,307,819
RIGHT-OF-USE ASSETS	16	12,774,184	13,103,781
		26,286,896	27,200,723
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		388,892	355,417
Goods and services tax payable		14,684	75,864
Bank loan	7	7,516,112	7,854,890
Current portion of lease liabilities	16	1,741,206	1,731,967
		9,660,894	10,018,138
NON-CURRENT			
LEASE LIABILITIES	16	11,414,850	11,696,251
		21,075,744	21,714,389
SHAREHOLDERS' EQUITY			
Share capital	10	7,377,311	7,377,311
Contributed surplus	11	1,014,911	1,014,911
Accumulated deficit		(3,181,070)	(2,905,888)
		5,211,152	5,486,334
		26,286,896	27,200,723

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The accompanying notes form an integral part of these interim consolidated financial statements
Approved on behalf of the board:

Peter Byrne
Chair, Board of Directors

Robert Normandeau
Chair, Audit Committee

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Equity component of convertible debenture	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at Dec 31, 2018	96,694	4,667,442	1,014,911	(5,840,620)	(61,573)
Debenture redemption Jul 3, 2019	(96,694)	2,709,869	-	96,694	2,709,869
Net comprehensive loss for the period	-	-	-	2,838,038	2,838,038
Balance at Dec 31, 2019	-	7,377,311	1,014,911	(2,905,888)	5,486,334
Net comprehensive loss for the period	-	-	-	(275,182)	(275,182)
Balance at Mar 31, 2020	-	7,377,311	1,014,911	(3,181,070)	5,211,152

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	2020 \$	2019 \$
SALES		9,436,875	9,076,521
COST OF SALES	4	7,359,044	7,139,858
		2,077,831	1,936,663
OPERATING AND ADMINISTRATIVE EXPENSES	13	1,587,293	1,674,200
INCOME FROM OPERATIONS		490,538	262,463
PROPERTY AND EQUIPMENT DEPRECIATION		96,451	111,702
RIGHT-OF-USE ASSETS DEPRECIATION	16	329,597	346,325
FINANCE COSTS ON LEASE LIABILITIES	16	153,632	171,805
OTHER EXPENSES (INCOME)			
Finance costs	9	128,397	335,456
Loss (gain) on disposal of property and equipment		44,300	(2,942)
Store closure expenses		14,067	160
Other income		(724)	(547)
		765,720	961,959
LOSS BEFORE TAX		(275,182)	(699,496)
INCOME TAXES		-	-
NET COMPREHENSIVE LOSS		(275,182)	(699,496)
Basic income per share	14	(0.01)	(0.06)
Diluted income per share	14	(0.01)	(0.06)
Weighted average number of shares - basic		47,489,937	11,358,358
Weighted average number of shares - diluted		47,489,937	11,358,358

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	2020 \$	2019 \$
OPERATING ACTIVITIES			
Net comprehensive loss		(275,182)	(699,496)
Items not affecting cash			
Property and equipment depreciation		96,451	111,702
Right-of-use assets depreciation	16	329,597	346,325
Loss (gain) on disposal of property and equipment and goodwill		44,300	(2,942)
Notional accretive interest	8	-	68,902
Finance costs on lease liabilities	16	153,632	171,805
Changes in non-cash working capital	17	332,180	(74,478)
Cash flow from (used in) operating activities		680,978	(78,182)
INVESTING ACTIVITIES			
Purchase of property and equipment		(15,424)	(21,359)
Proceeds on disposal of property and equipment		43,050	10,540
Cash flow from (used in) investing activities		27,626	(10,819)
FINANCING ACTIVITIES			
Repayment of loans receivable		3,919	3,728
Net (payment) proceeds from bank loan		(338,778)	245,999
Lease payments	16	(425,794)	(427,652)
Cash flow used in financing activities		(760,653)	(177,925)
DECREASE IN CASH		(52,049)	(266,926)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		253,219	574,497
CASH AND CASH EQUIVALENTS - END OF PERIOD		201,170	307,571
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		128,397	139,598
Income taxes paid		-	-

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, 2020 Andersons operated 28 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 21, 2020.

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 conjunction with the Company's 2019 annual consolidated financial statements.

As at Mar 31, 2020 the Company had net loss of \$275,182 (Mar 31, 2019 – loss \$699,496). Due to recent periods with net losses and an accumulated deficit of \$3,181,070 (Dec 31, 2019 - \$2,905,888), there exists 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 on its ability to continue to generate profitable operations going forward as well as continue to meet the terms of its bank loan as described in Note 7. 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. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of COVID-19 Pandemic

The spread of COVID-19 in the first quarter of 2020, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, may cause material disruption to businesses globally resulting in an economic slowdown.

The global pandemic related to an outbreak of COVID-19 has cast uncertainty on the assumptions used by management in making its judgements and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian economy and the Company's business is uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgements and estimates. At this time in Alberta, liquor retail has been recognized as an essential business. As at May 21, 2020, all 28 locations are open and operational.

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 period the Company paid rents of \$22,275 (2019 - \$21,240), in respect of three retail liquor stores, to privately held companies in which a key member of management is a significant shareholder. The rent is at market rates.

Key Management Personnel Compensation

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

	Mar 31, 2020	Mar 31, 2019
Wages and salaries	\$ 124,500	\$ 126,000
Other	1,180	720
	\$ 125,680	\$ 126,720

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, 2020 was \$7,359,044 (2019 - \$7,139,858). No inventory write downs were recognized in 2020 or 2019.

5. SALE OF RETAIL STORE

During 2020 the Company sold one retail liquor store. No stores were sold in 2019. The proceeds were allocated to the assets as follows:

Carrying Value	Note	Mar 31, 2020
Inventory		\$ 143,509
Property and equipment		57,932
Goodwill	6	26,532
Carrying value of net assets sold		\$ 227,973
Total cash consideration received		\$ 183,509
Total loss on sale of stores		44,464
Carrying value of net assets sold		\$ 227,973

6. GOODWILL

In 2020 the Company sold one liquor store resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of \$26,532, included in loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive loss.

	Note	Liquor Store CGU
Balance Dec 31, 2018 and 2019		\$ 6,307,819
Goodwill disposed	5	(26,532)
Balance Mar 31, 2020		\$ 6,281,287

7. 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 \$9,250,000 and the total of \$3,819,000 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 Mar 31, 2020 there was \$7,516,112 drawn on the bank loan (Dec 31, 2019 - \$7,854,890). Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line.

8. CONVERTIBLE DEBENTURES

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 year was \$68,902 for the 3 month period ending Mar 31, 2019.

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, 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 Dec 31, 2019 and Mar 31, 2020	\$ -	\$ -

	Equity Component
	Carrying Value
Balance Dec 31, 2018	\$ 96,694
Reclassified to accumulated deficit	(96,694)
Balance Dec 31, 2019 and Mar 31, 2020	\$ -

9. FINANCE COSTS

	Note	Mar 31, 2020	Mar 31, 2019
Bank loan interest		\$ 128,397	\$ 139,599
Convertible debenture interest		-	126,955
Accretive interest	8	-	68,902
		\$ 128,397	\$ 335,456

10. 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	8	180,657,895	2,709,869
Consolidated Sep 23, 2019		(189,959,746)	-
Balance Dec 31, 2019 and Mar 31, 2020		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. All references in the consolidated financial statements including amounts in the comparative period and the notes to the consolidated financial statements have been adjusted to reflect this share consolidation.

11. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Amount
Balance at Dec 31, 2018, 2019 and Mar 31, 2020	\$ 1,014,911

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.

13. EXPENSES BY NATURE

	Mar 31, 2020	Mar 31, 2019
Wages and employee benefits	\$ 1,116,565	\$ 1,160,937
Premise costs related to leases	277,950	302,345
Other	192,778	210,918
	\$ 1,587,293	\$ 1,674,200

14. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Mar 31, 2020 was based on the interim net comprehensive loss of \$275,182 (2019 – \$699,496) and a weighted average number of shares outstanding of 47,489,937 (2019 – 11,358,358).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Mar 31, 2020 was based on the interim net comprehensive loss of \$275,182 (2019 – \$699,496) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 47,489,937 (2019 – 11,358,358).

Weighted average number of shares has been adjusted for share consolidation in 2019 as explained in Note 10. All references in the consolidated financial statements including amounts in the comparative period and the notes to the consolidated financial statements have been adjusted to reflect this share consolidation.

15. 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.

As at Mar 31, 2020 and Dec 31, 2019 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).

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
March 31, 2020
(Unaudited)

15. FINANCIAL INSTRUMENTS (continued)

	Mar 31, 2020		Dec 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	\$ 201,170	\$ 201,170	\$ 253,219	\$ 253,219
Accounts receivable	135,537	135,537	328,236	328,236
Loans receivable	25,888	25,888	29,807	29,807
Financial Liabilities at Amortized Cost				
Bank loan	7,516,112	7,516,112	7,854,890	7,854,890
Accounts payable and accrued liabilities	388,892	388,892	355,417	355,417

16. LEASES

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

Below is a summary of the activity related to right-of-use assets for the 3 month period ended Mar 31, 2020:

Balance at Jan 1, 2019	\$ 13,546,143
Lease modification adjustment	942,941
Right-of-use assets depreciation	(1,385,303)
Balance at Dec 31, 2019	\$ 13,103,781
Right-of-use assets depreciation	(329,597)
Balance at Mar 31, 2020	\$ 12,774,184

Right-of-use assets depreciation was recognized in the statement of comprehensive income.

Below is a summary of the activity related to lease liabilities for the period ended Mar 31, 2020:

Balance at Jan 1, 2019	\$ 13,546,143
Lease modification adjustment	942,941
Finance costs on lease liabilities	658,183
Lease payments	(1,719,049)
Balance at Dec 31, 2019	\$ 13,428,218
Finance costs on lease liabilities	153,632
Lease payments	(425,794)
Balance at Mar 31, 2020	\$ 13,156,056

Current portion of lease liabilities	\$ 1,741,206
Non-current lease liabilities	11,414,850
Balance at Mar 31, 2020	\$ 13,156,056

Finance costs on lease liabilities were recognized in the statement of comprehensive income and lease payments were recognized in the statement of cash flows.

17. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Mar 31, 2020	Mar 31, 2019
Cash provided by (used in)		
Accounts receivable	\$ 192,699	\$ (306,278)
Inventory	106,214	(51,185)
Prepaid expenses and deposits	60,972	37,324
Accounts payable and accrued liabilities	33,475	282,180
Goods and services tax payable	(61,180)	(36,519)
	\$ 332,180	\$ (74,478)