

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

June 30, 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	Jun 30, 2020	Dec 31, 2019
		\$	\$
ASSETS			
CURRENT			
Cash and cash equivalents		175,685	253,219
Accounts receivable		263,139	328,236
Inventory		6,196,289	5,015,371
Prepaid expenses and deposits		188,770	249,022
Current portion of loans receivable		21,919	29,807
		6,845,802	5,875,655
NON-CURRENT			
PROPERTY AND EQUIPMENT		1,718,048	1,913,468
GOODWILL	6	6,281,287	6,307,819
RIGHT-OF-USE ASSETS	14	12,473,538	13,103,781
		27,318,675	27,200,723
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		346,577	355,417
Goods and services tax payable		52,243	75,864
Operating facility	7	3,985,701	7,854,890
Bank loan	7	3,850,000	-
Current portion of lease liabilities	14	1,691,801	1,731,967
		9,926,322	10,018,138
NON-CURRENT			
LEASE LIABILITIES	14	11,210,512	11,696,251
		21,136,834	21,714,389
SHAREHOLDERS' EQUITY			
Share capital	9	7,377,311	7,377,311
Contributed surplus	10	1,014,911	1,014,911
Accumulated deficit		(2,210,381)	(2,905,888)
		6,181,841	5,486,334
		27,318,675	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 J. 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 income 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 income for the period	-	-	-	695,507	695,507
Balance at Jun 30, 2020	-	7,377,311	1,014,911	(2,210,381)	6,181,841

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 6 months ended Jun 30

		3 months ended Jun 30, 2020	6 months ended Jun 30, 2020	3 months ended Jun 30, 2019	6 months ended Jun 30, 2019
	Note	\$	\$	\$	\$
SALES		14,306,042	23,742,916	12,005,667	21,082,188
COST OF SALES	4	10,976,227	18,335,271	9,347,862	16,487,720
		3,329,815	5,407,645	2,657,805	4,594,468
OPERATING AND ADMINISTRATIVE EXPENSES		1,711,036	3,298,327	1,710,826	3,385,027
INCOME FROM OPERATIONS		1,618,779	2,109,318	946,979	1,209,441
PROPERTY AND EQUIPMENT DEPRECIATION		66,038	162,489	110,898	222,600
RIGHT-OF-USE ASSETS DEPRECIATION	14	300,646	630,243	340,632	686,957
FINANCE COSTS ON LEASE LIABILITIES	14	176,060	329,692	168,981	340,786
OTHER EXPENSES (INCOME)					
Finance costs	8	105,653	234,050	349,331	684,787
Loss (gain) on disposal of property and equipment and goodwill		-	44,300	663	(2,279)
Store closure expenses		-	14,068	198	358
Other income		(307)	(1,031)	(500)	(1,047)
		648,090	1,413,811	970,203	1,932,162
INCOME (LOSS) BEFORE TAX		970,689	695,507	(23,224)	(722,721)
INCOME TAXES		-	-	-	-
NET COMPREHENSIVE INCOME (LOSS)		970,689	695,507	(23,224)	(722,721)
Basic income (loss) per share	12	0.02	0.01	(0.00)	(0.06)
Diluted income (loss) per share	12	0.02	0.01	(0.00)	(0.06)
Weighted average number of shares - basic		47,489,937	47,489,937	11,358,358	11,358,358
Weighted average number of shares - diluted		47,489,937	47,489,937	11,358,358	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 and 6 months ended Jun 30

		3 months ended	6 months ended	3 months ended	6 months ended
	Note	Jun 30, 2020	Jun 30, 2020	Jun 30, 2019	Jun 30, 2019
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net comprehensive income (loss)		970,689	695,507	(23,224)	(722,721)
Items not affecting cash					
Property and equipment depreciation		66,038	162,489	110,898	222,600
Right-of-use assets depreciation	14	300,646	630,243	340,632	686,957
Loss (gain) on disposal of property and equipment and goodwill		-	44,300	663	(2,279)
Notional accretive interest	8	-	-	73,385	142,287
Finance costs on lease liabilities	14	176,060	329,692	168,981	340,786
Changes in non-cash working capital	15	(1,420,210)	(1,088,030)	(612,978)	(687,455)
Cash flow from (used in) operating activities		93,223	774,201	58,357	(19,825)
INVESTING ACTIVITIES					
Purchase of property and equipment		(12,463)	(27,887)	(28,727)	(50,086)
Proceeds on disposal of property and equipment		-	43,050	-	10,540
Cash flow (used in) from investing activities		(12,463)	15,163	(28,727)	(39,546)
FINANCING ACTIVITIES					
Repayment of loans receivable		3,969	7,888	3,776	7,504
Net proceeds (payment) from operating facility and bank loan		319,589	(19,189)	547,773	793,772
Lease payments	14	(429,803)	(855,597)	(426,432)	(854,084)
Cash flow (used in) provided by financing activities		(106,245)	(866,898)	125,117	(52,808)
(DECREASE) INCREASE IN CASH		(25,485)	(77,534)	154,747	(112,179)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		201,170	253,219	307,571	574,497
CASH AND CASH EQUIVALENTS - END OF PERIOD		175,685	175,685	462,318	462,318
CASH FLOWS SUPPLEMENTARY INFORMATION					
Interest paid		105,653	234,050	402,628	542,225
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 (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 Jun 30, 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 Aug 20, 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 Jun 30, 2020 the Company had net income of \$695,507 (Jun 30, 2019 – loss \$722,721), an increase of \$1,418,228. However, due to recent quarterly periods that experienced net losses, and a current accumulated deficit of \$2,210,381 (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.

Since applying its rebranding strategy in 2017 and 2018 and investing in its sales and marketing programs, the Company has experienced more profitable operations. It has earned positive cash flows from operations for the past five consecutive quarters, and has increased net income for the three and six months ending Jun 30, 2020 by \$993,913 and \$1,418,228 when compared to the same three and six month periods in 2019. Furthermore, the Company was able to negotiate a financing agreement with the Toronto-Dominion bank on Jun 30, 2020, maintaining the interest rates and availability at the same amounts as its previous agreement. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impact of COVID-19 Pandemic

The spread of COVID-19 in the 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 novel coronavirus pandemic has had, and continues to have, a notable impact on the Company. The Company's financial results show increased sales, driven by increased demand for liquor retail product following the onset of the crisis as a result of consumers turning to liquor retailers in lieu of licensed establishments. This trend continues into the second quarter. Additional costs were incurred for safety and sanitization measures. The full economic impact the pandemic will have on the Company, its judgements and estimates remain uncertain and is dependent on the severity and duration of the virus. In Alberta, liquor retail was immediately recognized as an essential business and has not experienced compulsory closure as a result of the COVID-19. As at Aug 20, 2020, all 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 three month period ended Jun 30, 2020 the Company paid rents of \$22,275 (2019 - \$21,540), and \$44,550 for the six month period (2019 - \$43,080) in respect of three retail liquor stores, to privately held companies in which a key member of management is a significant shareholder.

Key Management Personnel Compensation

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

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ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
June 30, 2020
(Unaudited)

3. RELATED PARTY TRANSACTIONS (continued)

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30, 2020	Jun 30, 2020	Jun 30, 2019	Jun 30, 2019
Wages and salaries	\$ 124,500	\$ 249,000	\$ 126,166	\$ 252,166
Other	670	1,850	731	1,451
	\$ 125,170	\$ 250,850	\$ 126,897	\$ 253,617

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 \$10,976,227 (2019 - \$9,347,862) and \$18,335,271 (2019 - \$16,487,720) for the six month period. No inventory write downs were recognized in 2020 or 2019.

5. DISPOSAL OF RETAIL STORES

In Q1 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	Jun 30, 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
Loss on sale of property and equipment		17,932
Loss on goodwill	6	26,532
Carrying value of net assets sold		\$ 227,973

6. GOODWILL

In Q1 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 Jun 30, 2020		\$ 6,281,287

7. OPERATING FACILITY LOAN AND BANK LOAN

Through the Toronto-Dominion Bank, the Company has signed a new credit agreement effective Jun 30, 2020. The agreement allows for total availability up to a maximum of \$9,250,000, split between two facilities: 1) "Operating Facility" of \$5,400,000 and 2) "Bank Loan" of \$3,850,000.

The operating facility availability is calculated as the lesser of i) \$5,400,000 and ii) 75% of accounts receivable to a maximum of \$1,000,000, plus 70% of the value of inventory plus goods and services tax and bottle deposits, less trade payables related to liquor and unremitted source deductions. This facility is a revolving loan and is due upon demand.

The bank loan is a demand reducing facility to be repaid by quarterly payments of \$300,000 over three years. Below is a summary of the utilization of the facilities. Under IFRS as both facilities are due upon demand, they are each classified as current liabilities.

Classification Under IFRS

Current Liabilities:	Jun 30, 2020	Dec 31, 2019
Operating facility	\$ 3,985,701	\$ 7,854,890
Bank loan	3,850,000	-
Total utilization of TD's facilities	\$ 7,835,701	\$ 7,854,890

The nature of the agreement with TD is for the Bank Loan facility to be repaid over a period of three years. If presenting based on the nature of the agreement, \$1,200,000 of the bank loan would be considered current as it is due within 12 months' time, and \$2,650,000 would be classified as long term. Below is a non-IFRS presentation of the facilities due to TD.

Non-IFRS Presentation

	Jun 30, 2020	Dec 31, 2019
Current Liability:		
Operating facility loan	\$ 3,985,701	\$ 7,854,890
Current portion of bank loan	1,200,000	-
Total current	5,185,701	7,854,890
Non Current Liability:		
Bank loan	2,650,000	-
Total utilization of TD's Facilities	\$ 7,835,701	\$ 7,854,890

Both facilities bear interest at prime plus 2.65%. Interest only payments are due monthly, secured by a general security agreement representing a first charge on all assets. Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis.

The agreement includes a covenant, requiring the Company to maintain a ratio of 80% actual earnings before interest, taxes, depreciation, and amortization (EBITDA) to projected EBITDA, on a standalone quarterly basis. As at Jun 30, 2020 the Company is in compliance with this covenant.

The previous agreement provided an available facility up to a maximum of the lesser of i) \$9,250,000 and ii) the total of \$3,189,000 plus 75% of accounts receivable and 70% of the value of inventory. There is no change to interest rates under the new agreement.

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
June 30, 2020
(Unaudited)

8. FINANCE COSTS

	3 Months	6 Months	3 Months	6 Months
	Jun 30, 2020	Jun 30, 2020	Jun 30, 2019	Jun 30, 2019
Bank loan interest	\$ 105,653	\$ 234,050	\$ 147,580	\$ 287,178
Convertible debenture interest	-	-	128,366	255,322
Notional accretive interest	-	-	73,385	142,287
	\$ 105,653	\$ 234,050	\$ 349,331	\$ 684,787

The Company had a \$6,865,000 unsecured subordinated convertible debenture (the "Debenture") that it redeemed on Jul 3, 2019. Notional accretive interest associated with the Debenture was \$73,385 for the 3 month period ending Jun 30, 2019 and \$142,287 for the 6 month period ending Jun 30, 2019.

9. SHARE CAPITAL

Authorized - Unlimited common shares

	Number	Amount
Balance Dec 31, 2018	56,791,788	\$ 4,667,442
Issued upon debenture redemption Jul 3, 2019	180,657,895	2,709,869
Consolidated Sep 23, 2019	(189,959,746)	-
Balance Dec 31, 2019 and Jun 30, 2020	47,489,937	\$ 7,377,311

The \$6,865,000 Debenture redeemed on Jul 3, 2019 through issuance of 180,657,895 shares. 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.

10. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Amount
Balance at Dec 31, 2019 and Jun 30, 2020	\$ 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.

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11. STOCK OPTION PLAN (continued)

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.

12. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Jun 30, 2020 was based on the interim net comprehensive income of \$970,689 (2019 – loss \$23,224) for the three month period and for the six month period interim net comprehensive income of \$695,507 (2019 - loss \$722,721) 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 Jun 30, 2020 was based on the interim net comprehensive income of \$970,689 (2019 – loss \$23,224) for the three month period and for the six month period interim net comprehensive income of \$695,507 (2019 - loss \$722,721) 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 9. 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.

13. 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 Jun 30, 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:

(continues)

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

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).

	Jun 30, 2020		Dec 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	\$ 175,685	\$ 175,685	\$ 253,219	\$ 253,219
Accounts receivable	263,139	263,139	328,236	328,236
Loans receivable	21,919	21,919	29,807	29,807
Financial Liabilities at Amortized Cost				
Accounts payable and accrued liabilities	346,577	346,577	355,417	355,417
Operating facility loan	3,985,701	3,985,701	7,854,890	7,854,890
Bank loan	3,850,000	3,850,000	-	-

14. 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 period ended Jun 30, 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	(630,243)
Balance at Jun 30, 2020	\$ 12,473,538

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 Jun 30, 2020:

(continues)

ROCKY MOUNTAIN LIQUOR INC
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14. LEASES (continued)

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	329,692
Lease payments	(855,597)
Balance at Jun 30, 2020	\$ 12,902,313
Current portion of lease liabilities	\$ 1,691,801
Non-current lease liabilities	11,210,512
Balance at Jun 30, 2020	\$ 12,902,313

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

15. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	3 Months	6 Months	3 Months	6 Months
	Jun 30, 2020	Jun 30, 2020	Jun 30, 2019	Jun 30, 2019
Cash (used in) provided by				
Accounts receivable	\$ (127,602)	\$ 65,097	\$ (231,130)	\$ (537,408)
Inventory	(1,287,132)	(1,180,918)	(455,140)	(506,325)
Prepaid expenses and deposits	(720)	60,252	(90,491)	(53,168)
Accounts payable and accrued liabilities	(42,315)	(8,840)	185,046	467,227
Goods and services tax payable	37,559	(23,621)	(21,263)	(57,781)
	\$ (1,420,210)	\$ (1,088,030)	\$ (612,978)	\$ (687,455)

16. SUBSEQUENT EVENT

Subsequent to Jun 30, 2020, the Company sold two stores in Southern Alberta.