

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

June 30, 2022

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	5-10

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Jun 30, 2022	Dec 31, 2021
		\$	\$
ASSETS			
CURRENT			
Cash and cash equivalents		336,635	118,015
Accounts receivable		124,326	433,401
Inventory		6,182,881	4,951,276
Prepaid expenses and deposits		371,147	168,647
		7,014,989	5,671,339
NON-CURRENT			
PROPERTY AND EQUIPMENT		1,335,537	1,423,661
GOODWILL		6,215,410	6,215,410
DEFERRED TAX ASSETS		196,373	196,373
RIGHT-OF-USE ASSETS	10	11,985,827	12,449,339
		26,748,136	25,956,122
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		378,766	595,710
Goods and services tax payable		21,108	57,164
Operating facility	5	3,635,343	1,861,671
Current portion of bank loan	5	801,906	815,388
Current portion of lease liabilities	10	1,491,166	1,481,750
		6,328,289	4,811,683
NON-CURRENT			
BANK LOAN	5	1,010,679	1,387,751
LEASE LIABILITIES	10	11,181,811	11,607,084
		18,520,779	17,806,518
SHAREHOLDERS' EQUITY			
Share capital	6	7,427,311	7,377,311
Contributed surplus	7	1,024,148	1,014,911
Accumulated deficit		(224,102)	(242,618)
		8,227,357	8,149,604
		26,748,136	25,956,122

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)

	Note	Share capital \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance at Dec 31, 2020		7,377,311	1,014,911	(1,385,283)	7,006,939
Net comprehensive income for the period		-	-	1,142,665	1,142,665
Balance at Dec 31, 2021		7,377,311	1,014,911	(242,618)	8,149,604
Share based payments	6, 8	50,000	9,237	-	59,237
Net comprehensive income for the period		-	-	18,516	18,516
Balance at Jun 30, 2022		7,427,311	1,024,148	(224,102)	8,227,357

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

ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Comprehensive Income

(unaudited)

For the 3 and 6 months ended Jun 30

		3 months ended Jun 30, 2022	6 months ended Jun 30, 2022	3 months ended Jun 30, 2021	6 months ended Jun 30, 2021
	Note	\$	\$	\$	\$
SALES		11,053,602	19,696,952	12,476,170	21,972,994
COST OF SALES	4	8,542,627	15,250,491	9,643,297	17,024,532
		2,510,975	4,446,461	2,832,873	4,948,462
OPERATING AND ADMINISTRATIVE EXPENSES		1,757,151	3,399,993	1,727,225	3,367,565
INCOME FROM OPERATIONS		753,824	1,046,468	1,105,648	1,580,897
PROPERTY AND EQUIPMENT DEPRECIATION		63,713	126,942	70,122	139,145
RIGHT-OF-USE ASSETS DEPRECIATION	10	231,755	463,512	247,217	494,434
FINANCE COSTS ON LEASE LIABILITIES	10	163,307	326,613	160,545	325,767
OTHER EXPENSES (INCOME)					
Finance costs		63,584	109,197	79,823	152,746
Loss on disposal of property and equipment and goodwill		1,360	1,688	498	5,636
Store closure expenses		-	-	-	2,835
		523,719	1,027,952	558,205	1,120,563
INCOME BEFORE TAX		230,105	18,516	547,443	460,334
INCOME TAXES		-	-	-	-
NET COMPREHENSIVE INCOME		230,105	18,516	547,443	460,334
Basic income per share	9	0.00	0.00	0.01	0.01
Diluted income per share	9	0.00	0.00	0.01	0.01
Weighted average number of shares - basic		47,583,262	47,583,262	47,489,937	47,489,937
Weighted average number of shares - diluted		47,639,574	47,639,574	47,489,937	47,489,937

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, 2022	Jun 30, 2022	Jun 30, 2021	Jun 30, 2021
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net comprehensive income		230,105	18,516	547,443	460,334
Items not affecting cash					
Property and equipment depreciation		63,713	126,942	70,122	139,145
Right-of-use assets depreciation	10	231,755	463,512	247,217	494,434
Loss (gain) on disposal of property and equipment and goodwill		1,360	1,688	498	5,636
Finance costs on lease liabilities	10	163,307	326,613	160,545	325,767
Stock based compensation	6, 8	59,237	59,237	-	-
Changes in non-cash working capital	11	(841,251)	(1,378,030)	(300,417)	(1,221,292)
Cash flow (used in) from operating activities		(91,774)	(381,522)	725,408	204,024
INVESTING ACTIVITIES					
Purchase of property and equipment		(9,543)	(40,506)	(6,451)	(62,996)
Cash flow used in investing activities		(9,543)	(40,506)	(6,451)	(62,996)
FINANCING ACTIVITIES					
Proceeds from (payment to) operating facility and bank loan		778,071	1,383,118	(203,119)	681,978
Lease payments	10	(371,402)	(742,470)	(366,752)	(736,868)
Cash flow from (used in) financing activities		406,669	640,648	(569,871)	(54,890)
INCREASE IN CASH		305,352	218,620	149,086	86,138
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		31,283	118,015	84,044	146,992
CASH AND CASH EQUIVALENTS - END OF PERIOD		336,635	336,635	233,130	233,130
CASH FLOWS SUPPLEMENTARY INFORMATION					
Interest paid		63,584	109,197	79,823	152,746
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 Jun 30, 2022 Andersons operated 26 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 26, 2022.

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 2022 annual consolidated financial statements.

The preparation of these 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.

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

Impact of COVID-19 Pandemic

The novel coronavirus pandemic has had an impact on the Company. The Company’s financial results for the first two quarters in 2021 showed increased sales, driven by increased demand for liquor retail products as a result of consumers turning to liquor retailers in lieu of licensed establishments. 2022 sales have reduced from 2021 as a result of the re-opening of licensed establishments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. COVID-19 may also have an impact on the seasonality of sales. 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, 2022, the Company paid rents of \$22,275 (2021 - \$22,275), and \$44,550 for the six month period (2021 - \$44,550) 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:

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30, 2022	Jun 30, 2022	Jun 30, 2021	Jun 30, 2021
Wages and salaries	\$ 162,125	\$ 293,750	\$ 129,250	\$ 258,500
Other	1,061	2,258	974	2,153
	\$ 163,186	\$ 296,008	\$ 130,224	\$ 260,653

Other includes health plan premium paid on behalf of members of key management.

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the three month period was \$8,542,627 (2021 - \$9,643,297) and \$15,250,491 (2021 - \$17,024,532) for the six month period. No inventory write downs were recognized in 2022 or 2021.

5. BANK LOAN

Through the Toronto-Dominion Bank ("TD"), the Company has a credit agreement providing total availability up to a maximum of \$8,050,000 split between two facilities: 1) a demand, "operating facility" of \$5,400,000 and 2) a "term loan" of \$2,650,000. Both facilities bear interest at prime plus 1.25% per annum.

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 plus up to \$250,000 cash-in-transit allowances. Interest only payments are due monthly.

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5. BANK LOAN (continued)

The term loan is amortized over 39 months, with monthly payments of interest and principal.

	Jun 30, 2022	Dec 31, 2021
Current Liabilities:		
Operating facility	\$ 3,635,343	\$ 1,861,671
Bank loan	801,906	815,388
Total current	4,437,249	2,677,059
Long term portion of bank loan	1,010,679	1,387,751
Total utilization of TD's facilities	\$ 5,447,928	\$ 4,064,810

Both facilities are 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 debt service covenant of adjusted EBITDA - unfinanced net capital expenditures - permitted distributions - cash taxes / (scheduled principal payments + interest), calculated based on a rolling four-quarter period, requiring the Company to maintain a ratio of actual earnings before interest, taxes, depreciation, and amortization (EBITDA) to projected EBITDA, on a standalone quarterly basis. As at Jun 30, 2022 the Company is in compliance with this covenant.

6. SHARE CAPITAL

Authorized - Unlimited common shares

	Number	Amount
Balance Dec 31, 2021	47,489,937	\$ 7,377,311
Issued May 9, 2022	337,838	50,000
Balance Jun 30, 2022	47,827,775	\$ 7,427,311

On May 12, 2022 the Company issued shares worth \$25,000 to each of two individual officers of the Company as approved by the TSX Venture Exchange in accordance with the Company's Option Plan. A total number of 337,838 shares were issued at a deemed price of \$0.148, based on applying the volume-weighted average trading price of listed shares traded for the five trading days immediately preceding the issuance of shares. \$50,000 (2021 – \$nil) in compensation expense was recognized for this transaction.

7. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

	Note	Amount
Balance at Dec 31, 2021		\$ 1,014,911
Share based compensation	8	9,237
Balance at Jun 30, 2022		\$ 1,024,148

8. 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 May 9, 2022, 192,308 incentive options were issued under the Option Plan, representing 0.4% of the outstanding common shares, vesting immediately. All options expire May 8, 2025. Any shares issued under the Stock Option Plan are subject to the regulatory hold periods.

The options have an exercise price of:

- Year 1: \$0.105
- Year 2: \$0.113
- Year 3: \$0.121

	# of options	Exercise Price	Estimated fair value of options	Weighted average exercise price	Weighted average contractual life remaining
Outstanding Dec 31, 2021	-	-	-	-	-
Issued May 9, 2022	192,308	\$0.105 - \$0.121	9,237	0.113	0.950
Outstanding Jun 30, 2022	192,308	\$0.105 - \$0.121	9,237	0.113	0.950

The options have a term of three years from the date of grant with no vesting period. Share based compensation expense was \$9,237 (2021 – \$nil). This is accounted for in operating and administrative expenses in the consolidated statements of comprehensive loss.

The fair value of the 192,308 options issued May 9, 2022 has been estimated at \$0.042 per option using the Black-Scholes option-pricing model and applying the following weighted-average assumptions:

Risk-free interest rate	2.3%
Estimated volatility	50.1%
Expected life	3 years
Expected dividend yield	NIL
Expected forfeiture rate	25.0%

9. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the period ending Jun 30, 2022, was based on the interim net comprehensive income of \$230,105 (2021 – \$547,443) for the three month period and for the six month period interim net comprehensive income of \$18,516 (2021 - \$460,334) and a weighted average number of shares outstanding of 47,583,262 (2021 – 47,489,937).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Jun 30, 2022, was based on the interim net comprehensive income of \$230,105 (2021 – \$547,443) for the three month period and for the six month period interim net comprehensive income of \$18,516 (2021 - \$460,334) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 47,639,574 (2021 – 47,489,937).

10. 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. In addition to the leases with the fixed minimum rental payments, the Company entered into a lone lease with a term of five years and a monthly rental based on standalone store performance.

Below is a summary of the activity related to right-of-use assets for the period ended Jun 30, 2022:

	Jun 30, 2022	Dec 31, 2021
Opening balance	\$ 12,449,339	\$ 13,508,198
Lease modification adjustment	-	17,094
Right-of-use assets depreciation	(463,512)	(1,075,953)
Balance end of period	11,985,827	12,449,339

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, 2022:

	Jun 30, 2022	Dec 31, 2021
Opening balance	\$ 13,088,834	\$ 13,938,430
Lease modification adjustment	-	17,094
Finance costs on lease liabilities	326,613	703,740
Lease payments	(742,470)	(1,570,430)
Balance end of period	\$ 12,672,977	\$ 13,088,834
Current portion of lease liabilities	\$ 1,491,166	\$ 1,481,750
Non-current lease liabilities	11,181,811	11,607,084
Balance end of period	\$ 12,672,977	\$ 13,088,834

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

ROCKY MOUNTAIN LIQUOR INC
Notes to Interim Consolidated Financial Statements
June 30, 2022
(Unaudited)

11. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	3 Months	6 Months	3 Months	6 Months
	Jun 30, 2022	Jun 30, 2022	Jun 30, 2021	Jun 30, 2021
Cash (used in) provided by				
Accounts receivable	\$ 55,546	\$ 309,075	\$ (115,989)	\$ 121,018
Inventory	(612,265)	(1,231,605)	(173,718)	(1,108,735)
Prepaid expenses and deposits	(134,732)	(202,500)	(13,398)	(77,429)
Accounts payable and accrued liabilities	(174,514)	(216,944)	(69,805)	(140,724)
Goods and services tax payable	24,714	(36,056)	72,493	(15,422)
	\$ (841,251)	\$ (1,378,030)	\$ (300,417)	\$ (1,221,292)

12. FINANCIAL INSTRUMENTS

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, operating facility and bank loan, the carrying value approximates fair value.

As at Jun 30, 2022 and Dec 31, 2021 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Jun 30, 2022		Dec 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	\$ 336,635	\$ 336,635	\$ 118,015	\$ 118,015
Accounts receivable	124,326	124,326	433,401	433,401
Financial Liabilities at Amortized Cost				
Operating facility	3,635,343	3,635,343	1,861,671	1,861,671
Bank loan	1,812,585	1,812,585	2,203,139	2,203,139
Accounts payable and accrued liabilities	378,766	378,766	595,710	595,710