

Interim (unaudited) Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

September 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.

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ROCKY MOUNTAIN LIQUOR INC

Interim Consolidated Statements of Financial Position

(unaudited)

As at	Note	Sep 30, 2022 \$	Dec 31, 2021 \$
ASSETS			
CURRENT			
Cash and cash equivalents		122,955	118,015
Accounts receivable		333,506	433,401
Inventory		5,354,827	4,951,276
Prepaid expenses and deposits		277,541	168,647
		6,088,829	5,671,339
NON-CURRENT			
PROPERTY AND EQUIPMENT		1,291,062	1,423,661
GOODWILL		6,215,410	6,215,410
DEFERRED TAX ASSETS		128,797	196,373
RIGHT-OF-USE ASSETS	10	11,535,057	12,449,339
		25,259,155	25,956,122
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		620,779	595,710
Goods and services tax payable		66,011	57,164
Operating facility	5	2,218,316	1,861,671
Current portion of bank loan	5	519,094	815,388
Current portion of lease liabilities	10	1,492,311	1,481,750
		4,916,511	4,811,683
NON-CURRENT			
BANK LOAN	5	1,100,916	1,387,751
LEASE LIABILITIES	10	10,744,066	11,607,084
		16,761,493	17,806,518
SHAREHOLDERS' EQUITY			
Share capital	6	7,427,311	7,377,311
Contributed surplus	7	1,024,148	1,014,911
Retained earnings (Accumulated deficit)		46,203	(242,618)
		8,497,662	8,149,604
		25,259,155	25,956,122

SUBSEQUENT EVENT 13

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	Retained Earnings (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		-	-	288,821	288,821
Balance at Sep 30, 2022		7,427,311	1,024,148	46,203	8,497,662

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 9 months ended Sep 30

	Note	3 months ended Sep 30, 2022 \$	9 months ended Sep 30, 2022 \$	3 months ended Sep 30, 2021 \$	9 months ended Sep 30, 2021 \$
SALES		11,867,942	31,564,891	11,778,727	33,751,721
COST OF SALES	4	9,204,349	24,454,837	9,057,768	26,082,300
		2,663,593	7,110,054	2,720,959	7,669,421
OPERATING AND ADMINISTRATIVE EXPENSES		1,778,844	5,178,837	1,728,371	5,095,936
INCOME FROM OPERATIONS		884,749	1,931,217	992,588	2,573,485
PROPERTY AND EQUIPMENT DEPRECIATION		74,395	201,337	69,698	208,843
RIGHT-OF-USE ASSETS DEPRECIATION	10	232,479	695,991	247,218	741,653
FINANCE COSTS ON LEASE LIABILITIES	10	160,829	487,440	159,406	485,750
OTHER EXPENSES (INCOME)					
Finance costs		75,650	184,847	56,629	209,375
Loss on disposal of property and equipment and goodwill		3,517	5,205	317	5,953
Store closure expenses		-	-	-	2,835
		546,870	1,574,820	533,268	1,654,409
INCOME BEFORE TAX		337,879	356,397	459,320	919,076
INCOME TAXES		67,576	67,576	-	-
NET COMPREHENSIVE INCOME		270,303	288,821	459,320	919,076
Basic income per share	9	47,665,662	47,665,662	47,489,937	47,489,937
Diluted income per share	9	47,767,804	47,767,804	47,489,937	47,489,937
Weighted average number of shares - basic		0.01	0.01	0.01	0.02
Weighted average number of shares - diluted		0.01	0.01	0.01	0.02

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

		3 months ended Sep 30, 2022	9 months ended Sep 30, 2022	3 months ended Sep 30, 2021	9 months ended Sep 30, 2021
	Note	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net comprehensive income		270,303	288,821	459,320	919,076
Items not affecting cash					
Property and equipment depreciation		74,395	201,337	69,698	208,843
Right-of-use assets depreciation		232,479	695,991	247,218	741,653
Loss on disposal of property and equipment and goodwill		3,517	5,205	317	5,953
Finance costs on lease liabilities		160,829	487,440	159,406	485,750
Stock based compensation	6, 8	-	59,237	-	-
Changes in non-cash working capital	11	1,066,972	(311,058)	872,551	(348,741)
Cash flow from operating activities		1,808,495	1,426,973	1,808,510	2,012,534
INVESTING ACTIVITIES					
Purchase of property and equipment		(33,437)	(73,943)	(67,490)	(130,488)
Cash flow used in investing activities		(33,437)	(73,943)	(67,490)	(130,488)
FINANCING ACTIVITIES					
Payment to operating facility and bank loan		(1,609,602)	(226,484)	(1,479,952)	(797,974)
Lease payments		(379,136)	(1,121,606)	(375,232)	(1,112,098)
Cash flow used in financing activities		(1,988,738)	(1,348,090)	(1,855,184)	(1,910,072)
(DECREASE) INCREASE IN CASH		(213,680)	4,940	(114,164)	(28,026)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		336,635	118,015	233,130	146,992
CASH AND CASH EQUIVALENTS - END OF PERIOD		122,955	122,955	118,966	118,966
CASH FLOWS SUPPLEMENTARY INFORMATION					
Interest paid		75,625	184,822	56,629	209,375
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 Sep 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 Nov 21, 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 2021 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 Sep 30, 2022, the Company paid rents of \$22,275 (2021 - \$22,275), and \$66,825 for the nine month period (2021 - \$66,825) 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. Included in accounts payable at Sep 30, 2022 is \$92,717 due to a key member of management. The loan agreement between related parties provides an interest rate of 5% per annum. Interest expense for the three and nine month period ended Sep 30, 2022 is \$25 (2021 - \$nil).

Key Management Personnel Compensation

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

	3 months		9 months		3 months		9 months	
	Sep 30, 2022		Sep 30, 2022		Sep 30, 2021		Sep 30, 2021	
Wages and salaries	\$	159,745	\$	453,495	\$	174,375	\$	480,875
Other		1,121		3,379		978		3,131
	\$	160,866	\$	456,874	\$	175,353	\$	484,006

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 \$9,204,349 (2021 - \$9,057,768) and \$24,454,837 (2021 - \$26,082,300) for the nine 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.

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

5. BANK LOAN (continued)

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.

The term loan is amortized over 36 months, with monthly payments of interest and principal.

	Sep 30, 2022	Dec 31, 2021
Current Liabilities:		
Operating facility	\$ 2,218,316	\$ 1,861,671
Bank loan	519,094	815,388
Total current	2,737,410	2,677,059
Long term portion of bank loan	1,100,916	1,387,751
Total utilization of TD's facilities	\$ 3,838,326	\$ 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. The bank has provided a waiver as this covenant of 120% was not met at Sep 30, 2022, as the Company achieved 117%. The term loan is presented as a non-current liability as at Sep 30, 2022.

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 Sep 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 Sep 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	0.114	0.950
Outstanding Sep 30, 2022	192,308	\$0.105 - \$0.121	9,237	0.114	0.868

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

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 Sep 30, 2022, was based on the interim net comprehensive income of \$270,303 (2021 – \$459,320) for the three month period and for the nine month period interim net comprehensive income of \$288,821 (2021 - \$919,076) and a weighted average number of shares outstanding of 47,665,662 (2021 – 47,489,937).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the period ending Sep 30, 2022, was based on the interim net comprehensive income of \$270,303 (2021 – \$459,320) for the three month period and for the nine month period interim net comprehensive income of \$288,821 (2021 - \$919,076) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 47,767,804 (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 Sep 30, 2022:

	Sep 30, 2022	Dec 31, 2021
Opening balance	\$ 12,449,339	\$ 13,508,198
Lease modification adjustment	(218,291)	17,094
Right-of-use assets depreciation	(695,991)	(1,075,953)
Balance end of period	11,535,057	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 Sep 30, 2022:

	Sep 30, 2022	Dec 31, 2021
Opening balance	\$ 13,088,834	\$ 13,938,430
Lease modification adjustment	(218,291)	17,094
Finance costs on lease liabilities	487,440	703,740
Lease payments	(1,121,606)	(1,570,430)
Balance end of period	\$ 12,236,377	\$ 13,088,834
Current portion of lease liabilities	\$ 1,492,311	\$ 1,481,750
Non-current lease liabilities	10,744,066	11,607,084
Balance end of period	\$ 12,236,377	\$ 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
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(Unaudited)

11. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	3 Months	9 Months	3 Months	9 Months
	Sep 30, 2022	Sep 30, 2022	Sep 30, 2021	Sep 30, 2021
Cash (used in) provided by				
Accounts receivable	\$ (209,180)	\$ 99,895	\$ 21,261	\$ 142,279
Inventory	828,054	(403,551)	564,875	(543,860)
Prepaid expenses and deposits	93,606	(108,894)	4,369	(73,060)
Deferred tax assets	67,576	67,576	-	-
Accounts payable and accrued liabilities	242,013	25,069	282,312	141,588
Goods and services tax payable	44,903	8,847	(266)	(15,688)
	\$ 1,066,972	\$ (311,058)	\$ 872,551	\$ (348,741)

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 Sep 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.

	Sep 30, 2022		Dec 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	\$ 122,955	\$ 122,955	\$ 118,015	\$ 118,015
Accounts receivable	333,506	333,506	433,401	433,401
Financial Liabilities at Amortized Cost				
Operating facility	2,218,316	2,218,316	1,861,671	1,861,671
Bank loan	1,620,010	1,620,010	2,203,139	2,203,139
Accounts payable and accrued liabilities	620,779	620,779	595,710	595,710

13. SUBSEQUENT EVENT

Subsequent to Sep 30, 2022, the Company sold one store in Edmonton, Alberta.