Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2019

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Management's Responsibility

To the Shareholders of Rocky Mountain Liquor Inc:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors is composed equally of members who are Directors or Officers of the Company. The Audit Committee is composed primarily of members who are Directors of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Grant Thornton LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 17, 2020

"Allison Radford"

Chief Executive Officer

"Sarah Stelmack"

Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of Rocky Mountain Liquor Inc.

Opinion

We have audited the consolidated financial statements of Rocky Mountain Liquor Inc. (the "Company") which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018 and the consolidated statements of comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as of December 31, 2019 the Company had an accumulated deficit of $2,905,888 (2018 - $5,840,620) and current liabilities in excess of current assets of $4,142,483 (2018 - $2,558,527). As stated in Note 1, these events and conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Meghan DeRoo McConnan.

Grant Thornton LLP

Edmonton, Canada
April 17, 2020

Chartered Professional Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

As at	Note	Dec 31, 2019 $	Dec 31, 2018 $
ASSETS			
CURRENT			
Cash and cash equivalents		**253,219**	290,531
Accounts receivable		**328,236**	327,670
Inventory		**5,015,371**	5,385,849
Prepaid expenses and deposits		**249,022**	185,751
Current portion of loans receivable	5	**29,807**	15,198
Income taxes recoverable		**-**	10,694
		5,875,655	6,215,693
NON-CURRENT			
PROPERTY AND EQUIPMENT	7	**1,913,468**	2,290,017
GOODWILL	8	**6,307,819**	6,307,819
RIGHT-OF-USE ASSETS	18	**13,103,781**	-
LOANS RECEIVABLE	5	**-**	29,866
		27,200,723	14,843,395
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**355,417**	595,544
Goods and services tax payable		**75,864**	87,438
Current portion of lease liabilities	18	**1,731,967**	-
Bank loan	9	**7,854,890**	8,091,238
		10,018,138	8,774,220
NON-CURRENT			
LEASE LIABILITIES	18	**11,696,251**	-
CONVERTIBLE DEBENTURE	11	**-**	6,130,748
		21,714,389	14,904,968
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures	11	**-**	96,694
Share capital	13	**7,377,311**	4,667,442
Contributed surplus	14	**1,014,911**	1,014,911
Accumulated deficit		**(2,905,888)**	(5,840,620)
		5,486,334	(61,573)
		27,200,723	14,843,395

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The accompanying notes form an integral part of these 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

Consolidated Statements of Changes in Shareholders' Equity

	Note	Equity component of convertible debenture $	Share capital $	Contributed surplus $	Accumulated deficit $	Total $
Balance at Dec 31, 2017		96,694	4,667,442	1,014,911	(4,623,967)	1,155,080
Net comprehensive loss for the year		-	-	-	(1,216,653)	(1,216,653)
Balance at Dec 31, 2018		96,694	4,667,442	1,014,911	(5,840,620)	(61,573)
Redemption of convertible debenture	11, 13	(96,694)	2,709,869	-	96,694	2,709,869
Net comprehensive income for the year		-	-	-	2,838,038	2,838,038
Balance at Dec 31, 2019		-	7,377,311	1,014,911	(2,905,888)	5,486,334

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Comprehensive Income (Loss)

	Note	Year ended Dec 31, 2019 $	Year ended Dec 31, 2018 $
SALES		**43,970,823**	44,068,345
COST OF SALES	4	**34,283,909**	34,451,736
		9,686,914	9,616,609
OPERATING AND ADMINISTRATIVE EXPENSES	16	**6,854,985**	8,679,533
INCOME FROM OPERATIONS		**2,831,929**	937,076
PROPERTY AND EQUIPTMENT DEPRECIATION	7	**444,060**	541,557
RIGHT-OF-USE ASSETS DEPRECIATION	18	**1,385,303**	-
OTHER EXPENSES (INCOME)			
Gain on redemption of convertible debenture	11	**(3,472,811)**	-
Finance costs	12	**977,398**	1,245,913
Finance costs on lease liabilities	18	**658,183**	-
Loss on disposal of property and equipment and goodwill		**3,470**	233,682
Store closure expenses		**358**	142,215
Bad debt expense		**-**	3,843
Other income		**(2,070)**	(2,787)
		(6,109)	2,164,423
INCOME (LOSS) BEFORE TAX		**2,838,038**	**(1,227,347)**
INCOME TAXES	10	**-**	(10,694)
NET COMPREHENSIVE INCOME (LOSS)		**2,838,038**	(1,216,653)
Basic income (loss) per share	17	**0.10**	(0.11)
Diluted income (loss) per share	17	**0.10**	(0.11)
Weighted average number of shares - basic		**29,275,661**	11,358,358
Weighted average number of shares - diluted		**29,275,661**	11,358,358

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

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Cash Flows

	Note	**Year ended Dec 31, 2019 $**	Year ended Dec 31, 2018 $
OPERATING ACTIVITIES			
Net comprehensive income (loss)		**2,838,038**	(1,216,653)
Items not affecting cash			
Property and equipment depreciation	7	**444,060**	541,557
Loss on disposal of property and equipment and goodwill		**3,470**	233,682
Notional accretive interest	11	**143,915**	258,141
Gain on redemption of convertible debenture	11	**(3,472,811)**	-
Right-of-use assets depreciation	18	**1,385,303**	-
Finance costs on lease liabilities	18	**658,183**	-
Changes in non-cash working capital	19	**65,634**	129,910
Cash flow from operating activities		**2,065,792**	(53,363)
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(81,521)**	(587,350)
Proceeds on disposal of property and equipment		**10,540**	312,955
Cash flow used in investing activities		**(70,981)**	(274,395)
FINANCING ACTIVITIES			
Repayment of loans receivable	5	**15,257**	14,400
Convertible debenture redemption transaction costs	11	**(91,984)**	-
Lease payments	18	**(1,719,048)**	-
Net repayment to bank loan		**(236,348)**	(214,897)
Cash flow used in financing activities		**(2,032,123)**	(200,497)
DECREASE IN CASH		**(37,312)**	(528,255)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		**290,531**	818,786
CASH AND CASH EQUIVALENTS - END OF YEAR		**253,219**	290,531
CASH FLOWS SUPPLEMENTARY INFORMATION			
Interest paid		**834,859**	987,803
Income taxes paid		**-**	3,493

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 (“RTO”) on Dec 1, 2008.

As at Dec 31, 2019 and 2018 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 consolidated financial statements have been approved for issue by the Board of Directors on Apr 17, 2020.

Going concern

These consolidated financial statements have been prepared on a going concern basis. 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.

For the year ending Dec 31, 2019 the Company had net income before tax and gain on redemption of convertible debenture of $2,838,038 (2018 – loss $1,227,347). Due to recent periods with net losses and an accumulated deficit of $2,905,888 (2018 - $5,840,620), there exists a material uncertainty which may cast doubt about the Company’s ability to continue as a going concern. The profitable operations for the 12 month period ending Dec 31, 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 continue to meet the terms of its bank loan as described in Note 9. 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.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the going concern assumption not be appropriate. Such adjustments could be material.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value as explained in the accounting policies below.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the accounts of Rocky Mountain Liquor and its wholly owned subsidiary, Andersons, resulting in the consolidated entity (the "Company"). Inter-company balances and transactions and any unrealized earnings and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Critical accounting judgments estimates and assumptions

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 consolidated financial statements and the reported amounts of revenues and expenses during the year. However, 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.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are discussed below.

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

Estimates

Inventory

Management has estimated the value of inventory based upon their assessment of the net realizable amount less selling costs. No inventory has been identified as requiring a write down.

Taxation

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in place at the time of the expected reversal.

Impairment of goodwill

The Company reviews goodwill at least annually, and when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units ("CGU") have been determined, where applicable using discounted cash flow models that require assumptions about future cash

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

flows, earning multiples of stores, EBITDA projections and discount rates. Refer to note 8 for further details regarding estimation of recoverable amounts.

Useful lives of property and equipment

Management has estimated the useful lives of property and equipment based on its assumption of the time frame in which these assets will be used by the Company. These assumptions may differ from actual life of the assets.

<u>*Judgments*</u>
Financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Cash-generating units ("CGUs")

The determination of CGUs was based on management's judgment and was determined to be each retail location based on their independent cash inflows for non-financial assets other than goodwill. For the purposes of goodwill testing, management assesses goodwill as one group of CGUs as the synergies of multiple locations operating under a common regulatory environment are realized across all related retail locations.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the coming year involves significant judgement based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the current forecasted model.

<u>*Significant accounting policies*</u>

Revenue recognition

Revenue from the sale of goods is generated through retail and licensee sales and recognized at the point of sale to customers, net of discounts. The amount of revenue recognized is adjusted for expected returns which are estimated based on historical data. Revenue is recognized when all of the following conditions are met:

- a contract is created between two parties,
- rights relating to the transfer of goods is identified,
- payment terms for the goods are identified,
- the contract has commercial substance and
- it is probable the Company will collect payment for exchange of goods.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank accounts, and short-term investments with maturity dates of three months or less when purchased.

Inventory

Inventory consists primarily of liquor and related merchandise for resale and is valued at the lower of cost and net realizable value. Cost is based on purchase price plus freight on a first-in, first out basis, and net realizable value is the estimated selling price less applicable selling costs.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Repairs and maintenance comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. These costs are expensed as incurred when they are determined not to add life to the asset.

Property and equipment is depreciated over estimated useful lives at the following rates and methods:

Buildings	4%	declining balance method
Computer equipment	30%	declining balance method
Computer software	100%	declining balance method
Furniture and fixtures	20%	declining balance method
Motor vehicles	30%	declining balance method
Leasehold improvements	lease term and one renewal	straight line method

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount of an asset or CGU is the higher of fair value less costs of disposal (" FVLCD") or value in use. FVLCD is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arms length transaction with a third party, net of estimates of costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is carried at cost less accumulated impairment losses.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Company's CGU expected to benefit from the synergies of the combination. Groups of CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

On disposal of a CGU or a portion of a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest income

Interest income is recognised on an effective interest basis.

Income taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the consolidated statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity. Current tax is the expected payable on the taxable income for the year using rates enacted or substantively enacted at the year-end, and includes any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized and are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method whereby all options, warrants and equivalents are assumed if in-the-money, to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Share based compensation

Under its stock option plan, the Company accounts for equity settled share based payments using the Black-Scholes option-pricing model. Under this model, compensation costs attributable to options granted are measured at fair value at the date of grant. Any consideration received upon the exercise of a share based payment, along with the amount previously recorded as contributed surplus, is credited to share capital. The expense for share based payments is recognized over the vesting period of the award. When the awards vest in installments over the vesting period, each installment is accounted for as a separate arrangement. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined. For amounts that have been recognized related to awards not yet vested that are subsequently forfeited, the amounts recognized as expense and equity are reversed.

Borrowing costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in profit or loss in the period in which they are incurred.

Financial instruments

The classification of a financial asset or liability is determined at the time of initial recognition. The Company does not enter into derivative contracts.

Financial assets:

A financial asset is recognized when the Company has the contractual right to collect future cash flows. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. Financial assets are recognized at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost.

Cash and cash equivalents are recognized at their fair value and carried at amortized cost.

Loans and receivables are initially recognized at their fair value, less transaction costs and subsequently carried at amortized cost using the effective interest method less impairment losses.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Impairment of financial assets

The expected loss model ("ECL") applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. The ECL model applies to the Company's trade receivables and loan receivable (Note 21).

To assess credit losses, the Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low
3. financial instruments that have objective evidence of impairment at the reporting date

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate, the Company uses historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis when they possess shared credit risk characteristics and days past due.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets, other than those at FVTPL and amortized cost, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset is derecognized when the contractual right to the asset's cash flows expire or the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

Financial liabilities:

A financial liability is recognized when the Company has the contractual obligation to pay future cash flows. Financial liabilities consist of accounts payable and accrued liabilities and bank loan and are recognized at amortized cost using the effective interest rate method.

Compound financial instruments

Compound financial instruments and convertible debentures convert units into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature. The equity component is recognized as the difference between the total proceeds and the fair value of the liability component. Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire. When an existing liability is replaced by another from the same lender on substantial different terms, or the terms of an existing liability are substantially modified, such a change results in a modification adjustment recognized through profit or loss. The adjustment is calculated as the difference between the original contractual cash flows and the present value of the modified cash flows at the original contracted effective interest rate. Management will monitor debt instruments for significant events that affect future cash flows. Events that could lead to a modification may include amendments, large debt repayments or large draws on a debt instrument.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

<u>Changes in accounting standards from prior year</u>

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on our 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.

Lessee Accounting

Effective Jan 1, 2019, leases are recognized as a right-of-use asset and a corresponding lease liability on lease commencement date. 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. The lease liability is remeasured when any of the above factors used in determining initially liability measurement, change. When a lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or it is recorded in profit or loss if the carrying amount of the assets has been reduced to zero.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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; and
- 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 the Company is reasonably certain to exercise the option; and
- Periods covered by options to terminate the lease, where the Company is 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.

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:

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 Company also elected not to reassess whether a contract is, or contains a lease at date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates on mortgaged property 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.

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**
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 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**

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of $87,630 (2018 - $73,560) in respect of three retail liquor stores (2018 – three) to privately held companies in which a key member of management is a significant shareholder. 2018 rents are lower than 2019 as a building was purchased by the same member of management during the second quarter of 2018, increasing rents paid to a related party. $973 in interest on loans from related parties was paid in 2019 (2018 - $449). The loan agreement between related parties provides an interest rate of 5% per annum.

Key Management Personnel Compensation

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

		2019		2018
Wages and salaries	**$**	**499,667**	$	504,807
Other		**3,103**		2,141
	$	**502,770**	$	506,948

Other includes health plan 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. During variable periods of the year, the Company incurred loans payable to key members of management with interest. There was a balance due of $nil at Dec 31, 2019 (2018 - $nil).

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the year ended Dec 31, 2019 was $34,283,909 (2018 - $34,451,736). No inventory write downs were recognized in 2019 or 2018.

5. LOANS RECEIVABLE

As a result of the sale of two stores during 2015, two secured, interest bearing promissory notes for $45,000 each were issued in lieu of a cash payment. Principal and interest payments are due monthly, with interest charged at 5.0%. The notes are due Aug 1, 2020 and Sep 1, 2020.

Balance Dec 31, 2017	$	59,464
Principal payments		14,400
Balance Dec 31, 2018	$	45,064
Principal payments		15,257
Balance Dec 31, 2019	**$**	**29,807**

6. SALE OF RETAIL STORES

During 2018 the Company sold three retail liquor stores. No stores were sold in 2019. The proceeds were allocated to the assets as follows:

Carrying Value	Note	2018
Cash and cash equivalents		$ 500
Inventory		309,345
Property and equipment		89,201
Goodwill	8	240,369
Carrying value of net assets sold		$ 639,415
Total cash consideration received		$ 619,845
Total loss on sale of stores		19,570
Carrying value of net assets sold		$ 639,415

7. PROPERTY AND EQUIPMENT

	2019 Cost	2019 Accumulated Depreciation	**2019 Net Book Value**
Building	$ 316,225	$ 145,395	**$ 170,830**
Computer equipment	320,247	264,573	**55,674**
Computer software	1,128,777	1,123,385	**5,392**
Furniture and fixtures	3,195,454	2,505,060	**690,394**
Leasehold improvements	2,618,371	1,634,497	**983,874**
Motor vehicles	85,747	78,443	**7,304**
	$ 7,664,821	$ 5,751,353	**$ 1,913,468**

	Dec 31, 2018 Opening NBV	Additions	Disposal	Depreciation	**Dec 31, 2019 Closing NBV**
Building	$ 152,794	$ 26,524	$ -	$ (8,488)	**$ 170,830**
Computer equipment	79,126	601	(278)	(23,775)	**55,674**
Computer software	66,968	10,698	-	(72,274)	**5,392**
Furniture and fixtures	854,253	11,642	(5,298)	(170,203)	**690,394**
Leasehold improvements	1,117,932	32,056	(1,229)	(164,885)	**983,874**
Motor vehicles	18,944	-	(7,205)	(4,435)	**7,304**
	$ 2,290,017	$ 81,521	$ (14,010)	$ (444,060)	**$ 1,913,468**

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7. PROPERTY AND EQUIPMENT (continued)

	2018 Cost	2018 Accumulated Depreciation	**2018 Net Book Value**
Building	$ 289,700	$ 136,906	**$ 152,794**
Computer equipment	322,188	243,062	**79,126**
Computer software	1,119,267	1,052,299	**66,968**
Furniture and fixtures	3,199,715	2,345,462	**854,253**
Leasehold improvements	2,589,527	1,471,595	**1,117,932**
Motor vehicles	109,198	90,254	**18,944**
	$ 7,629,595	$ 5,339,578	**$ 2,290,017**

	Dec 31, 2017 Opening NBV	Additions	Disposal	Depreciation	**Dec 31, 2018 Closing NBV**
Building	$ 159,160	$ -	$ -	$ (6,366)	**$ 152,794**
Computer equipment	99,141	17,042	(7,364)	(29,693)	**79,126**
Computer software	73,626	133,936	-	(140,594)	**66,968**
Furniture and fixtures	851,660	285,875	(94,356)	(188,926)	**854,253**
Leasehold improvements	1,338,708	150,497	(203,584)	(167,689)	**1,117,932**
Motor vehicles	28,197	-	(964)	(8,289)	**18,944**
	$ 2,550,492	$ 587,350	$ (306,268)	$ (541,557)	**$ 2,290,017**

8. GOODWILL

	Note	
Balance Dec 31, 2017		$ 6,548,188
Goodwill disposed	6	(240,369)
Balance Dec 31, 2018 and 2019		**$ 6,307,819**

In 2018 the Company sold three liquor stores resulting in a deemed disposition of goodwill allocated to the associated liquor store CGU of $240,369, included in loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive loss. No stores were sold in 2019.

In conducting its annual goodwill impairment test, the Company performed a discounted cash flow (“DCF”) analysis on its CGU to determine its value in use. The DCF was based on calculations and projections from financial budgets prepared by management and included the following significant factors.

Forecasted gross margins were based on past performance and expectations for market trends. A growth rate of between 0% to 2% was based on industry statistics and past performance and was applied to revenue. Inflation between 0.5% to 1% was applied to expenditures. A terminal growth rate of 2.0% was applied to the analysis to project cash flows beyond five years, which is consistent with the industry’s expected growth rates, forecasted inflation rates and management’s experience. A weighted average cost of capital (“WACC”) pre-tax range of 10.3% and 11.2% was used and based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, a risk premium, and after-tax cost of debt based on corporate bond yields.

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8. GOODWILL (continued)

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 9% to the 2020 sales or 11% to 2021 sales would reduce the recoverable amount to zero. An increase in the WACC to approximately 12.2% would reduce the recoverable amount of the CGU to its carrying value.
Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of cash generating unit to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of goodwill.

9. 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 $3,852,000 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 Dec 31, 2019 there was $7,854,890 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.

10. INCOME TAXES

Income tax expense:

		2019		2018
Current tax expense:				
Current period	**$**	**-**	$	(10,694)
Deferred tax expense:				
Origination and reversal of temporary differences		**753,462**		(314,061)
Change in tax rates		**116,124**		-
Change in unrecognized deductible temporary differences		**(869,586)**		314,061
Total income tax expense (recovery)	**$**	**-**	$	(10,694)

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

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10. INCOME TAXES (continued)

	2019	2018
Income before tax	$ 2,838,040	$ (1,227,347)
Statutory income tax rate	26.50%	27.00%
Expected income tax	752,081	(331,384)
Increase (decrease) resulting from:		
Non-taxable items	1,381	(18,069)
Change in unrecognized deductible temporary differences	(869,586)	314,061
Change in tax rates and rate differences	116,124	-
Other	-	24,698
Income tax expense (recovery)	$ -	$ (10,694)

Recognized deferred tax assets and liabilities:

	2019	2018
Deferred tax assets are attributable to the following:		
Finance costs	$ -	$ 53,055
Non-capital loss carryforwards	24,264	190,605
Lease liabilities	3,088,490	-
Deferred tax assets	3,112,754	243,660
Set-off of tax	(3,112,754)	(243,660)
Net deferred tax asset	-	-
Deferred tax liabilities are attributable to the following:		
Convertible debenture	-	(198,248)
Right-of-use assets	(3,013,870)	-
Goodwill	(98,884)	(45,412)
Deferred tax liabilities	(3,112,754)	(243,660)
Set-off of tax	3,112,754	243,660
Net deferred tax liability	-	-

Unrecognized deferred tax assets:

The non-capital loss carryforwards begin to expire in 2034. Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries can utilize the benefits.

Deferred tax assets have not been recognized in respect of the following items:

	2019	2018
Deductible temporary differences	$ 1,283,152	$ 1,265,168
Tax losses	1,264,370	4,838,273
	$ 2,547,522	$ 6,103,441

11. 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 year was $143,915 (2018 - $258,141).

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 Dec 31, 2019	**$**	**-**	**$**	**-**

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

12. FINANCE COSTS

	Note		2019		2018
Bank loan interest		**$**	**575,306**	$	472,897
Convertible debenture interest			**258,177**		514,875
Notional accretive interest	11		**143,915**		258,141
Balance Dec 31, 2019		**$**	**977,398**	$	1,245,913

13. 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	11	180,657,895		2,709,869
Consolidated Sep 23, 2019		(189,959,746)		-
Balance Dec 31, 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. 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.

14. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

		Amount
Balance Dec 31, 2017, 2018 and 2019	**$**	**1,014,911**

15. STOCK OPTION PLAN

<u>Stock option plan ("Option Plan")</u>

The maximum number of common shares that may be reserved for issuance under the Option Plan is 2,500,000 shares. There were zero shares issued or outstanding under the Option Plan at Dec 31, 2019 and 2018.

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.

16. EXPENSES BY NATURE

		2019		2018
Wages and employee benefits	**$**	**4,784,541**	$	4,684,825
Lease and premise costs		**1,110,346**		3,018,145
Other		**960,098**		976,563
	$	**6,854,985**	$	8,679,533

Lease and premise costs at Dec 31, 2019 are reduced by actual cash payments to landlords of $1,719,048 as a result of the adoption of IFRS 16, as explained in Note 18.

17. INCOME (LOSS) PER COMMON SHARE

Basic Income (Loss) per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2019 was based on net comprehensive income of $2,838,038 (2018 loss – $1,216,653) and a weighted average number of shares outstanding of 29,275,661 (2018 – 11,358,358).

Diluted Income (Loss) per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2019 was based on net comprehensive income of $2,838,038 (2018 loss – $1,216,653) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 29,275,661 (2018 – 11,358,358).

Weighted average number of shares has been adjusted for share consolidation in 2019 as explained in Note 13. The potential shares issuable in exchange for convertible debentures have been excluded due to their anti-dilutive effect for the year ended Dec 31, 2018. 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.

18. 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 year ended Dec 31, 2019:

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**

For the year ended Dec 31, 2019 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 year ended Dec 31 2019:

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**
Current portion of lease liabilities	$	1,731,967
Non-current lease liabilities		11,696,251
Balance at Dec 31, 2019	**$**	**13,428,218**

For the year ended Dec 31, 2019 finance costs on lease liabilities were recognized in the statement of comprehensive income and lease payments were recognized in the statement of cash flows.

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18. LEASES (continued)

The following table presents the maturity analysis of contractual undiscounted cash flows, excluding likely lease terms related to the Company's lease liabilities as of Dec 31, 2019.

	2020	**2021**	**2022**	**2023**	**2024**	**2025 and thereafter**	**Total**
Leases	1,448,670	979,392	833,517	744,741	466,094	1,491,254	5,963,668

19. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2019	2018
Cash (used in) provided by		
Accounts receivable	**$ (566)**	$ (264,370)
Inventory	**370,478**	484,911
Prepaid expenses and deposits	**(63,271)**	(28,893)
Income tax recoverable	**10,694**	(10,694)
Accounts payable and accrued liabilities	**(240,127)**	(79,613)
Goods and services tax payable	**(11,574)**	30,563
Income tax payable	**-**	(1,994)
	$ 65,634	$ 129,910

20. CAPITAL

The Company's objectives when managing capital are:

- To ensure the Company has capital to support its growth strategy, and operations;
- To safeguard the Company's ability to continue as a going concern;
- To ensure compliance with all covenants; and
- To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers capital to include shareholders' equity, bank loan, and convertible debentures offset by cash and cash equivalents.

	2019	2018
Bank loan	**$ 7,854,890**	$ 8,091,238
Convertible debenture	**-**	6,130,748
Cash and cash equivalents	**(253,219)**	(290,531)
Net debt	**$ 7,601,671**	$ 13,931,455
Shareholders' equity (deficit)	**5,486,334**	(61,573)
Total capital	**$ 13,088,005**	$ 13,869,882

The Company's capital structure is developed to focus on its operations and rebranding strategy. Management monitors the adequacy of capital and will adjust the structure accordingly by accessing credit facilities or issuing debt instruments. The Company meets its objectives for managing capital through strategic long-term planning and the annual budgeting process.

21. 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.

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

As at Dec 31, 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.

	Dec 31, 2019		Dec 31, 2018	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets at Amortized Cost				
Cash and cash equivalents	**$ 253,219**	**$ 253,219**	$ 290,531	$ 290,531
Accounts receivable	**328,236**	**328,236**	327,670	327,670
Loans receivable	**29,807**	**29,807**	45,064	45,064
Financial Liabilities at Amortized Cost				
Bank loan	**7,854,890**	**7,854,890**	8,091,238	8,091,238
Accounts payable and accrued liabilities	**355,417**	**355,417**	595,544	595,544
Convertible debenture	**-**	**-**	6,130,748	2,299,775

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).

Risk Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk, and market risk. The significant risks for the Company's financial instruments are discussed below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages its credit risk for its cash and cash equivalents by maintaining bank accounts with Canadian banks.

(continues)

21. FINANCIAL INSTRUMENTS (continued)

The Company in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with accounts receivables by credit management policies. All accounts receivable are due from organizations in Alberta's hospitality industry. The Company has $nil expected credit loss from trade receivables (2018 - $nil). $Nil was recognized in 2019 for bad debts (2018 - $3,843) on trade receivables.

The Company is exposed to risk in relation to the loans receivable. The Company has managed the risk by entering into a general security agreement over the assets of the stores purchased with the debtor. The Company has $nil expected credit loss from its loan receivable (2018 - $nil).

Liquidity Risk

The Company's financial liabilities at Dec 31, 2019 have maturities summarized below:

Dec 31, 2019	Note	Maturity Date		**Current 2020**
Accounts payable and accrued liabilities			**$**	**355,417**
Goods and services tax payable		Jan 31, 2020		**75,864**
Bank loan	9			**7,854,890**
			$	**8,286,171**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities. Expected cash flows from operations will enable repayment of current liabilities. A risk relates to the ability to refinance debt managed by monitoring current debt agreement terms. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all.

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company is comprised of interest rate risk. The Company does not have any significant currency risk, or other price risk.

Interest Rate Risk

The Company is subject to interest rate risk as its bank loan bears interest rates that vary in accordance with prime borrowing rates. Assuming outstanding bank loan balance of $7,854,890 (2018 - $8,091,238), a one percent increase/decrease in interest rates would have a nominal effect on net comprehensive loss of $78,548 (2018 - $80,912). The Company manages its interest rate risk through credit facility negotiations.

21. ECONOMIC DEPENDENCE

The Company is required to purchase all alcohol-based products from the Alberta Gaming and Liquor Commission (“AGLC”). As the majority of the Company’s income is derived from the sale of alcohol based products, its ability to continue operations is dependent upon the relationship with and the sustainability of AGLC. The alcohol-based products are distributed through Connect Logistics Services Inc. and Brewers Distributor Ltd. Any significant disruption in the supply chain for either of these businesses could result in a material adverse effect on the operations of the Company.

22. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2019, the Company sold one store in Southern Alberta.

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Company anticipates that these events may impact its retail operations. At this time in Alberta, liquor retail has been recognized as an essential business. As at April 17, 2020, all 28 locations are open and operational. At this time, the Company is not eligible for the Canada Emergency Wage Subsidy program from the Federal government as it does not meet the program’s revenue reduction requirements, nor has it entered into any deferral arrangements on its financial obligations.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.