*Consolidated Financial Statements of*

# ROCKY MOUNTAIN LIQUOR INC

*December 31, 2022*

# TABLE OF CONTENTS

## 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 primarily of independent Directors 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 25, 2023

*"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.

**Grant Thornton LLP**
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## 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, 2022 and December 31, 2021 and the consolidated statements of comprehensive income, changes in shareholders' equity 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, 2022 and December 31, 2021, 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

***Impairment assessment for goodwill***

Refer to Note 7 of the consolidated financial statements.

The Company's goodwill is tested for impairment annually within the last quarter of each year. Goodwill is tested at the operating segment level comprising a group of cash generating units ("CGU") as the synergies of multiple locations operating under a common regulatory environment are realized across all locations. Goodwill amounted to $6,188,382 as at December 31, 2022.

The discounted cash flow ("DCF") method used in estimating the recoverable amount of the group of CGU forming an operating segment has high estimation uncertainty because management's calculations include significant assumptions. Management's best estimate of forecasted gross margins are based on past performance and expected market trends, estimated normal and terminal growth rates and inflation based on industry statistics, and estimated discount rate based on weighted average cost of capital.

We have identified the impairment testing for goodwill a key audit matter because of (i) the significant management judgment involved in forecasting revenue growth rates and (ii) the high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's significant assumptions with respect to future revenue growth rates forecasts and weighted average costs of capital ("WACC").

Our audit procedures included, amongst other procedures:

- Obtained and reviewed management's assessment of the composition of CGU and the operating segment.
- Critically assessed and challenged management's assumptions used in the calculation of the forecasted cash flows used in the DCF analysis through comparing historical results and industry forecasts to management's sales, costs and expenses forecasts and working capital and capital expenditure estimates.
- Performed a sensitivity analysis on the revenue assumptions used by management in the DCF.
- With the assistance of valuation specialists with specialized skills and knowledge, evaluated the appropriateness of the DCF model used by management including the terminal growth rate and WACC. This included a reasonableness of the required inputs into the two rates.

## 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.

Grant Thornton

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alex Lau.

Grant Thornton LLP

Vancouver, Canada
April 25, 2023

Chartered Professional Accountants

# ROCKY MOUNTAIN LIQUOR INC

**Consolidated Statements of Financial Position**

| As at | Note | Dec 31, 2022<br>$ | Dec 31, 2021<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT | | | |
| Cash and cash equivalents | | **146,918** | 118,015 |
| Accounts receivable | | **443,694** | 433,401 |
| Inventory | | **4,651,879** | 4,951,276 |
| Prepaid expenses and deposits | | **245,992** | 168,647 |
| | | **5,488,483** | 5,671,339 |
| NON-CURRENT | | | |
| PROPERTY AND EQUIPMENT | 6 | **1,229,236** | 1,423,661 |
| GOODWILL | 7 | **6,188,382** | 6,215,410 |
| DEFERRED TAX ASSETS | 9 | **144,139** | 196,373 |
| RIGHT-OF-USE ASSETS | 14 | **10,727,805** | 12,449,339 |
| | | **23,778,045** | 25,956,122 |
| **LIABILITIES** | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | | **470,846** | 595,710 |
| Goods and services tax payable | | **73,738** | 57,164 |
| Operating facility | 8 | **1,622,322** | 1,861,671 |
| Current portion of bank loan | 8 | **519,487** | 815,388 |
| Current portion of lease liabilities | 14 | **1,443,806** | 1,481,750 |
| | | **4,130,199** | 4,811,683 |
| NON-CURRENT | | | |
| BANK LOAN | 8 | **952,005** | 1,387,751 |
| LEASE LIABILITIES | 14 | **10,209,471** | 11,607,084 |
| | | **15,291,675** | 17,806,518 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 10 | **7,427,311** | 7,377,311 |
| Contributed surplus | 11 | **1,024,148** | 1,014,911 |
| Retained earnings (accumulated deficit) | | **34,911** | (242,618) |
| | | **8,486,370** | 8,149,604 |
| | | **23,778,045** | 25,956,122 |
| SUBSEQUENT EVENT | 19 | | |

*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 | 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 year | | - | - | 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 | 10, 12 | 50,000 | 9,237 | - | 59,237 |
| Net comprehensive income for the year | | - | - | 277,529 | 277,529 |
| **Balance at Dec 31, 2022** | | **7,427,311** | **1,024,148** | **34,911** | **8,486,370** |

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

# ROCKY MOUNTAIN LIQUOR INC

**Consolidated Statements of Comprehensive Income**

| | Note | **Year ended Dec 31, 2022 $** | Year ended Dec 31, 2021 $ |
|---|---|---|---|
| SALES | | **41,981,133** | 44,789,043 |
| COST OF SALES | 4 | **32,504,773** | 34,739,994 |
| | | **9,476,360** | 10,049,049 |
| OPERATING AND ADMINISTRATIVE EXPENSES | | **6,854,485** | 6,777,507 |
| INCOME FROM OPERATIONS | | **2,621,875** | 3,271,542 |
| PROPERTY AND EQUIPMENT DEPRECIATION | 6 | **262,633** | 276,033 |
| RIGHT-OF-USE ASSETS DEPRECIATION | 14 | **1,133,746** | 1,075,953 |
| FINANCE COSTS ON LEASE LIABILITIES | 14 | **632,749** | 703,740 |
| OTHER EXPENSES (INCOME) | | | |
| Finance costs | | **260,146** | 258,742 |
| (Gain) loss on disposal of property and equipment and goodwill | 5, 6 | **(4,172)** | 7,958 |
| Store closure expenses | | **7,035** | 2,835 |
| Other income | | **(25)** | (11) |
| | | **2,292,112** | 2,325,250 |
| INCOME BEFORE TAX | | **329,763** | 946,292 |
| DEFERRED INCOME TAX (EXPENSE) RECOVERY | 9 | **(52,234)** | 196,373 |
| NET COMPREHENSIVE INCOME | | **277,529** | 1,142,665 |
| Basic income per share | 13 | **0.01** | 0.02 |
| Diluted income per share | 13 | **0.01** | 0.02 |
| Weighted average number of shares - basic | | **47,706,524** | 47,489,937 |
| Weighted average number of shares - diluted | | **47,831,392** | 47,489,937 |

*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, 2022 $** | Year ended Dec 31, 2021 $ |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net comprehensive income | | **277,529** | 1,142,665 |
| Items not affecting cash | | | |
| Property and equipment depreciation | 6 | **262,633** | 276,033 |
| (Gain) loss on disposal of property and equipment and goodwill | | **(4,172)** | 7,958 |
| Deferred tax asset | 9 | **52,234** | (196,373) |
| Right-of-use assets depreciation | 14 | **1,133,746** | 1,075,953 |
| Finance costs on lease liabilities | 14 | **632,749** | 703,740 |
| Stock based compensation | 10, 12 | **59,237** | - |
| Changes in non-cash working capital | 15 | **103,469** | (177,677) |
| Cash flow from operating activities | | **2,517,425** | 2,832,299 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | **(88,124)** | (147,925) |
| Proceeds on disposal of property and equipment | | **51,116** | - |
| Cash flow used in investing activities | | **(37,008)** | (147,925) |
| FINANCING ACTIVITIES | | | |
| Repayments of operating facility and bank loan | 8 | **(970,996)** | (1,142,921) |
| Lease payments | 14 | **(1,480,518)** | (1,570,430) |
| Cash flow used in financing activities | | **(2,451,514)** | (2,713,351) |
| INCREASE (DECREASE) IN CASH | | **28,903** | (28,977) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | | **118,015** | 146,992 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | | **146,918** | 118,015 |
| CASH FLOWS SUPPLEMENTARY INFORMATION | | | |
| Interest paid | | **260,146** | 258,742 |

*The accompanying notes form an integral part of these 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 (“RTO”) on Dec 1, 2008.

As at Dec 31, 2022 Andersons operated 25 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 25, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except where otherwise specified.

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, and that of its subsidiary. The functional currency for each of the Company’s subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

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 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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

*Estimates*

*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. The determination of the recoverability of deferred tax assets requires management to make judgements related to the assessment of management’s planned implementation of tax strategies and its future ability to be realized.

*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 flows, earning multiples of stores, EBITDA projections and discount rates. Refer to note 7 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.

*Leases*

The Company estimates the incremental borrowing rate used to measure the 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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Judgments*

*Debt Modification*

The Company uses judgement to determine if a change in financing terms in its credit facility agreement with TD is a substantial modification of terms of an existing liability or an extinguishment of the original financial liability and would require the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

*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.

*Provisions*

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. Restructuring provisions are recognized only if a detailed formal plan for the restructuring exists and management has either communicated the plan’s main features to those affected or started implementation. Provisions are not recognized for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the Company is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

*Significant accounting policies*

*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 at a point in time when control of the asset is transferred to the customer as evidenced 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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and cash held in bank accounts.

*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.

*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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 operating segment consisting of a group of CGU expected to benefit from the synergies of the combination. Groups of CGU's making the operating segment 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 recognized 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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

*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.

*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.

Accounts receivable 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.

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.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (Note 17).

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.

The Company makes use of a simplified approach in accounting for impairment of 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 accounts receivable 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.

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, operating facility and bank loan and are recognized at amortized cost using the effective interest rate method.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

*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.

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.

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.

Leases are recognized as a right-of-use asset and a corresponding lease liability on the lease commencement date. Each lease payment is allocated between the lease liability and finance cost. 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;

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

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, it depreciates 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.

<u>Future Accounting Pronouncements</u>

In Jan 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after Jan 1, 2023 and must be applied retrospectively. These amendments are not expected to have an impact on the Company's financial statements.

In Feb 2021, the IASB published Definition of Accounting Estimates, amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarify the difference between an accounting policy and an accounting estimate. These amendments are effective for annual reporting periods beginning on or after Jan 1, 2023, with earlier application permitted. These amendments are not expected to have an impact on the Company's financial statements.

*(continues)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In May 2021, the IASB published Deferred Tax Related to Assets and Liabilities from a Single Transaction, amendments to IAS 12, Income Taxes. The amendments clarify that for transactions in which both deductible and taxable temporary differences arise on initial recognition that result in deferred tax assets and liabilities of the same amount, deferred tax assets and liabilities are to be recognized. These amendments are effective for annual reporting periods beginning on or after Jan 1, 2023, with earlier application permitted. These amendments are not expected to have an impact on the Company's financial statements.

3. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year, the Company paid $5,200 to a director for consulting fees associated with the CEO transition (2021 – $nil). During 2022 the Company paid rents of $90,711 (2021 - $89,100) in respect of three retail liquor stores (2021 – three) to privately held companies in which a director is a significant shareholder. The rent is at market rates. Included in accounts payable at Dec 31, 2022 is $92,717 due to a director. The loan agreement between related parties provides an interest rate of 5% per annum. Interest expense is $1,194 (2021 - $nil).

Key Management Personnel Compensation

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

| | Note | | 2022 | | 2021 |
|---|---|---|---|---|---|
| Wages and salaries | | **$** | **602,250** | $ | 666,290 |
| Stock compensation | 10 | | **50,000** | | - |
| Other | | | **4,121** | | 4,033 |
| | | **$** | **656,371** | $ | 670,323 |

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.

4. INVENTORY

The cost of inventory recognized as an expense and included in cost of sales for the year ended Dec 31, 2022 was $32,504,773 (2021 - $34,739,994). No inventory write downs were recognized in 2022 or 2021.

## 5. SALE OF RETAIL STORE

In 2022 the Company sold one store. No stores were sold in 2021. The proceeds were allocated to the assets as follows:

| Carrying Value | Note | Dec 31, 2022 | Dec 31, 2021 |
|---|---|---|---|
| Cash and cash equivalents | | **$ 3,776** | - |
| Inventory | | **123,667** | - |
| Property and equipment | | **12,466** | - |
| Goodwill | 7 | **27,028** | - |
| Carrying value of net assets sold | | **$ 166,937** | $ - |
| | | | - |
| Total cash consideration received | | **$ 177,442** | - |
| Gain on sale of property and equipment | | **(37,533)** | - |
| Loss on goodwill | 7 | **27,028** | - |
| Carrying value of net assets sold | | **$ 166,937** | $ - |

## 6. PROPERTY AND EQUIPMENT

| | Dec 31, 2021 Opening NBV | Additions | Disposal | Depreciation | **Dec 31, 2022 Closing NBV** |
|---|---|---|---|---|---|
| Building | $ 157,437 | $ - | $ - | $ (10,991) | **$ 146,446** |
| Computer equipment | 36,304 | 3,585 | (104) | (11,505) | **28,280** |
| Computer software | 1,273 | - | - | (1,273) | **-** |
| Furniture and fixtures | 493,260 | 75,711 | (13,334) | (104,538) | **451,099** |
| Leasehold improvements | 732,022 | 8,828 | (6,414) | (133,309) | **601,127** |
| Motor vehicles | 3,365 | - | (64) | (1,017) | **2,284** |
| | $ 1,423,661 | $ 88,124 | $ (19,916) | $ (262,633) | **$ 1,229,236** |

| | 2022 Cost | 2022 Accumulated Depreciation | **2022 Net Book Value** |
|---|---|---|---|
| Building | $ 316,225 | $ 169,779 | **$ 146,446** |
| Computer equipment | 329,370 | 301,090 | **28,280** |
| Computer software | 1,124,025 | 1,124,025 | **-** |
| Furniture and fixtures | 2,937,106 | 2,486,007 | **451,099** |
| Leasehold improvements | 2,427,443 | 1,826,316 | **601,127** |
| Motor vehicles | 14,708 | 12,424 | **2,284** |
| | $ 7,148,877 | $ 5,919,641 | **$ 1,229,236** |

(*continues*)

6. PROPERTY AND EQUIPMENT (continued)

| | Dec 31, 2020 Opening NBV | Additions | Disposal | Depreciation | **Dec 31, 2021 Closing NBV** |
|---|---|---|---|---|---|
| Building | $ 163,996 | $ - | $ - | $ (6,559) | **$ 157,437** |
| Computer equipment | 48,738 | 3,760 | (1,219) | (14,975) | **36,304** |
| Computer software | 480 | 2,545 | - | (1,752) | **1,273** |
| Furniture and fixtures | 531,382 | 79,712 | (5,536) | (112,298) | **493,260** |
| Leasehold improvements | 809,599 | 61,908 | (610) | (138,875) | **732,022** |
| Motor vehicles | 5,532 | - | (593) | (1,574) | **3,365** |
| | $ 1,559,727 | $ 147,925 | $ (7,958) | $ (276,033) | **$ 1,423,661** |

| | 2021 Cost | 2021 Accumulated Depreciation | **2021 Net Book Value** |
|---|---|---|---|
| Building | $ 316,225 | $ 158,788 | **$ 157,437** |
| Computer equipment | 326,636 | 290,332 | **36,304** |
| Computer software | 1,124,025 | 1,122,752 | **1,273** |
| Furniture and fixtures | 2,915,615 | 2,422,355 | **493,260** |
| Leasehold improvements | 2,462,803 | 1,730,781 | **732,022** |
| Motor vehicles | 17,703 | 14,338 | **3,365** |
| | $ 7,163,007 | $ 5,739,346 | **$ 1,423,661** |

7. GOODWILL

The Company sold one store in 2022 (2021 – nil) resulting in a disposition of goodwill allocated to the associated liquor store CGU of $27,028 (2021 - $nil), included in the (gain) loss on disposal of property and equipment and goodwill on the consolidated statement of comprehensive income.

| | Note | Liquor Store CGU |
|---|---|---|
| Balance Dec 31, 2020 and 2021 | | $ 6,215,410 |
| Goodwill disposed | 5 | (27,028) |
| Balance Dec 31, 2022 | | **$ 6,188,382** |

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 2% (2021 assumption 1% - 2%) was based on industry statistics and past performance and was applied to revenue. Inflation of 1.5% (2021 assumption 0.5% - 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 12.8% and 14.0% (2021 range 11.4%-12.3%) 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.

(*continues*)

7. GOODWILL (continued)

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 9.4% to the 2023 sales or 4.6% to 2024 sales would reduce the recoverable amount to zero. An increase in the WACC to approximately 15.4% 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.

8. OPERATING FACILTIY AND BANK LOAN

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

The operating facility availability is calculated as the lesser of i) $5,400,000 and ii) 75% of accounts receivable to a maximum of $1,000,000, plus 70% of the value of inventory plus goods and services tax and bottle deposits, less trade payables related to liquor and unremitted source deductions plus up to $250,000 cash-in-transit allowances. Interest only payments are due monthly.

The term loan is amortized over 36 months, with monthly payments of interest and principal. Effective Nov 1, 2022, the Company extended its term loan for an additional year, to Aug 30, 2025 from Aug 30, 2024. The extension did not result in a loan modification under IFRS 9.

| | | **Dec 31, 2022** | | Dec 31, 2021 |
|---|---|---|---|---|
| Current Liabilities: | | | | |
| Operating facility | **$** | **1,622,322** | $ | 1,861,671 |
| Bank loan | | **519,487** | | 815,388 |
| Total current | | **2,141,809** | | 2,677,059 |
| | | | | |
| Long term portion of bank loan | | **952,005** | | 1,387,751 |
| Total utilization of TD's facilities | **$** | **3,093,814** | $ | 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. As at Dec 31, 2022 the Company is in compliance with this covenant.

9. INCOME TAXES

**Income tax expense:**

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Current tax expense (recovery): | | | | |
| Current period | **$** | **-** | $ | - |
| Prior period adjustments: | | **-** | | - |
| | | | | |
| Deferred tax expense (recovery) | | | | |
| Origination and reversal of temporary differences | | **93,767** | | 219,254 |
| Change in tax rates | | **-** | | - |
| Change in unrecognized deductible temporary differences | | **(41,533)** | | (415,627) |
| Total income tax expense (recovery) | **$** | **52,234** | $ | (196,373) |

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:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Income before tax | **$** | **329,763** | $ | 946,292 |
| Statutory income tax rate | | **23.00%** | | 23.00% |
| Expected income tax | | **75,846** | | 217,647 |
| Increase (decrease) resulting from: | | | | |
| Non-taxable items | | **15,555** | | 1,215 |
| Change in unrecognized deductible temporary differences | | **(41,532)** | | (415,627) |
| Change in tax rates and rate differences | | **2,365** | | 392 |
| Income tax expense (recovery) | **$** | **52,234** | $ | (196,373) |

**Recognized deferred tax assets and liabilities:**

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Deferred tax assets are attributable to the following: | | | | |
| Loss carryforwards | **$** | **10,354** | $ | 43,245 |
| Property and equipment | | **159,270** | | 199,817 |
| Finance costs | | **-** | | - |
| Lease liabilities | | **2,680,255** | | 3,010,432 |
| Deferred tax assets | | **2,849,879** | | 3,253,494 |
| Set-off of tax | | **(2,705,740)** | | (3,057,121) |
| Net deferred tax asset | | **144,139** | | 196,373 |
| Deferred tax liabilities are attributable to the following: | | | | |
| Right-of-use assets | | **(2,467,395)** | | (2,863,348) |
| Goodwill | | **(238,345)** | | (193,773) |
| Deferred tax liabilities | | **(2,705,740)** | | (3,057,121) |
| Set-off of tax | | **2,705,740** | | 3,057,121 |
| Net deferred tax liability | **$** | **-** | **$** | **-** |

(*continues*)

9. INCOME TAXES (continued)

**Unrecognized deferred tax assets:**

The Company also has taxable temporary differences of $1,744,054 associated with the investment in its subsidiary for which no deferred tax liability has been recognized. The Company's loss carryforwards expire between 2037 and 2041.

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Deductible temporary differences | **$** | **18,077** | $ | - |
| Tax losses | | **720,100** | | 882,283 |
| | **$** | **738,177** | $ | 882,283 |

10. 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 Dec 31, 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 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.

11. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

| | Note | | Amount |
|---|---|---|---|
| Balance at Dec 31, 2021 | | $ | 1,014,911 |
| Share based compensation | 12 | | 9,237 |
| Balance at Dec 31, 2022 | | **$** | **1,024,148** |

12. 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.

(*continues*)

12. STOCK OPTION PLAN (continued)

The exercise price of each option is determined on the basis of the market price at the time the option is granted. If the option has a discount to market price as an incentive for early redemption, the exercise price may not be less than the discounted market price as defined by the policies of the TSX Venture Exchange ("TSXV"). For options that have no early redemption incentives, the exercise price may not be less than the closing price of a Rocky Mountain Liquor common share on the TSXV on the last trading day before the day the option is granted. The shares purchased on the exercise of an option must be paid for in full at the time of exercise. The Company operates equity-settled compensation plans. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement.

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 Dec 31, 2022 | **192,308** | **$0.105 - $0.121** | **9,237** | **0.115** | **0.784** |

The options have a term of three years from the date of grant and vest immediately. Share based compensation expense of $9,237 (2021 – $nil) was recognized in 2022 for these options. 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% |

13. INCOME PER COMMON SHARE

Basic Income per Common Share

Basic net income per share is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period.

(*continues*)

13. INCOME PER COMMON SHARE (continued)

| | | Dec 31, 2022 | | Dec 31, 2021 |
|---|---|---|---|---|
| Net income | $ | 277,529 | $ | 1,142,665 |
| Weighted average number of common shares outstanding during the period | | 47,706,524 | | 47,489,937 |
| Basic income per share | $ | 0.01 | $ | 0.02 |

Diluted Income per Common Share

The following table provides a reconciliation from the basic weighted average number of common shares outstanding to the diluted weighted average number of common shares outstanding and diluted income per share.

| | | Dec 31, 2022 | | Dec 31, 2021 |
|---|---|---|---|---|
| Basic weighted average number of common shares | | 47,706,524 | | 47,489,937 |
| Dilutive effect of share options issued May 9, 2022 | | 124,868 | | - |
| Diluted weighted average number of common shares | | 47,831,392 | | 47,489,937 |
| Net income | $ | 277,529 | $ | 1,142,665 |
| Diluted income per share | $ | 0.01 | $ | 0.02 |

14. LEASES

The Company occupies various leased premises subject to minimum rent payments excluding the Company's proportion of occupancy costs. Lease commitments are based on the current lease term and one renewal period. 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 year ended Dec 31:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Opening balance | $ | 12,449,339 | $ | 13,508,198 |
| Lease modification adjustment | | (587,788) | | 17,094 |
| Right-of-use assets depreciation | | (1,133,746) | | (1,075,953) |
| Balance at Dec 31 | $ | 10,727,805 | $ | 12,449,339 |

For the year ended Dec 31, 2022 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:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Opening balance | $ | 13,088,834 | $ | 13,938,430 |
| Lease modification adjustment | | (587,788) | | 17,094 |
| Finance costs on lease liabilities | | 632,749 | | 703,740 |
| Lease payments | | (1,480,518) | | (1,570,430) |
| Balance at Dec 31 | $ | 11,653,277 | $ | 13,088,834 |
| | | | | |
| Current portion of lease liabilities | $ | 1,443,806 | $ | 1,481,750 |
| Non-current lease liabilities | | 10,209,471 | | 11,607,084 |
| Balance at Dec 31 | $ | 11,653,277 | $ | 13,088,834 |

(*continues*)

14. LEASES (continued)

For the year ended Dec 31, 2022 finance costs on lease liabilities were recognized in the statement of comprehensive income and lease payments were recognized in the statement of cash flows.

The following table presents the maturity analysis of contractual undiscounted cash flows, excluding likely lease term extensions, related to the Company's lease liabilities as of Dec 31, 2022.

| | **2023** | **2024** | **2025** | **2026** | **2027** | **2028 and thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Leases | 1,513,452 | 1,241,896 | 1,123,467 | 935,110 | 811,186 | 1,440,180 | 7,065,291 |

15. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

| | **2022** | 2021 |
|---|---|---|
| Cash (used in) provided by | | |
| Accounts receivable | **$ (10,293)** | $ 4,799 |
| Inventory | **299,397** | (154,131) |
| Prepaid expenses and deposits | **(77,345)** | (46,653) |
| Accounts payable and accrued liabilities | **(124,864)** | 41,524 |
| Goods and services tax payable | **16,574** | (23,216) |
| | **$ 103,469** | $ (177,677) |

16. 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, operating facility, and bank loan offset by cash and cash equivalents.

| | **2022** | 2021 |
|---|---|---|
| Operating facility | **$ 1,622,322** | $ 1,861,671 |
| Bank loan | **1,471,492** | 2,203,139 |
| Cash and cash equivalents | **(146,918)** | (118,015) |
| Net debt | **$ 2,946,896** | $ 3,946,795 |
| Shareholders' equity | **8,486,370** | 8,149,604 |
| Total capital | **$ 11,433,266** | $ 12,096,399 |

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.

## 17. 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 Dec 31, 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.

| | **Dec 31, 2022** | | Dec 31, 2021 | |
|---|---|---|---|---|
| | **Carrying Value** | **Estimated Fair Value** | Carrying Value | Estimated Fair Value |
| Financial Assets at Amortized Cost | | | | |
| Cash and cash equivalents | **$ 146,918** | **$ 146,918** | $ 118,015 | $ 118,015 |
| Accounts receivable | **443,694** | **443,694** | 433,401 | 433,401 |
| Financial Liabilities at Amortized Cost | | | | |
| Operating facility | **1,622,322** | **1,622,322** | 1,861,671 | 1,861,671 |
| Bank loan | **1,471,486** | **1,471,486** | 2,203,139 | 2,203,139 |
| Accounts payable and accrued liabilities | **470,846** | **470,846** | 595,710 | 595,710 |

The Company has no financial instruments carried at fair value.

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 reputable Canadian banks.

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 trade accounts receivable are due from organizations in Alberta's hospitality industry. The Company has $nil expected credit loss from trade receivables (2021 - $nil). $Nil was recognized in 2022 and 2021 for bad debts on trade receivables.

Liquidity Risk

The Company's financial liabilities at Dec 31, 2022 have contractual maturities summarized below:

| | | | **Current** | Non-Current | |
|---|---|---|---|---|---|
| | Note | Maturity Date | **2023** | 2024 | 2025 |
| Accounts payable and accrued liabilities | | | **$ 470,846** | $ - | $ - |
| Operating facility | 8 | | **1,622,322** | - | - |
| Bank loan | 8 | Aug 30, 2025 | **519,487** | 558,150 | 393,855 |
| | | | **$ 2,612,655** | $ 558,150 | $ 393,855 |

(*continues*)

## 17. FINANCIAL INSTRUMENTS (continued)

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 and operating facility bears interest rates that vary in accordance with prime borrowing rates. Assuming outstanding operating facility and bank loan balance of $3,093,814 (2021 - $4,064,810), a one percent increase/decrease in interest rates would have a nominal effect on net comprehensive income of $30,938 (2021 - $40,648). The Company manages its interest rate risk through credit facility negotiations.

## 18. 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.

## 19. SUBSEQUENT EVENT

Subsequent to Dec 31, 2022, the Company purchased capital assets and inventory from a store in Central Alberta and combined its operations with an existing store of the Company in the same market.