ROCKY MOUNTAIN LIQUOR INC

Ticker: “RUM”

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

As at April 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated April 25, 2018.

The following is a discussion of the consolidated financial condition and operations of Rocky Mountain Liquor Inc. ("RML" or the "Company") for the periods indicated and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2017. The Company owns 100% of Andersons Liquor Inc. ("Andersons") headquartered in Edmonton Alberta, which owns and operates private liquor stores in that province.

The Company's audited consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. References to notes are to notes of the consolidated financial statements unless otherwise stated.

Throughout this management discussion and analysis ("MD&A") references are made to "EBITDA", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other "Non-IFRS Measures". A description of these measures and their limitations are discussed below under "Non-IFRS Measures". See also "Risk Factors" discussed below.

Additional information relating to the Company, including all other public filings is available on SEDAR (www.sedar.com) and on the Company's website www.ruminvestor.com.

FORWARD LOOKING INFORMATION AND STATEMENTS ADVISORY

This management discussion and analysis contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "might" and similar expressions is intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this management discussion and analysis contains forward-looking information and statements pertaining to the following: (i) the stability of retail liquor sales; (ii) increased revenues and decreased margins due to re-branding strategy; (iii) the ability to purchase inventory at a discount; (iv) ongoing impact from price inflation; (v) potential conversion of debentures; (vi) equity issuance; and (vii) other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. All statements other than statements of historical fact contained in this management's discussion and analysis are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed or recent acquisitions and the benefits to be derived there from, and plans and objectives of or involving the Company.

The forward-looking information and statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: (i) demand for adult

beverages; (ii) expectations of the Corporation's ability to continue as a going concern; (iii) the ability to acquire additional liquor stores and/or locations; (iv) the Company's ability to secure financing to suit its strategy; (v) the Company's future operating and financial results; (vi) treatment under governmental regulatory regimes, tax, and other laws; (vii) the ability to attract and retain employees for the Company; and (viii) the integration risk and requirements for the purchase or development of liquor stores.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information or statements including, without limitation: (i) the impact of increases in labour costs; (ii) impact of economic events affecting discretionary consumer spending; (iii) impact from competition in the markets where the Company operates; (iv) the impact of weather on its effect on consumer demand; (v) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (vi) the impact of cannabis legalization on alcoholic drink consumption; (vii) the impact of supplier disruption or delays; (viii) the maintenance of management information systems; (ix) the ability of the Company to retain key personnel; (x) the availability of financing; (xi) the ability of the Company to meet its financial obligations; (xii) the importance of the Company's integrated inventory system; (xiii) market volatility and share price; (xiv) the impact of a limited trading market; and (xv) importance of cybersecurity.

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward looking information and statements contained in this discussion and analysis speak only as of the date of this management discussion and analysis, and the Company assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

KEY OPERATING AND FINANCIAL METRICS

Key operational and financial highlights, year over year 3 month comparison:

- Operating margin increased to $79,666 (2016 - $75,976)
- EBITDA increased to $80,459 (2016 - $53,898)
- Gross margin percentage decreased to 22.4% (2016 – 23.9%)
- Sales decreased to $10.7M (2016 - $11.0)
- Net loss is $566,528 (2016 - $4.5M)

Key operational and financial highlights, year over year 12 month comparison:

- Gross margin decreased to 23.2% (2016 – 24.2%)
- Sales decreased to $43.6M (2016 - $45.3M)
- Operating margin decreased to $198,749 (2016 – $681,325)
- EBITDA decreased to $197,238 (2016 – $719,392)
- Net loss is $1.9M (2016 – $4.5M)

RECENT DEVELOPMENTS SINCE PERIOD ENDED DECEMBER 31, 2017

Subsequent to December 31, 2017, the Company has rebranded an additional three stores to its Great Canadian Liquor ("GCL") brand with Grand Openings over the Easter weekend. The Company also closed one underperforming store in January 2018 and sold a store in Southern Alberta in April 2018.

OUTLOOK

The Company has previously reported a shift in its business focus away from higher margin convenience type stores under various brand names, to concentrate on higher volume lower margin destination type stores under one brand called Great Canadian Liquor ("GCL"). The Company has rebranded 11 stores to date, including three new locations in 2018. The GCL branded stores have had very positive results, and management plans to rebrand additional stores this year.

Despite reducing the number of stores from 42 in 2016 to 35 stores in 2017, operating margin increased by 4.8% for the fourth quarter ending 2017. This has been achieved notwithstanding the 11.5% increase in minimum wage in October 2017 from $12.20 per hour to $13.60. The Alberta government has announced one further increase of $1.40 per hour on October 1, 2018, raising the minimum wage to $15.00. Management expects to incur increased salary costs throughout the 2018 fiscal year.

For the fourth quarter of 2017, operating and administrative expenses as a percent of sales reduced from 23.2% to 21.7%. We expect it to continue to decrease as more stores are rebranded to GCL. Rebranding includes store renovations, changes in labour planning to achieve a balance between costs and customer experience, competitive pricing strategies, and establishing a consistent brand message that appeals to our existing customers and is attractive to new customers. As part of the strategy, the Company has launched a new website and digital advertising platform to support the introduction of the brand. Stores not compatible with our current business plan may be offered for sale, ensuring the most effective use of our capital.

There may be some impact on liquor sales when cannabis is legalized and licenses issued in Alberta in the coming year. One major United States study based on data collected from 2006-2015 studied the link between medical marijuana laws and alcohol consumption. It reported that counties located in medical marijuana states reduced overall alcohol sales by 13 percent[1].

[1] Helping Settle the Marijuana and Alcohol Debate: Evidence from Scanner Data, Published December 2017, Baggio, Michele and Chong, Alberto and Kwon, Sungoh, Retrieved April 9, 2018 fromhttps://ssrn.com/abstract=3063288

Management believes the macro effect on liquor sales generally may be less in relation to our liquor sales due to GCL branding and changes in our business model, marketing and promotional plans. In addition, some of the loss of alcohol sales impacts restaurant and on-premises sites, which may reduce the impact on retail liquor locations.

Another factor that may alleviate the impact on liquor sales created by legalized marijuana sales is the expectation of an increase in the retail trade associated with an improved economy in Alberta. The Government of Alberta declares that the Province's economy is emerging from the worst recession in a generation and is in recovery.[2] Beyond 2018, Alberta's economy will move from recovery to expansion, with real Gross Domestic Product ("GDP") growth of 2.5% per year expected from 2019 to 2021[3].

While our main focus is on the new rebranding and marketing initiatives, we will continue evaluate greenfield and acquisition opportunities in 2018.

The Company has an available $10 million revolving credit facility of which $1.4 million was unused as of April 25, 2018. Management believes this is sufficient for the successful execution of our business plan.

OVERVIEW OF THE COMPANY

The Company is incorporated under the laws of the Canada Business Corporations Act with its common shares ("shares") trading on the TSX Venture Exchange under the symbol ("RUM"). RML is the parent to wholly owned subsidiary Andersons. Andersons, headquartered in Edmonton, Alberta, owns and operates private liquor stores in that province. Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The product mix generally offered by Andersons at its retail stores includes beer, spirits, wine and ready to drink liquor products, as well as ancillary items such as juice, ice, mix and giftware. The business is largely cash-based with alcohol-based products accounting for approximately 97% of total sales as of December 31, 2017. Andersons has focused on store operations while pursuing an active acquisition strategy to acquire additional stores within the Alberta market, focusing largely outside of the major urban centers.

As of April 25, 2018, Andersons operated and owned 33 stores.

Andersons operated 35 liquor stores in Alberta at December 31, 2017. The primary drivers of liquor store sales are price, location and convenience. Management believes that range of product selection and service also play a role in the competitive market. The Company has therefore pursued an acquisition strategy that closely analyzes the location of retail operations, including the location of any competition. The Company has focused on locations largely outside of the major urban centers (Edmonton and Calgary) and on specific sites with maximum traffic and minimal competition. In addition, the Company has an integrated inventory system into its retail operations, allowing it to take advantage of procurement opportunities.

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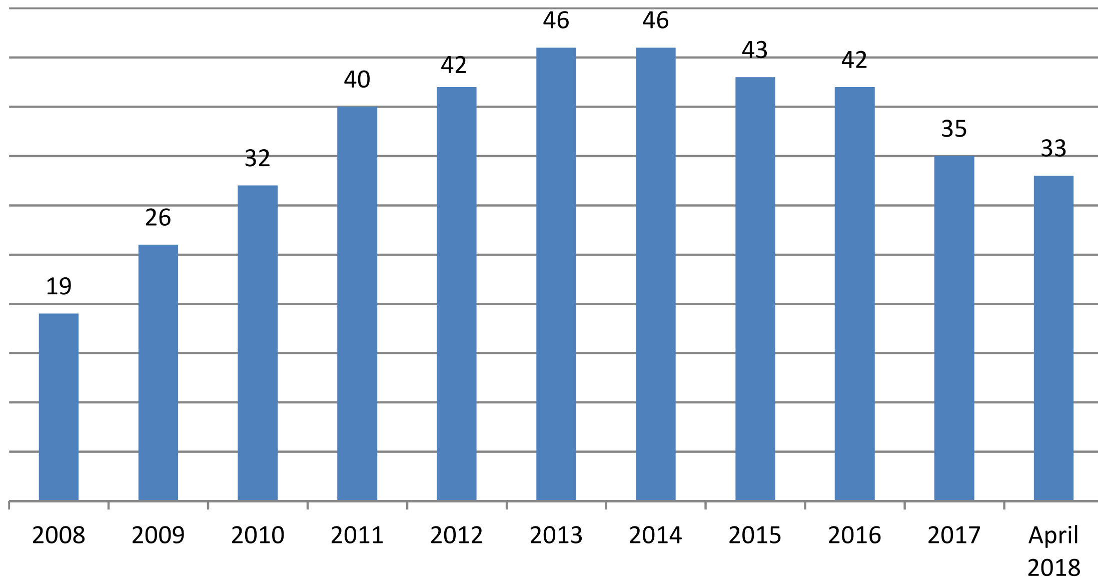
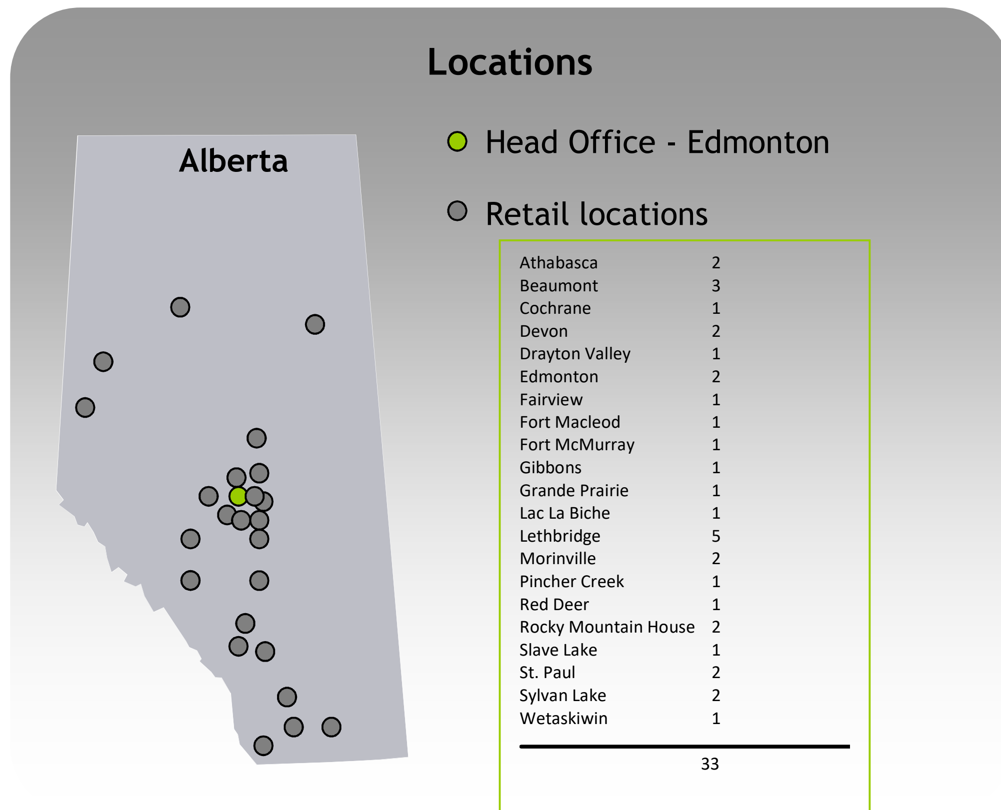
[2] Alberta Government Economic Outlook – Overview – March 22, 2018, pg7, retrieved April 9, 2018, https://www.alberta.ca/budget-economic-outlook.aspx

[3] Alberta Government – Economic Trends – Economics and Revenue Forecasting – March 2018, http://www.finance.alberta.ca/aboutalberta/economic-trends/2018/2018-03-economic-trends.pdf, retrieved April 13, 2018.



Currently, Andersons operates 11 stores in Northern Alberta, 15 stores in Central Alberta and 7 stores in Southern Alberta.



BUSINESS STRATEGY

Margin Focus

The Company is constantly monitoring and examining its gross margins. In 2017 the Company rebranded 8 stores to the GCL Brand, lowering prices to drive sales volume at those stores and offering a wider variety of product listings. This has resulted in a consistent brand message that appeals to our existing customers and is attractive to new customers. For stores that have not transitioned to the GCL brand, the Company's strategy is to find the optimal gross margin to implement at each individual store based on the store's geographical location, consumer base and competition. These strategies are aimed to maintain and grow market share.

Marketing

We apply various marketing and promotional strategies at stores to engage customers including Facebook, advertising on our website, and using traditional flyer mail outs. In 2017 the Company implemented Short Message System ("SMS") advertising, which is direct to text messages for the GCL stores. Customers opt in to the service and are sent a text to their phone informing them of our promotions on a monthly basis.

Differentiation: Product and Operations

Through the use of the company's centralized ordering system, management will continue to focus on product optimization by providing more product choices for its customers. GCL stores product offerings are distinct from other stores and are selected according to popularity with Alberta consumers to achieve our goal of high volume, low priced operations. Wine is selected and organized at GCL stores within specific price points, under $10, under $15 and under $20. Stores that are not under the GCL brand offer a more diverse product offering to customers and organize the wine selection based on country.

Technology and Management Information Systems

The Company utilizes a combination of third party and custom designed applications for point of sale, reconciliation, accounting, business intelligence and reporting. We maintain our own internal Information Technologies support staff and programmers. Hardware at store locations is serviced by a contract with an external supplier we have been using since 2004. Their onsite work is co-supervised by our support staff.

All our applications run on Windows operating systems both at the store and enterprise level. Laptop and remote services, like scanning tools, use a combination of virtual private network and terminal services to interface from outside our enterprise security perimeter. To increase certainty and scalability, and to allow for future growth of stores, management has outsourced our enterprise servers and installed software based, automated data replication servers at each store location. These replication servers require no additional investment in computer hardware. We have installed an enterprise data-container capable of containing and reporting on two billion transactions in an SQL data container.

We are concentrating on producing a robotic data environment where automation software is used to push reporting output on a regular and timely basis to store level, operations level and enterprise level. The ability to accommodate change will be network-centric and based on our own and third party networks. We are focused on having an industry leading enterprise network.

All our time and attendance systems are cloud based and integrated with our web based payroll system. The system is business rules based. All our employees receive their pay records in a secure cloud based, self-service environment. Currently they can use their own devices or Company devices to access their current and historic information. The efficiencies we realize from the integration of the two processes allowed us to reduce and manage administrative and overhead costs. Our payroll reviews are done by an employee other than those responsible for payroll processing. Regular periodic internal audits of the payroll functions that utilize video technologies over our own network are used to ensure employee accuracy and time keeping compliance.

At store level we have multiple redundancies that allow our point of sale systems to operate in a non-network or non-enterprise dependent manner. Our stores are able to continue operations autonomously. Our redundant infrastructure has provided us with uptime of almost 100% since Andersons began operations in 2001. Notwithstanding the lack of downtime, the system is designed so that any one liquor store experiencing connectivity constraint will not affect any other liquor store in the enterprise.

Some retailers have been affected by new vulnerabilities and malware targeting a variety of Point of Sale devices, systems and vendors. We do not connect our credit and debit card systems to our transactional database. No credit card or debit card customer information is stored in our transactional databases at stores or at our head office servers. Additionally, we have developed our own unique custom reconciliation system that reconciles our transactions with our third party supplied banking transactions. This occurs offline from any cloud or network inter-connection which substantially reduces the risk of loss of customer credit card data and the associated reputational losses experienced by other retailers.

We believe we have an industry leading technology base that has consistently and reliably met our operational requirements. Our Company has successfully maintained our Enterprise Resource Planning (“ERP”) systems and their integrated capabilities throughout the rapid evolution of Microsoft Windows operating software and compatible hardware replacement.

The Company’s approach to risk planning for its information technology systems encompasses risk assessment, risk mitigation, periodic evaluation and assessment as well as daily automated logging and reporting of system performance. In this way our technology investment remains aligned with operational goals. Our key operational leaders and our support staff review ERP reporting requirements on a regular basis. This direct collaboration and timely accountability results in improvements in existing technologies, and ideas for new automated processes.

End of Life is an estimate of the support time remaining from the vendor’s point of view on our installed ERP systems. It is an indication of the time cycle required for re-investment to sustain our existing ERP capabilities. Our current estimate of end of life for our current operating system is in fiscal year 2020 or later. Presently we use both 64-bit and 32-bit hardware and software. There are some sources that have estimated time keeping risks associated with the 32-bit systems to be 2038. While we do not use Unix based systems directly, our networking hardware and internal software utilize Unix or Unix-like technologies and as a result may require risk mitigation strategies.

Financing

Current use of the credit facility is for investing in property and equipment. The Company previously financed growth through the issuance of shares, the issuance of convertible debentures and through available credit facilities.

FINANCIAL MEASURES

Maintenance Capital Expenditures

In order to maintain its productive capacity, the Company incurs expenses for routine maintenance, invests and upgrades information systems and replaces assets as required. Stores that transitioned to the GCL brand during the year underwent moderate renovations, resulting in changes to exterior and interior signage, store fixtures and interior layout.

Net Change in Non-cash Working Capital

Non-cash working capital has decreased due to reductions in accounts receivable as a result of a reduction in licensee business at our Fort McMurray store. That particular store serviced lodging camps which, as a result of a recent change in ownership of those lodges, no longer serve alcohol to their guests resulting in a decline of our licensee business.

MANAGEMENT TEAM

Peter Byrne, President, CEO	Mr. Byrne is the President, Chief Executive Officer and co-founder of RML and previously has been Chief Executive Officer and Chairman of the Board of Channel Drugs Limited, a private company that owned and operated the PharmaCare franchise until its sale in 2004.
Allison Radford, COO	Mrs. Radford is the Chief Operating Officer of RML and prior to joining Andersons, she worked at Deloitte & Touche LLP from 2002 to 2007, receiving her Chartered Accountant designation in 2005.
Sarah Stelmack, CFO	Ms. Stelmack articled at Deloitte & Touche LLP from 2005 to 2008 receiving her Chartered Accountant designation in 2008. Ms. Stelmack previously held the position of Controller with RML.

OPERATING RESULTS - 3 Months ending December 31, 2017

Basis of Comparison

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. It is key to note that given the changes in the composition of stores of the Company, historical performance does not reflect the

annualized results and more recent periods do not include results from stores that have been sold or closed.

The following table shows the operating results of the Company for the three month period ending December 31, 2017 and 2016.

Period	**3 months ending Dec 2017**		**3 months ending Dec 2016**	
Sales	$ 10,746,738	100.0%	$ 11,005,494	100.0%
Gross margin	2,412,338	22.4%	2,629,055	23.9%
Operating and administrative expense	2,332,672	21.7%	2,553,079	23.2%
Operating Margin (1)	$ 79,666	0.7%	$ 75,976	0.7%
Stores at Period End	35		42	

Sales

Sales represent the combination of adult beverages including spirits, beer, and wine, with other ancillary products such as ice, juice, and mix.

Total sales for the three month period ended December 31, 2017 were $10.7 million. Sales are lower than the same quarter in 2016 due to the sale of three stores this quarter. This reduction was largely offset by the success of the GCL stores, where each transitioned store experienced an increase in revenue.

Cost of Goods Sold and Gross Margin

Margins have decreased from 23.9% to 22.4% as compared to this quarter last year. The Company has altered its marketing, pricing and promotional strategies to maintain market share through its rebranding strategy. The GCL brand provides customers with lower pricing on all product offerings, resulting in a reduction in margin when compared to the same quarter in prior year.

Operating and Administrative Expenses

The major expenses included in operating and administrative expenses are salaries, rents, and other location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three month period ended December 31, 2017 decreased to $2.3 million from $2.6 million in 2016 due to the sale of three stores during the quarter. There was also a reduction in automotive costs as a result of the closure of the Company's warehouse operations during the quarter. There has been an increase in advertising costs related to the rebranding strategy as well as an increase in wages as a result of the minimum wage changes effective October 1, 2017

Goodwill

During the three month period ending December 31, 2017 the Company disposed of $84,054 goodwill upon the sale of three liquor stores. The impairment review performed in 2017 determined there was no impairment on goodwill. The impairment review performed in 2016 determined an impairment charge of $4.3 million to the liquor store CGU as a result of the overall challenging economic climate in Alberta and $100,000 to the convenience store CGU.

Finance Costs

Interest on the bank loan and convertible debentures increased by $26,870 for the three month period ending December 31, 2017. This increase is due to an increase in bank loan interest as a result of a higher loan balance for the period in 2017; $8.6 million on average in 2017 versus $7.9 million for 2016.

OPERATING RESULTS - 12 Months ending December 31, 2017

Basis of Comparison

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. It is key to note that given the changes in the composition of stores of the Company, historical performance does not reflect the annualized results from recently acquired liquor stores, and more recent periods do not include results from stores that have been sold or closed.

The following table shows the operating results of the Company for the year ending December 31, 2017 and 2016.

Period	**12 months ending Dec 2017**		**12 months ending Dec 2016**	
Sales	$ 43,619,001	100.0%	$ 45,342,791	100.0%
Gross margin	10,136,236	23.2%	10,954,144	24.2%
Operating and administrative expense	9,937,487	22.8%	10,272,819	22.7%
Operating Margin (1)	$ 198,749	0.5%	$ 681,325	1.5%
Stores at Period End	35		42	

Sales

Sales represent the combination of adult beverages including spirits, beer, and wine, with other ancillary products such as ice, juice, and mix.

Total sales for the year ended December 31, 2017 were $43.6 million. Sales are lower than the same period in 2016 due to the closure of two stores and the sale of five stores during the year, as well as the closure of the convenience store. This reduction was largely offset by the success of the GCL stores, where each transitioned store experienced an increase in revenue.

Cost of Goods Sold and Gross Margin

Margins have decreased from 24.2% to 23.2% as compared to the same period last year. The Company has altered its marketing, pricing and promotional strategies to maintain market share through its rebranding strategy. The GCL brand provides customers with lower pricing on all product offerings, resulting in a reduction in margin when compared to the same quarter in prior year.

Operating and Administrative Expenses

The major expenses included in operating and administrative expenses are salaries, rents, and other location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the year ended December 31, 2017 were $9.9 million, compared to

$10.3 million for the same period in 2016. The decrease is mainly due to reduced property costs resulting from the closure and sale of seven stores during the year. There was also a reduction in automotive costs as a result of the closure of the Company's warehouse operations during the last quarter of 2017. There has been an increase in advertising costs related to the rebranding strategy, as well as an increase in wages as a result of the minimum wage changes effective October 1, 2017.

Goodwill

During the year ending December 31, 2017 the Company disposed of $129,074 goodwill upon the sale of five liquor stores. The impairment review performed in 2017 determined there was no impairment on goodwill. The impairment review performed in 2016 determined an impairment charge of $4.3 million to the liquor store CGU as a result of the overall challenging economic climate in Alberta and $100,000 to the convenience store CGU.

Finance Costs

Interest on the bank loan has increased by $48,987 for the year ended December 31, 2017 compared to 2016 as the bank loan was drawn at a higher amount throughout the year; $8.6 million on average in 2017 versus $7.8 million in 2016.

CONDENSED QUARTERLY INFORMATION

Expressed in (000's)	2017				2016			
	Dec 31	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
# stores end of period	35	38	41	41	42	42	43	43
Sales	10,747	12,325	11,765	8,782	11,005	12,211	12,583	9,544
Net comprehensive (loss) income	(566)	(157)	(241)	(953)	(4,538)	(467)	1,153	(625)
Basic income per share	(0.01)	(0.00)	(0.00)	(0.02)	(0.08)	(0.01)	0.02	(0.01)
Diluted income per share	(0.01)	(0.00)	(0.00)	(0.02)	(0.08)	(0.01)	0.02	(0.01)

CONDENSED ANNUAL INFORMATION

Expressed in (000's)	2017	2016	2015
# stores end of period	35	42	43
Sales	43,619	45,343	49,315
Net comprehensive (loss) income	(1,917)	(4,477)	288
Total assets	16,067	16,818	22,494
Total liabilities	14,913	13,756	14,704
Basic income per share	(0.03)	(0.08)	0.00
Diluted income per share	(0.03)	(0.08)	0.00

LIQUIDITY AND CAPITAL RESOURCES AS OF DECEMBER 31, 2017

Shareholders' Equity

As part of an NCIB that began September 3, 2015 and expired September 2, 2016, the Company repurchased and cancelled 142,000 common shares for aggregate consideration of $7,100 in 2016. $15,109 was a reduction to share capital and $8,009 was recorded as an addition to contributed surplus. No purchases were made in 2017.

Authorized: Unlimited number of common shares

Issued and outstanding:

	Number		Amount
Outstanding Dec 31, 2015	56,933,788		4,682,551
Repurchased and cancelled	(142,000)		(15,109)
Outstanding Dec 31, 2016 and 2017	**56,791,788**	**$**	**4,667,442**

Options

On Jan 17, 2017, 500,000 incentive options were issued under the Option Plan, representing 0.9% of the outstanding common shares. 300,000 are exercisable per the below vesting schedule and 200,000 are exercisable Jan 18, 2018 if the unadjusted closing price per share for any 10-consecutive trading day period between Oct 20, 2017 and Jan 17, 2018 is equal to or greater than $0.16. All options expire Jan 18, 2018.

The following table summarizes information about options outstanding:

	# of options	Exercise Price	Estimated fair value of options	Weighted average exercise price	Weighted average contractual life remaining
Outstanding Dec 31, 2016	-	-	-	-	-
Issued Jan 17, 2017	500,000	0.070	34,563	0.070	0.553
Outstanding Dec 31, 2017	**500,000**	**0.070**	**34,563**	**0.070**	**0.053**

Convertible Debenture

In 2011 the Company issued a $9,200,000 unsecured subordinated convertible debenture ("the Debenture") due on April 30, 2016. On April 1, 2016 the Company announced that holders of the Debenture approved the proposed amendments extending the maturity date to April 30, 2021, reducing the conversion price to $0.25 from $0.50, and reducing the coupon rate to 7.50% from 7.75%.

As part of an NCIB on the Debenture, the Company repurchased and cancelled $197,000 of the principal amount of the Debenture in 2016.

In addition, the Company redeemed $1,211,000 of the outstanding principal amount of the amended Debenture on June 10, 2016.

On the Company's Consolidated Statements of Financial Position the balance of the Debenture at December 31, 2017 is $5,872,607. For accounting purposes the value of the convertible option was calculated and the difference was recorded as equity. The remaining liability for the Debentures will be increased to $6,865,000 over the five year term.

Credit Facilities

Effective December 18, 2017, the Company amended its bank agreement with lender, TD, adjusting rates to prime plus 1.9% from 1.25%, and prime plus 3.4% bankers acceptances from 2.75% in the previous agreement. There is also a $100,000 reduction to our borrowing base calculation. The terms of the agreement are for a $10 million uncommitted, revolving demand credit facility. This agreement is not subject to any monitoring ratios. Current utilization of the facility is $8.6 million.

As of December 31, 2017, the Company had $818,786 of cash on hand. The $10 million Facility was drawn at $8.3 million.

Capital Expenditures

The Company is continuing to rebrand a number of stores where we are undertaking store renovations, new pricing strategies and a branding culture designed to address changes in consumer buying preferences. Capital expenditures are required to execute this plan. Capital expenditures will continue in stores requiring routine maintenance and asset replacements.

Liquidity Risk

The Company uses a variety of sources of capital to fund acquisitions, new store development and ongoing operations, including cash provided by operations, bank indebtedness, and issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependent upon capital market conditions and interest rate levels. The degree to which the Company is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

To manage liquidity risk, the Company is proactive with its review of the capital structure. As at December 31, 2017, the Company had negative cash flow from operations of $673,156, and net comprehensive loss of $1.9 million. These conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations to meet current and future obligations. The Company expects that the investment it has made in 2017 in rebranding of eight of its stores and investments in sales and marketing programs, which it is expects to continue into 2018, will result in an increase in revenue. 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. Management believes the Company currently has the resources to meet obligations as they come due.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, loans receivable and accounts receivable.

The Company maintains its cash and cash equivalents with a major Canadian chartered bank and local Alberta credit unions.

The risk for loans receivable is low as the Company has a general security agreement for the value of the outstanding balance.

The risk for accounts receivable is that a wholesale customer of Andersons might fail to meet its obligations under their credit terms. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose purchases represent approximately 2.4% of the Company's sales. Risk associated with respect to accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. For the year ended December 31, 2017, $8,491 (2016 - $22,074) in bad debts were recorded. The Company is not subject to significant concentration of credit risk with respect to its customers; however, all accounts receivables are due from organizations in the Alberta hospitality industries.

Interest Rate Risk

The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The Company pays interest at prime plus 1.9% or bankers acceptances plus 3.4% per annum. At December 31, 2017 the Company has $5.0 million of its bank loan in bankers acceptances. The interest rate on the convertible debenture is fixed at 7.5%. Assuming outstanding bank loan balance of $8,306,135, a one percent increase/decrease in interest rates would have an $83,000 effect on net comprehensive loss. Approximately 59% (2016 – 57%) of the Company's long term debt is exposed to interest rate risk due to floating rates.

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at December 31, 2017 or April 25, 2018.

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of 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 period. 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 statement of financial position are discussed below.

<u>Estimates:</u>

Inventory

Management has estimated the value of inventory based upon their assessment of the 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

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. Goodwill is tested for impairment annually to determine if their carrying amounts may not be recoverable.

In conducting its annual goodwill impairment test, a FVLCD method using level 3 inputs (see Note 21 of the Consolidated Financial Statements for explanation of each level) was relied on, as the value from this method was greater than the amount calculated through the value in use model. The FVLCD calculation is based on applying a range of multiples to EBITDA plus inventory. A significant assumption applied in the goodwill impairment test is the earning multiple of stores. Data for EBITDA multiples is based on recent comparable transactions and Management's understanding of the market.

Management prepared two EBITDA models and applied the earning multiple ranges to each. One model is based on historical 2017 EBITDA value and the other is a 2018 projection. The projected value is based on the Company's internal budget. It includes assumptions for growth of stores that have transferred to the GCL model to experience the growth that has occurred since they transitioned. For those stores that are not transferring to the GCL model in 2018, revenues remain consistent with 2017. Expenses in the model have been normalized to reflect costs that are expected to change. An average gross margin of 22.6% was applied to the 2018 projection. Management applied a percentage of 4.2% of the estimated purchase price in developing an estimate of costs to dispose based on historical costs to sell a store.

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 17% to the 2017 EBITDA or 23% to 2018 EBTIDA would reduce the recoverable amount to zero. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any 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.

Useful lives of property and equipment

Management has estimated the useful lives of property and equipment as outlined further in this note based on their assessment of the time frame in which these assets will be used by the Company.

Share based compensation

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions. Shares purchased in the employee share purchase plan are based on fair value at time of purchase.

<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

The determination of CGU was based on management's judgment and was determined to be each retail location based on their independent cash inflows. Management monitors goodwill at a group of CGUs level as the synergies of multiple locations operating under a common regulatory environment are realized across all related retail locations.

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.

CHANGES IN ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING STANDARDS ISSUED BUT NOT YET IN EFFECT

<u>Financial Instruments</u>
The IASB has completed a final version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard is effective

for annual periods beginning on or after Jan 1, 2018 and must be applied retrospectively. Management is currently assessing the impact of the new standard but does not expect any material adjustments to the Company's consolidated statement of financial position. The new standard requires additional disclosure and changes to presentation. These may change the nature and extent of the Company's disclosures about its financial instruments in the year of adoption.

Revenue from Contracts with Customers
The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), which supersedes the IASB's current revenue recognition and guidance including IAS 18 "Revenue" and IAS 11 "Construction Contracts". This standard is effective for annual periods beginning on or after January 1, 2018. Management evaluated the new standard and completed its assessment. Management does not expect any material adjustments to the timing and recognition of revenue. Additional financial statement disclosures are expected to change the extent of the Company's disclosures regarding revenue.

Leases
The IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17 "Leases". It sets out the principles for recognition, measurement, presentation and disclosure of leases for lessees and lessors. IFRS 16 requires entities to recognize lease assets and lease obligations on the consolidated statement of financial position, removing the classification of leases as either operating or finance, treating them all as finance with limited exceptions for short term or low value leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. Management's preliminary assessment of the impact of the new standard is IFRS 16 will result in materially higher fixed assets, long term debt, deferred income taxes, and a decrease in opening retained earnings as a result of the recognition of right-of-use assets and associated lease liabilities. On an on-going basis there will be a significant decrease in rent expense recorded as part of selling and administrative expenses and an increase in depreciation and finance costs. Additional disclosures are expected to change the nature and extent of the Company's disclosures regarding leases.

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, and are carried at the prevailing interest rate.

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

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the three month period the Company paid rents of $15,240 (2016 - $15,240) and for the year ended December 31, 2017, $60,960 (2016 – $60,960), in respect of two retail liquor stores

to privately held companies an Officer of RML is a significant shareholder. The rent is at market rates.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Disclosure Controls and Procedures

There have been no changes in the design of the Company`s disclosure controls and procedures or internal control over financial reporting that occurred during period ended December 31, 2017 that have materially affected, or are a reasonably likely to materially affect the Company's disclosure controls and procedures or internal control over financial reporting.

a) The venture issuer is not required to certify the design and evaluation of the issuer's Disclosure Controls Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR") and has not completed such an evaluation; and

b) Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the issuer may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

RISK FACTORS

The Company's results of operations, business prospects, financial condition, and the trading price of the shares are subject to a number of risks. These risk factors are defined below;

Labour Costs and Labour Market

The Company's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of the Company to hire or retain staff at current wage levels. On October 1, 2017 minimum wage increased by $1.40 per hour to $13.60. The Government of Alberta has approved a further increase to minimum wage beginning October 1, 2018, increasing by $1.40 to $15.00 per hour. This change will have an effect on labour costs.

Impact due to Economic Conditions

The Company's financial results for fiscal 2017 and future periods are subject to numerous uncertainties, such as changes in the economy which influence consumer spending and consumer confidence. The Alberta energy sector faced an economic slowdown due to weak oil and natural gas prices over the last two years, resulting in in higher than anticipated unemployment levels and a reduction in the migration to Alberta. The most recent Provincial budget released March

22, 2018 stated Alberta has emerged from the worst recession in a generation, and indicates an increase in GDP but still lower than pre-recession levels throughout the year.[4] Inflation and interest rates could impact disposable income and reduce spending in this sector.

Regulated Competitive Environment

The primary focus of the Company has been in rural markets, thus most of its competitors are local single store operators. Competition in these markets focus on product offering, location, and service.

New entrants into local markets can affect the Company. Liquor stores in urban centers are subject to by-law restrictions limiting relocation opportunities. Rural communities where the Company primarily operates do not generally have these restrictions.

Privatization of retail distribution in Alberta is highly competitive. In Alberta, the Company competes with other local single store operators, local and regional chain operators, and liquor stores associated with national grocery store chains. The current regulatory regime in Alberta has attempted to create a level playing field for operators. Any change in this regulatory regime could adversely affect the Company's business and operations.

Regulatory decisions by the Alberta Gaming and Liquor Commission ("AGLC") can impact the operations of the Company. All liquor stores are currently operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. The AGLC has discretion in the granting or revocation of a license to operate a liquor store.

The Company will also evaluate opportunities to enter into other Provincial markets. However, there is no assurance that the Company will be able to obtain all permits, licenses and other regulatory approvals necessary to be able to enter the market in the event that such an opportunity becomes available. Moreover, even if the Company is successful in entering the market, there is no assurance that the regulatory environment will not change in ways that could adversely affect the operations and financial results of the Company or its ability to participate in other provincial markets.

Weather

Weather conditions can impact consumer demand, especially in summer months when customer counts are typically higher than other months. If weather deteriorates over a prolonged period during those months, it may have a material adverse effect on the Company's operating results.

Impact from Provincial Tax Increases

Tax changes have an effect on sales earnings and results of operations as higher prices could impact consumer demand or behaviors. Going forward, the risk remains that the Government could increase tax on alcohol-based products further.

[4] Alberta Government Economic Outlook – Overview – March 22, 2018, pg 7 and 14, retrieved April 9, 2018, https://www.alberta.ca/budget-economic-outlook.aspx

Cannabis Legalization

There is risk of a possible decline in consumption of alcohol based products as a result of consumers substituting legalized cannabis or other similar products in lieu of alcoholic based products.

Supply Interruption or Delay

The majority of 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.

Importance of Information and Control Systems

Information and control systems play an important role in the support of the Company’s core business processes, including store operations, inventory management and loss prevention. The Company’s ability to maintain and regularly upgrade its information systems capabilities is important to maintain its timely reporting abilities. If the Company is unable to maintain its own inventory and system or fails to adequately upgrade its system, the Company's margins could be affected by limiting the selection of product and deep discounts available. The Company’s point of purchase system is capable of operating the supply chain through internal or external sources.

Reliance on Key Personnel

The continued success of the business of the Company will depend upon the abilities, experience and personal efforts of senior management of the Company, including their ability to attract and retain skilled employees. The loss of the services of such key personnel could have an adverse effect on the business, financial condition and future prospects of the Company.

Available Financing

The Company requires additional financing in order to make further investments, continue its rebranding strategy, using funds for to update stores to the GCL concept, or take advantage of unanticipated opportunities. In particular, the Company intends to continue to make investments to support its rebranding strategy and may require additional funds to respond to business challenges, including the need to develop new services or enhance existing services, enhance operating infrastructure and acquire complementary businesses and technologies. Accordingly, the Company may need to engage in equity or debt financings to secure additional funds. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Furthermore, additional financing may not be available on favorable terms, if at all. If the Company is unable to obtain adequate financing or financing on satisfactory terms when required, its ability to continue to support business growth and to respond to business challenges could be significantly limited.

The Company had capital and unused credit facilities available in the amount of approximately $1.7 million at December 31, 2017.

Credit Facility and Financial Instrument Covenants

The Company has terms and conditions which must remain in compliance under its credit facilities and convertible debenture.

The failure to comply with the terms of the credit facilities and convertible debenture would entitle the secured lenders to prevent the Company from further borrowing or accelerate repayment.

Market Volatility and Unpredictable Share Price

The underlying value of the Company's business may not always be reflected in the share price. Nor can such trading price be predicted accurately. The share price could be influenced by a number of other factors including but not limited to general market conditions, quarterly operating results, interest rates, availability of credit, a thin trading market, overall industry outlook, investor confidence, and others.

Active Trading Market

There currently is not an active trading market for the shares of the Company as a large number of shares are closely held. Without an active trading market for the shares, the trading liquidity is limited and the market value of the shares may be reduced.

While the convertible debentures trade on the TSX, there is not currently an active trading market for the debentures, and we cannot guarantee that an active trading market will develop. If an active trading market in the convertible debentures does not develop, the trading liquidity of the convertible debentures will remain limited and their market value may be adversely affected.

Cybersecurity

Cybersecurity has become an increasingly problematic issue for many retailers. Cyber-attacks are increasing in sophistication and are often focused on compromising sensitive data for inappropriate use or disrupting business operations. The Company continually monitors for malicious threats and adapts accordingly in an effort to ensure we maintain high security standards.

NON-IFRS MEASURES

Operating margin for purposes of disclosure under "Operating Results" has been derived by subtracting Operating and Administrative expenses from Gross Margin. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.

Operating margin before non-recurring items has been derived by adding non-recurring items to operating margin. Non-recurring items include costs incurred and recoveries received by the Company that are not part of on-going operations and that are not expected to recur. Operating margin before non-recurring items as a percentage of sales is calculated by dividing operating margin before non-recurring items by sales.

Operating margin operating margin as a percentage of sales and operating margin before non-recurring items are calculated in tables under sections “Operating Results – 3 Months” and “Operating Results - 12 Months.”

EBITDA is defined as the net income of the Company plus the following: interest expense, provision for income taxes, depreciation, amortization, mark to market adjustments on financial instruments, non-cash items such as stock based compensation expense and issue costs of securities, deferred taxes, write down of goodwill, gain on repurchase of convertible debentures, gain / loss on disposal of stores and property and equipment, and other restructuring charges for store closures. EBITDA is also less any non-recurring extraordinary or one-time gains or losses from any capital asset sales. Management believes that, in addition to income or loss, EBITDA is a useful supplemental measure of performance.

Period	**3 months ended Dec 2017**	**3 months ended Dec 2016**	**12 months ended Dec 2017**	**12 months ended Dec 2016**
Net comprehensive loss	$ (566,528)	$ (4,536,840)	$ (1,917,441)	$ (4,476,945)
Income tax	10,694	(287,783)	10,694	(250,494)
Interest expense	285,973	259,103	1,097,049	1,022,355
Depreciation	152,791	189,622	622,186	673,534
Goodwill disposed	84,054	-	129,074	-
Store closure expenses	70,305	4,270	179,481	116,250
Loss on disposal of property and equipment	43,170	3,155	76,195	366,367
Provision for impairment of goodwill	-	4,422,371	-	4,422,371
Gain on extinguishment of convertible debenture	-	-	-	(1,111,833)
Gain on repurchase of convertible debenture	-	-	-	(42,213)
EBITDA	**$ 80,459**	**$ 53,898**	**$ 197,238**	**$ 719,392**

Operating margin, operating margin as a percentage of sales, operating margin before non-recurring items, operating margin before non-recurring items as a percentage of sales and EBITDA are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that operating margin, operating margin as a percentage of sales, and EBITDA should not replace net income or loss (as determined in accordance with IFRS) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's method of calculating operating margin, operating margin as a percentage of sales, and EBITDA may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, and EBITDA may not be comparable to similar measures presented by other issuers.