ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2018

As at April 25, 2019

ROCKY MOUNTAIN LIQUOR INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated April 25, 2019.

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, 2018. 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 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 several 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) the impact of weather on its effect on consumer demand; (iv) impact from competition in the markets where the Company operates; (v) the impact of supplier disruption or delays; (vi) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (vii) the impact of cannabis legalization on alcoholic drink consumption; (viii) the ability of the Company to retain key personnel; (ix) the maintenance of management information systems; (x) the availability of financing; (xi) the ability of the Company to meet its financial obligations; (xii) importance of cybersecurity; (xiii) market volatility and share price; and (xiv) the impact of a limited trading market.

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:

- Sales increased to $11.4M (2017 - $10.7M)
- Operating margin increased to $285,095 (2017 - $79,666)
- EBITDA increased to $285,772 (2017 - $80,459)
- Net loss reduced to $276,817 (2017 - $566,528)
- Gross margin percentage is 21.1% (2017 – 22.4%)

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

- Sales increased to $44.1M (2017 - $43.6M)
- Operating margin increased to $933,233 (2017 – $190,258)
- EBITDA increased to $936,020 (2017 – $197,238)
- Net loss reduced to $1.2M (2017 – $1.9M)
- Gross margin is 21.8% (2017 – 23.2%)

OUTLOOK

The Conference Board of Canada's outlook is that economic growth in Alberta will slow to 1.3% in 2019. Despite this slowdown, employment in the province is forecast to increase by 1.1% this year[1]. The election of the United Conservative Party, who will take office on April 30th may have positive effects on the investment environment in Alberta throughout their elected term. The party campaigned on cutting corporate taxes and balancing the province's budget within their first term. Our management team believes the promised policy changes if implemented, will inspire renewed investor confidence in Alberta.

The federal government has introduced legislation to remove the federal barrier to ease the flow of beer, wine and spirits across provincial and territorial boundaries. During the recent election campaign, the United Conservative Party promised an early interprovincial liquor trade agreement between Alberta and Saskatchewan. The opening of interprovincial trade in spirit-based products is likely to create an advantage for Alberta based resellers. Alberta has almost 26,000 listed products available for resale, the largest number of listings of any province.

We are pleased with the results of our transition to the Great Canadian Liquor Brand ("GCL"). For the 2018 fiscal year, we reduced the number of stores from 35 to 29 yet achieved a $449,344 increase in sales revenue. Sales per store increased 21.9% from $1,246,257 in 2017 to $1,519,598 in 2018. In the fourth quarter of 2018, we continued to see improvement in GCL locations, and our sales per store grew 27.6%. Currently, 15 of our 29 stores have been rebranded to GCL.

In 2018 the company successfully reduced its expense ratio as a percentage of sales from 22.8% to 19.7%. In the fourth quarter, the expense ratio was further reduced to 18.5% mainly due to the Company's focus on operating efficiencies. Operating and Administration expense was reduced from $9,937,487 in 2017 to $8,679,533 in 2018, a reduction of 12.7%, primarily due to the lesser number of stores operated. The Company has a positive outlook on continued improvements for 2019.

The Company has an available $10 million revolving credit facility of which $1.3 million was unused as of April 25, 2019. Management believes this is sufficient for the successful execution of our current business plan. We will remain focused on our strategic framework, utilizing the insights provided by our custom enterprise reporting systems.

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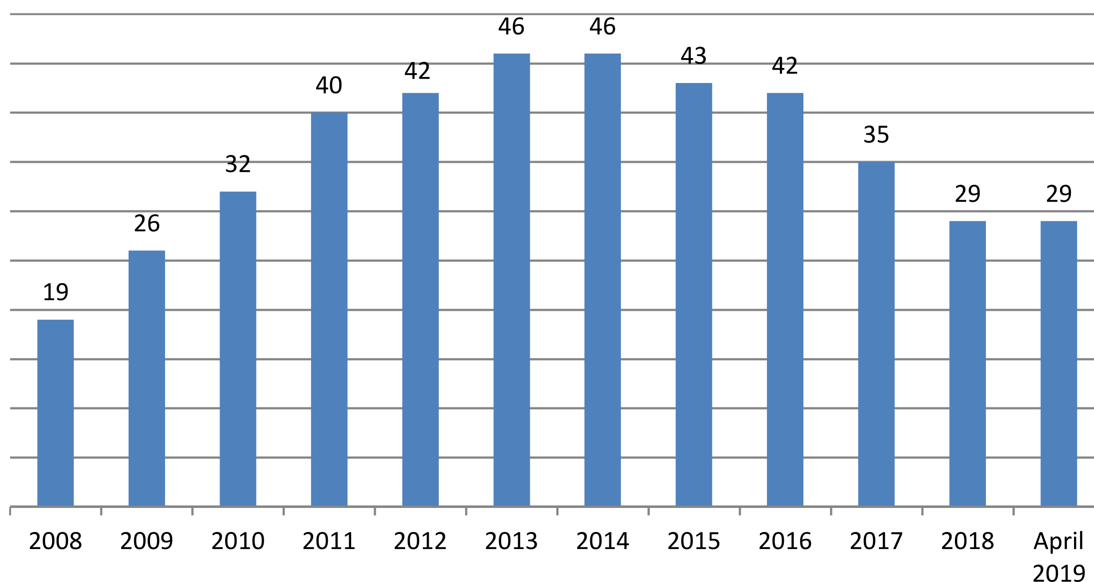
[1] The Conference Board of Canada, Uneven Economic Outlook for Canadian Provinces in 2019 – Press Release, retrieved April 18, 2019 from https://www.conferenceboard.ca/press/newsrelease/2019/02/27/uneven-economic-outlook-for-canadian-provinces-in-2019

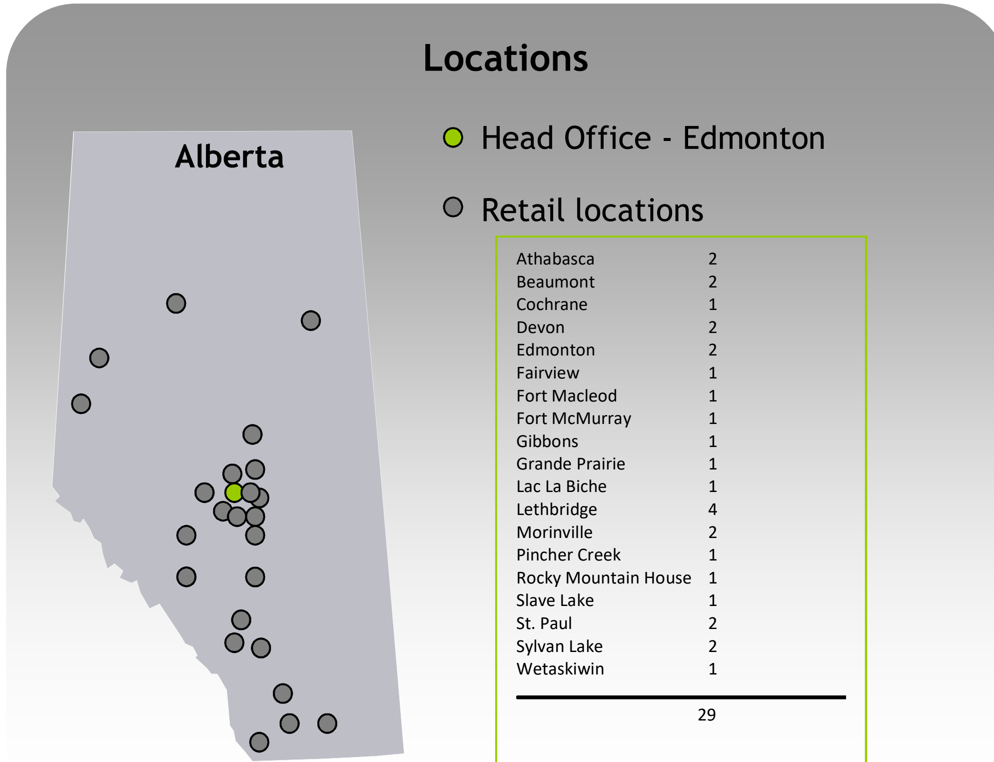
OVERVIEW OF THE COMPANY

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 mainly cash-based with alcohol-based products accounting for approximately 97% of total sales as of December 31, 2018. In 2017 and 2018 Andersons has focused on store operations and optimizing its operating margin.

Andersons operated 29 liquor stores in Alberta at December 31, 2018. The primary drivers of liquor store sales are price, location and convenience. Management believes that the range of product selection and service also play a role in the competitive market. The Company previously pursued an acquisition strategy that closely analyzed 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.



Currently, Andersons operates nine stores in Northern Alberta, 14 stores in Central Alberta and six stores in Southern Alberta.



BUSINESS STRATEGY

Margin Focus

The Company is continuously monitoring and examining its gross margins. In 2018 the Company continued with its rebranding strategy and transitioned an additional seven stores to the GCL Brand bringing the total number of transitioned stores to 15. This transition has a positive impact on sales by lowering prices to drive sales volume at those stores and offering a wider variety of product listings, resulting 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 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.

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 historical 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 network are used to ensure employee accuracy and timekeeping 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 can continue operations autonomously. Our redundant infrastructure has provided us with an up-time of almost 100% since Andersons began operations in 2001. Notwithstanding the lack of downtime, the system is designed so that any 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 our head office servers. Additionally, we have developed our 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 automatic 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 regularly. This direct collaboration and timely accountability results in improvements to 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. Some sources 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, convertible debentures, and using available credit facilities.

FINANCIAL MEASURES

Maintenance Capital Expenditures

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 the exterior and interior signage, store fixtures and interior layout.

Net Change in Non-cash Working Capital

Non-cash working capital has increased as a result of a decrease in inventory due to a reduction in the number of retail stores when compared to the prior year.

MANAGEMENT TEAM

Peter J. 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, 2018

Basis of Comparison

The retail liquor industry is subject to seasonal variations in sales. Sales are typically lowest early in the year and increase in the latter half. It is important 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 months ending December 31, 2018, and 2017.

Period	**3 months ending Dec 2018**		**3 months ending Dec 2017**	
Sales	$ 11,363,235	100.0%	$ 10,746,738	100.0%
Gross margin	2,394,928	21.1%	2,412,338	22.4%
Operating and administrative expense	2,109,833	18.6%	2,332,672	21.7%
Operating Margin (1)	$ 285,095	2.5%	$ 79,666	0.7%
Stores at Period End	29		35	

Sales

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

Since December 31, 2017, the Company has closed three stores and sold three stores. As a result of the success of the GCL stores, where each transitioned store experienced an increase in revenue, the Company increased average sales per store by $84,786, when evaluating sales based on the number of stores in operation at the end of the period.

Cost of Goods Sold and Gross Margin

Margins have decreased from 22.4% to 21.1% as compared to this quarter last year. The Company has altered its marketing, pricing and promotional strategies to grow 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. As a result of an increase in sales volume at the GCL stores, gross margin per store has increased from an average of $68,924 in 2017 to $82,584 in 2018.

Operating and Administrative Expenses

The significant expenses included in operating and administrative expenses are salaries, rents, and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three months ended December 31, 2018, were $2.1 million, compared to $2.3 million for the same period in 2017. These expenses are lower due to the sale of three stores and the closure of three stores in the last 12 months, resulting in reduced lease and premise costs. There has been an increase in wages as a result of the minimum wage changes effective October 1, 2018, however, overall, the Company reduced operating and administrative expense as a percent of sales to 18.6% in 2018, versus 21.7% in 2017.

Goodwill

There was no goodwill disposed of during the three month period in 2018. The impairment review performed in 2018 determined there was no impairment on goodwill. During the three months ending December 31, 2017, the Company disposed of $84,054 goodwill upon the sale of three liquor stores.

Finance Costs

Interest on the bank loan and convertible debentures increased by $32,299 for the three months ending December 31, 2018. This increase is due to a rise in interest rates in 2018.

OPERATING RESULTS - 12 Months ending December 31, 2018

Basis of Comparison

The retail liquor industry is subject to seasonal variations concerning sales. Sales are typically lowest early in the year and increase in the latter half. It is important 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, 2018, and 2017.

Period	12 months ending Dec 2018		12 months ending Dec 2017	
Sales	$ 44,068,345	100.0%	$ 43,619,001	100.0%
Gross margin	9,616,609	21.8%	10,136,236	23.2%
Operating and administrative expense	8,683,376	19.7%	9,945,978	22.8%
Operating Margin (1)	$ 933,233	2.1%	$ 190,258	0.4%
Stores at Period End	29		35	

Sales

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

Since December 31, 2017, the Company has closed three stores and sold three stores. As a result of the success of the GCL stores, where each transitioned store experienced an increase in revenue, the Company increased average sales per store by $273,340, when evaluating sales based on the number of stores in operation at the end of the period.

Cost of Goods Sold and Gross Margin

Margins have decreased from 23.2% to 21.8% as compared to the prior year. The Company has altered its marketing, pricing and promotional strategies to grow 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 prior year. As a result of an increase in sales volume at the GCL stores, gross margin per store has increased from an average of $289,607 to $331,607.

Operating and Administrative Expenses

The significant expenses included in operating and administrative expenses are salaries, rents, and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the year ended December 31, 2018, were $8.7 million, compared to $9.9 million in 2017. These expenses are lower due to the sale of three stores and the closure of three stores in the last 12 months, resulting in reduced lease and premise costs. 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, and 2018, however overall, the Company reduced operating and administrative expense as a percent of sales to 19.7% in 2018, versus 22.8% in 2017.

Goodwill

During the year ending December 31, 2018, the Company disposed of $240,369 goodwill upon the sale of three liquor stores (2017 - $129,074). The impairment review performed in 2018 determined there was no impairment on goodwill.

Finance Costs

Interest on the bank loan increased by $118,760 to $472,897 for the year ending December 31, 2018. This increase is due to a rise in interest rates at the end of 2017, and in September 2018.

CONDENSED QUARTERLY INFORMATION

Expressed in (000's)	2018				2017			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
# stores end of period	29	31	32	34	35	38	41	41
Sales	11,363	12,064	11,871	8,770	10,747	12,325	11,765	8,782
Net comprehensive (loss) income	(288)	(43)	(316)	(580)	(566)	(157)	(241)	(953)
Basic income per share	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.02)
Diluted income per share	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.02)

Quarterly sales in 2018 as compared to 2017:

- There was a reduction in the number of stores between Q1 2017 and Q4 2018 of 12, however sales during the 8 quarters were positively impacted by the success of the GCL re-branding strategy with an increase of $449,000 in sales year over year. 8 stores transitioned to GCL at the end of 2017 and there were a total of 15 at the end of 2018.

Quarterly net loss in 2018 as compared to 2017:

- Net loss in Q1 2018 was lower than Q1 2017 as a result of the number of stores in operation with increased operating margin. The reduction of seven stores from Q1 2017, to Q1 2018, combined with increased sales from the GCL stores, resulted in an increase to operating margin of 88% between Q1 2017 and Q1 2018.

- Net loss in Q2 2018 was higher than Q2 2017 as a result of the store closure expenses and loss on sale of assets due to the sale and closure of two stores in Q2 2018.

- Net loss from Q3 2017 and to subsequent periods was also impacted by an increase in wages due to increased minimum wage costs as set by the Government of Alberta, however as a result of the success of the re-branding strategy and store reduction, the Company mitigated this impact by increasing its sales and overall operating margin.

CONDENSED ANNUAL INFORMATION

Expressed in (000's)	2018	2017	2016
# stores end of period	29	35	42
Sales	44,068	43,619	45,343
Net comprehensive loss	(1,227)	(1,917)	(4,477)
Total assets	14,843	16,067	16,818
Total liabilities	14,905	14,913	13,756
Basic loss per share	(0.02)	(0.03)	(0.08)
Diluted loss per share	(0.02)	(0.03)	(0.08)

Annual comparison

- Total assets in 2018 is lower than 2017 and 2016 due to the reduction of 14 stores from 2016 to 2018. The reduction in number of stores directly impacted inventory, property and equipment and goodwill.

- Total liabilities have increased from 2016 to 2017 as a result of a higher carrying balance on the bank loan.

LIQUIDITY AND CAPITAL RESOURCES AS OF DECEMBER 31, 2018

Shareholders' Equity

Authorized: Unlimited number of common shares

Issued and outstanding:

	Number		Amount
Outstanding Dec 31, 2016, 2017, 2018 and Apr 25, 2019	**56,791,788**	**$**	**4,667,442**

Options

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

The following table summarizes information about the 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
Expired Jan 17, 2018	(500,000)	-	-	-	-
Outstanding Dec 31, 2018	**-**	**-**	**-**	**-**	**-**

Convertible Debenture

On April 1, 2016, the Company announced that holders of the convertible debenture ("Debenture") issued on April 1, 2011, agreed to amendments extending the maturity date to April 30, 2021, and adjusted the conversion price to $0.25 and coupon rate to 7.50%. 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, 2018, is $6,130,748. For accounting purposes, the fair value of the convertible

option was calculated, and the difference recorded as equity. The remaining liability for the Debenture will increase to $6,865,000 over the five-year term.

Credit Facilities

Effective September 20, 2018, the Company amended its bank agreement with lender TD, adjusting rates to prime plus 265 basis points for prime-based loans, and 415 basis points for bankers' acceptances, per annum. Current terms of the agreement are for a $10 million uncommitted, revolving demand credit. Current utilization of the facility is $8.7 million.

As of December 31, 2018, there was $7.8 million drawn on the bank loan net of cash in transit. Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis as the facility acts as an operating line. At December 31, 2018, the Company has $7.0 million of its bank loan in bankers' acceptances.

The interest rate on the convertible debenture remains fixed at 7.5%.

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

As of December 31, 2018, the Company had $574,497 of cash on hand. The $10 million Facility was drawn at $8.1 million.

Capital Expenditures

The Company has completed the majority of its store renovations under the rebranding plan. Capital expenditures were 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.

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. 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 is proactive with its review of the capital structure. As at December 31, 2018, the Company had a shareholders' deficiency of $61,573, net comprehensive loss of $1,216,653 and current As at Dec 31, 2018, the Company had a shareholders' deficiency of $61,573 (2017 shareholders' equity - $1,155,080), net comprehensive loss of $1,216,653 (2017 - $1,917,441), and current liabilities in excess of current assets of $2,558,527, (2017 - $2,115,999)

as a result of the demand bank loan of $8,091,238 (2017 - $8,306,135) classified as a current liability. These conditions indicate the existence of a material uncertainty which may cast significant 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 from rebranding activities that occurred during 2017 and 2018 to rebrand fifteen of its stores to the Great Canadian Liquor ("GCL") brand and from ongoing investments in related sales and marketing programs. Continuation as a going concern is also dependent on the Company's ability to maintain its current demand bank financing as further described in Note 9 of the Annual Financial Statements and seek additional sources of debt or equity financing as required. However, there are no assurances that the steps taken by management will be successful. If, for any reason, the Company is unable to continue as a going concern, it could impact the Company's ability to realize assets at their recognized values and to meet its liabilities in the ordinary course of business at the amounts stated in these consolidated financial statements.

Credit Risk

The Company's financial assets 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 of accounts receivable is that a wholesale customer might fail to meet its obligations under their credit terms. The Company, in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with accounts receivables by credit management policies. All accounts receivable are due from organizations in Alberta's hospitality industry. The Company has $nil expected credit loss from trade receivables (2017 - $nil). $3,843 was recognized in 2018 for bad debts (2017 - $8,491) on trade receivables.

The Company is exposed to risk in relation to the loans receivable. The Company has managed the risk by entering into a general security agreement over the assets of the stores purchased with the debtor. The Company has $nil expected credit loss from its loan receivable (2017 - $nil).

Interest Rate Risk

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

The Company pays interest at prime plus 265 basis points or bankers acceptances plus 415 basis points per annum. At December 31, 2018, the Company has $7.0 million of its bank loan in bankers acceptances. The interest rate on the convertible debenture is fixed at 7.5%. Assuming an outstanding bank loan balance of $8,091,238, a one percent increase/decrease in interest rates would have an $80,912 effect on net comprehensive loss. Approximately 57% (2017 – 59%) 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, 2018, or April 25, 2019.

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.

Estimates:

Inventory

Management has estimated the value of inventory based upon their assessment of the net realizable amount less selling costs. No inventory is 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 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 the reversal of temporary differences as well as the tax rates and laws in place at the time of the expected reversal.

Impairment of goodwill

The Company reviews goodwill at least annually, and when there is any indication that the asset may be impaired. The recoverable amounts of cash-generating units (“CGU”) have been determined, where applicable using discounted cash flow models that require assumptions about future cash flows, earning multiples of stores, EBITDA projections and discount rates. Refer to note 8 for further details regarding the estimation of recoverable amounts.

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

Forecasted gross margins were based on past performance and expectations for market trends. A growth rate of between 2% to 4% was based on industry statistics and past performance and was applied to revenue. Inflation of 1% was applied to expenditures. A terminal growth rate of 1.8% 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 12.5% and 13.5% 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.

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 16% to the 2019 EBITDA or 14% to 2020 EBTIDA would reduce the recoverable amount to zero. An increase in the WACC to approximately 14.2% would reduce the recoverable amount of the CGU to its carrying value.

Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of cash generating unit to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected, and the Company could potentially experience future material impairment charges in respect of goodwill.

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 the Company will use these assets. These assumptions may differ from the actual life of the assets.

Convertible debentures

Management engaged a valuator to aide in the measurement of the discount rate required for the calculation of the equity component of the convertible debentures issued. Classification and carrying value of financial instruments is disclosed in Note 21.

Share based compensation

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key inputs used in the pricing model 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 the time of purchase.

Judgments:

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 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 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.

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

Changes in accounting standards from prior year

Financial Instruments – IFRS 9

The IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), which replaced IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). This standard came into effect for annual periods beginning on or after Jan 1, 2018. The Company adopted the new standard for its current period in these consolidated financial statements retrospectively.

Impairment of Financial Assets

IFRS 9 replaces the incurred loss model from IAS 39 with an Estimated Credit Loss model ("ECL") where receivables are assessed as a group, and impairment is estimated based on historical experience and external factors. Individual receivables were considered for impairment when they were past due or when other objective evidence was received that a specific part would default, and losses were recorded. In applying IFRS 9, the Company has not restated comparative information for prior periods with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financing assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 at Jan 1, 2018 for each of the Company's financial assets and liabilities:

Financial Instrument	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Bank loan	Financial liabilities measured at amortized cost	Amortized cost
Convertible debenture	Financial liabilities measured at amortized cost	Amortized cost

Revenue from Contracts with Customers – IFRS 15

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 came into effect for annual periods beginning on or after Jan 1, 2018. The adoption of IFRS 15 was applied fully retrospectively with no practical expedients elected, and resulted in no impact to retained earnings or comparative numbers. The adoption of IFRS 15 resulted in changes to disclosure, but no material, financial impact to these financial statements or accompanying notes.

Significant accounting standards issued but not yet in effect

New standards have been issued but are not yet effective for the year beginning Jan 1, 2018, and accordingly, have not been applied in preparing these consolidated financial statements.

Leases – IFRS 16

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 Jan 1, 2019. The Company will adopt the modified retrospective approach, applying various practical expedients upon adoption. Management's 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 as they bear interest at the prevailing market interest rate.

The convertible debentures fair value was determined based on market trading values at the statement of financial position date $2,299,775 at December 31, 2018 (2017 – 2,231,125).

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the three month period the Company paid rents of $21,240 (2017 - $15,240) and for the year ended December 31, 2018, $73,560 (2017 – $60,960), in respect of three (2017 – two) retail liquor stores to a privately held company of which an Officer of RML is a significant shareholder. The rent is at market rates. During periods of the year, the Company incurred loans payable to a key member of manager with interest. There was a balance due of $nil at Dec 31, 2018 (2017 - $nil).

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 the period ended December 31, 2018, that have materially affected or are 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 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 several 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, 2018 minimum wage increased by $1.40 per hour to $15.00. This change will affect labour costs.

Impact due to Economic Conditions

The Company's financial results for fiscal 2018 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 higher than anticipated unemployment levels and a reduction in the migration to Alberta. Inflation and interest rates could impact disposable income and reduce spending in this sector.

Weather

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

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 focuses 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 operate under 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 if 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.

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.

Impact from Provincial Tax Increases

Tax changes affect sales earnings and results of operations as higher prices could impact consumer demand or behaviours. The risk remains that the Government could increase the tax on alcohol-based products further.

Cannabis Legalization

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

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 prospects of the Company.

Importance of Information and Control Systems

Information and control systems play an essential role in 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 inventory or fails to upgrade its systems adequately, 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.

Available Financing

The Company requires additional financing to make further investments, continue its rebranding strategy, using funds 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 favourable 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 of approximately $1.9 million at December 31, 2018.

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.

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 to ensure we maintain high security standards.

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 several 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 reduce.

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 grow, the trading liquidity of the convertible debentures will remain limited, and their market value may be adversely affected.

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 is 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 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 2018**	**3 months ended Dec 2017**	**12 months ended Dec 2018**	**12 months ended Dec 2017**
Net comprehensive loss	$ (276,817)	$ (566,528)	$ (1,216,653)	$ (1,917,441)
Income tax	(10,694)	10,694	(10,694)	10,694
Interest expense	326,119	285,973	1,245,913	1,097,049
Depreciation	143,777	152,791	541,557	622,186
Goodwill disposed	-	84,054	240,369	129,074
Store closure expenses	23,572	70,305	142,215	179,481
Loss (gain) on disposal of property and equipment	79,815	43,170	(6,687)	76,195
EBITDA	**$ 285,772**	**$ 80,459**	**$ 936,020**	**$ 197,238**

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.