ROCKY MOUNTAIN LIQUOR INC

Ticker: “RUM”

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the year ended December 31, 2019

As at April 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated April 17, 2020.

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, 2019. 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) equity issuance; and (vi) 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 the pandemic; (ii) impact of economic events affecting discretionary consumer spending; (iii) the impact of supplier disruption or delays; (iv) the impact of increases in labour costs; (v) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes impact from competition in the markets where the Company operates; (vi) the ability to maintain acceptable store sites and adapt to changing market conditions; (vii) the impact of weather on its effect on consumer demand; (viii) the availability of financing; (ix) the ability of the Company to meet its financial obligations; (x) the possibility of a potential decline in consumption of alcoholic beverages and products sold; (xi) importance of cybersecurity; (xii) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (xiii) the maintenance of management information systems; (xiv) the ability of the Company to retain key personnel; (xv) market volatility and share price; and (xvi) 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:

- Net income 2019 increased by $445,368 to $168,551 (2018 net loss was $276,817)
- Gross margin percentage 2019 increased by 140 basis points to 22.5% (2018 was 21.1%)
- Operating margin 2019 is $713,508 after retrospective application of IFRS 16 (2018 was $717,724)
- EBITDAR 2019 is $714,078 after retrospective application of IFRS 16 (2018 was $718,411)
- Sales 2019 are $11.1M with 29 stores in operation throughout the entire period (2018 was $11.4 with 31 stores contributing to sales at the beginning of the period and 29 contributing at the end of the period)

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

- Net income 2019 increased by $4.05M to $2.84M, including a non-recurring gain (2018 net loss was $1.21M)
- Gross margin percentage 2019 increased by 20 basis points to 22.0% (2018 was 21.8%)
- Operating margin 2019 increased to $2.83M after retrospective application of IFRS 16 (2018 was $2.73M)
- EBITDAR 2019 increased by $104,319 to $2.83M after retrospective application of IFRS 16 (2018 was $2.73M)
- Sales 2019 are $44.0M with 29 stores in operation throughout the entire year (2018 was $44.1M with 35 stores contributing to sales at the beginning of the year and 29 at the end of the year)

DEVELOPMENTS DURING 2019

On July 3, 2019, the Company redeemed its $6,865,000 outstanding Convertible Debenture ("Debenture") through the issuance of 180,657,895 Common Shares resulting in a non-recurring gain net of tax of $3,268,925. Upon completion of the transaction, an aggregate of 237,449,683 Common Shares were issued and outstanding. Interest accrued up to the closing date was paid in cash to holders. Upon closing of the transaction and payment in full satisfaction of the redemption amount, the Debentures were delisted. Details of the transaction are explained under the "Convertible Debenture" section of this MD&A.

Shareholders of the Company approved the previously announced share consolidation at the Annual and Special Meeting held on August 27, 2019 and it was subsequently approved by the TSX Venture Exchange. Effective September 23, 2019, the Company consolidated its common shares on the basis of one post-consolidated share for every five pre-consolidated shares held. The 237,449,683 shares issued and outstanding prior to the share consolidation converted to 47,489,937 shares issued and outstanding.

RECENT DEVELOPMENTS SINCE PERIOD ENDED DECEMBER 31, 2019

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

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal

interventions to stabilize economic conditions. The Company anticipates that these events may impact its retail operations.

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

OUTLOOK

The Company is closely monitoring the evolution of the COVID-19 situation. At this time in Alberta, liquor retail has been recognized as an essential business. The Company has taken active steps to implement physical distancing, increased sanitation, installed plexiglass shields at its counters as well as other measures recommended by public health agencies, ensuring our employees are working in a safe environment. To date, the COVID-19 pandemic has not had a material negative impact on the Company's results of operations, however, the Company is not immune to factors beyond its control, including without limitation forced store closures, labour shortages, potential supply disruptions or other unforeseen circumstances. As at April 17, 2020, all 28 locations are open and operational. At this time, the Company is not eligible for the Canada Emergency Wage Subsidy program from the Federal government as it does not meet the program's revenue reduction requirements, nor has it entered into any deferral arrangements on its financial obligations. Further, the Company has not had to rely on filing extension relief of up to 45 days to file these statements.

There is significant uncertainty regarding the extent and duration of the impact that the COVID-19 coronavirus pandemic will have on the demand for our products and our supply chain. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact.

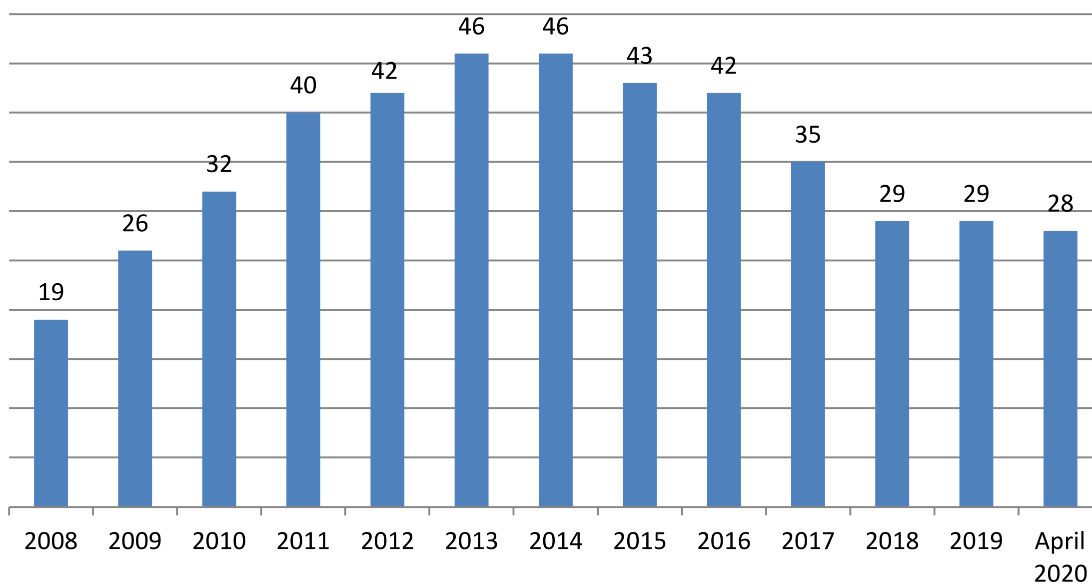
On March 25, 2020, Brewers Distributor Ltd. ("BDL"), the supplier of domestic Labatt and Molson products experienced a cyber-attack. As a result, their online ordering system has been non-operational. Our locations have been able to manually order and receive a limited amount of products from the BDL. The Company is working with alternate vendors to procure additional products while BDL repairs their systems. There has not been a material impact on overall sales due to this service interruption.

The Company has an available $9.25 million revolving credit facility of which $1.3 million was unused as of April 17, 2020. We will remain focused on our current business plans, utilizing the insights provided by our custom enterprise reporting systems to optimize inventory, and providing a safe customer experience.

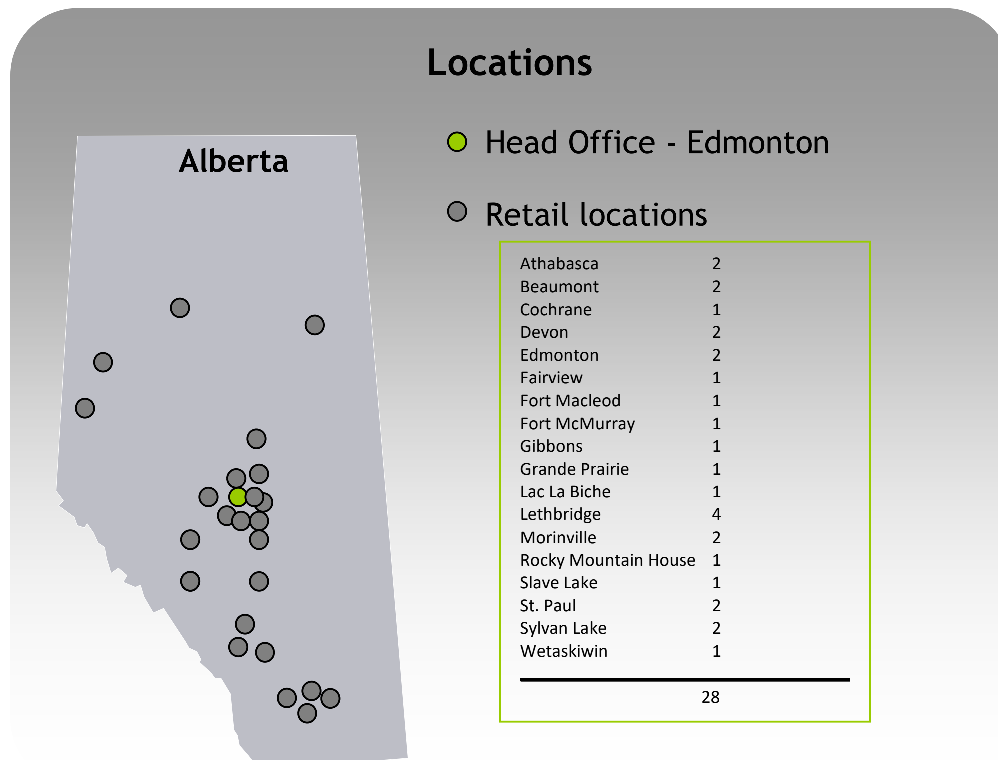
OVERVIEW OF THE COMPANY

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, 2019. In 2018 and 2019 Andersons has focused on store operations and optimizing its operating margin.

Andersons operated 29 liquor stores in Alberta at December 31, 2019. 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 five stores in Southern Alberta.



BUSINESS STRATEGY

Margin Focus

The Company is continuously monitoring and examining its gross margins. 14 of the Company's stores have been rebranded to the GCL Brand. This transition has a positive impact on sales by lowering prices to drive sales volume at those stores while 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. The Company utilizes Short Message System ("SMS") advertising, which is direct to text messages for 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. 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 for enterprise continuity and help desk. Computers and associated 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 internal 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 to a secure data centre. We maintain a redundancy on internal servers. We utilize automated data replication programs at each store location. This data is replicated to our enterprise servers for replication and security.

We have implemented an automated environment where scheduled software is used to push reporting output on a regular and timely basis to store level, operations level and enterprise level for resource planning purposes. Our ability to accommodate change is network-centric and we utilize on our own and third-party networks. We are focused on having an industry-leading and secure enterprise network.

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.

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.

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 utilizing a daily software automated process. 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 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 our enterprise resource planning process reporting requirements. This direct collaboration and timely accountability results in improvements to existing technologies, and ideas for new automated processes.

We have recently implemented a security awareness program for our head office administration and enterprise supervisors. This includes Canadian privacy awareness training. Employees in a digital environment are frequently exposed to sophisticated phishing and ransomware attacks. Avoidance of these threats are best managed by continually trained employees who can constitute human firewalls. The company also runs anti-virus, malware protection and ransomware protection programs through our network and enterprise environment.

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.

Net Change in Non-cash Working Capital

Non-cash working capital has decreased as a result of a decrease in inventory as a result of efficiencies in inventory.

MANAGEMENT TEAM

Allison Radford, CEO	Mrs. Radford is the President, Chief Executive Officer of RML. She previously held the position of Chief Operating Officer from 2007 to 2019. Prior to joining Andersons, she worked at Deloitte & Touche LLP from 2002 to 2007, receiving her Chartered Accountant designation in 2005.
Peter J. Byrne, Executive Chairman	Mr. Byrne is the Executive Chairman 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.
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, 2019

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, 2019, and 2018.

Period	3 months ending Dec 2019		3 months ending Dec 2018	
Sales	$ 11,103,630	100.0%	$ 11,363,235	100.0%
Gross margin	2,496,614	22.5%	2,394,928	21.1%
Operating and administrative expense	1,783,106	16.1%	2,109,833	18.6%
Operating Margin	$ 713,508	6.4%	$ 285,095	2.5%
	-		432,629	
Adjusted Operating Margin (1)	$ 713,508	6.4%	$ 717,724	6.3%
Stores at Period End	29		29	

(1) Adjusted Operating Margin is adjusted for rent costs that, as a result of IFRS 16 in 2019 are now expensed through right-of-use assets depreciation and finance costs on lease liabilities. This adjustment shows operating margin for how it was calculated in 2019 for comparability purposes.

Sales

Sales represent the combination of adult beverages including spirits, beer, and wine, with other ancillary products such as ice, juice, and mix. Sales are lower for the three month period ending December 31, 2019 due to the slowdown of the economy in Alberta which has affected sales in certain rural markets.

Cost of Goods Sold and Gross Margin

Margins have increased from 21.1% to 22.5% as compared to this quarter last year. The Company has altered its marketing, pricing and promotional strategies to grow market share. Gross margin per store has increased from an average of $82,584 in 2018 to $86,090 in 2019.

Operating and Administrative Expenses

The significant expenses included in operating and administrative expenses are salaries and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three month period ended December 31, 2019, were $1.8 million, compared to $2.1 million for the same period in 2018.

The comparability of operating and administrative expense to the prior quarter is significantly impacted by the adoption of IFRS 16 on a modified retrospective approach. In Q4 2019 all lease-related charges are now recognized through right-of-use assets depreciation and finance costs on lease liabilities. Had IFRS 16 not been adopted, operating and administrative expenses for Q4 2019 would have included the lease-related expense of $416,894. Refer to the '*Changes in Accounting Policy*' section of this MD&A for additional details on the adoption of IFRS 16.

Excluding the impact resulting from the adoption of IFRS 16, operating and administrative expenses decreased by $94,010.

Finance Costs

Interest on the bank loan and convertible debentures reduced by $184,754 for the three month period ending December 31, 2019 primarily as a result of the conversion of the convertible debenture into common shares on July 3, 2019. Cash interest payments on the Debenture ceased July 2, 2019.

OPERATING RESULTS - 12 Months ending December 31, 2019

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, 2019, and 2018.

Period	12 months ending Dec 2019		12 months ending Dec 2018	
Sales	$ 43,970,823	100.0%	$ 44,068,345	100.0%
Gross margin	9,686,914	22.0%	9,616,609	21.8%
Operating and administrative expense	6,854,985	15.6%	8,679,533	19.7%
Operating Margin	$ 2,831,929	6.4%	$ 937,076	2.1%
Rent expense	-		1,793,660	
Adjusted Operating Margin (1)	$ 2,831,929	6.4%	$ 2,730,736	6.2%
Stores at Period End	29		29	

(1) Adjusted Operating Margin is adjusted for rent costs that, as a result of IFRS 16 in 2019 are now expensed through right-of-use assets depreciation and finance costs on lease liabilities. This adjustment shows operating margin for how it was calculated in 2019 for comparability purposes.

Sales

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

During the first 11 months of 2018 three stores were closed and three were sold. As these stores operated for partial periods of 2018, the $97,522 reduction to sales in 2019 when compared to 2018 is mainly due to the reduction to stores in operation.

Cost of Goods Sold and Gross Margin

Margins have increased from 21.8% to 22.0% as compared to the prior year. The Company has altered its marketing, pricing and promotional strategies to grow market share. Gross margin per store has increased from an average of $331,607 in 2018 to $334,032 in 2019.

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 12 month period ended December 31, 2019, were $6.9 million, compared to $8.7 million for the same period in 2018.

The comparability of operating and administrative expense to the same 12 month period in 2018 is significantly impacted by the adoption of IFRS 16 on a modified retrospective approach. In 2019 all lease-related charges are now recognized through right-of-use depreciation and finance costs on lease liability. Had IFRS 16 not been adopted, selling and distribution expense for the 12 month period ending Q4 2019 would have included the lease-related expense of $1,719,048. Refer to the '*Changes in Accounting Policy*' section of this MD&A for additional details on the adoption of IFRS 16.

Excluding the impact resulting from the adoption of IFRS 16, selling and distribution expenses reduced by $105,498. Increases in salaries as a result of minimum wage increase have been offset by a reduction in the number of stores in operation.

Finance Costs

Interest on the bank loan and convertible debenture decreased by $268,515 for the 12 month period ending December 31, 2019. The decrease is as a result of the redemption of the Debenture. Interest payments on the Debenture ceased July 2, 2019.

CONDENSED QUARTERLY INFORMATION

Expressed in (000's)	2019				2018			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
# stores end of period	29	29	29	29	29	31	32	34
Sales	11,104	11,785	12,005	9,077	11,363	12,064	11,871	8,770
Net comprehensive income (loss)	168	3,392	(23)	(699)	(288)	(43)	(316)	(580)
Basic income (loss) per share	0.00	0.12	(0.00)	(0.02)	(0.03)	(0.00)	(0.03)	(0.05)
Diluted income (loss) per share	0.00	0.12	(0.00)	(0.02)	(0.03)	(0.00)	(0.03)	(0.05)

Quarterly sales in 2019 as compared to 2018:

- Quarterly sales through 2019 are consistent with those of 2018.

Quarterly net income and loss in 2019 as compared to 2018:

- Net loss in Q2 2019 was lower than Q2 2018 as a result of the number of stores in operation with increased operating margin. The reduction of six stores from Q1 2018, to Q1 2019, combined with increased margins and a reduction of operating and administrative expenses as a result of those reductions reduced overall net loss.
- Net income in Q3 2019 was impacted by a onetime gain of $3.5 million on the redemption of the convertible debenture.
- Net income in Q4 2019 is a result of a reduction to finance costs from the redemption of the convertible debenture in Q3 2019.

CONDENSED ANNUAL INFORMATION

Expressed in (000's)	2019	2018	2017
# stores end of period	29	29	35
Sales	43,971	44,068	43,619
Net comprehensive income (loss)	2,838	(1,227)	(1,917)
Total assets	27,201	14,843	16,067
Total liabilities	21,714	14,905	14,913
Basic income (loss) per share	0.10	(0.11)	(0.16)
Diluted income (loss) per share	0.10	(0.11)	(0.16)

Annual comparison

- Total assets in 2019 are higher than 2018 and 2017 as a result of adoption of IFRS 16, and an addition of $13.1 million to right-of-use assets for leases.

- Total liabilities have increased by $6.8 million from 2018 and 2017. This is mainly due to an increase of $13.4 million as a result of adoption of IFRS 16 and its recognition of a lease liability, less a reduction to the convertible debenture liability of $6.1 million upon its redemption during 2019.

LIQUIDITY AND CAPITAL RESOURCES AS OF DECEMBER 31, 2019

Shareholders' Equity

Authorized - Unlimited common shares

	Number	Amount
Balance December 31, 2017, 2018	56,791,788	$ 4,667,442
Issued upon debenture redemption July 3, 2019	180,657,895	2,709,869
Consolidated September 27, 2019	(189,959,746)	-
Balance December 31, 2019	**47,489,937**	**$ 7,377,311**

On September 23, 2019, the Company consolidated its issued and outstanding common shares on the basis of five pre-consolidation common shares for each one post-consolidation common share (the "Share Consolidation"). As a result of the Share Consolidation, the 237,449,683 pre-consolidation shares were consolidated to 47,489,937 post-consolidation shares.

Convertible Debenture

On July 3, 2019, the Company redeemed the $6,865,000 outstanding Debenture through the issuance of 180,657,895 common shares, calculated by applying 95% of the Current Market Price to the carrying value of the Debenture. Current Market Price as per the terms of the indenture was based on the weighted average price per share over 20 consecutive trading days ending on the fifth trading day preceding the date of notification to Debenture holders. This was calculated to be $0.038 on July 3, 2019. Interest accrued up to the closing date was paid in cash and interest upon the Debentures ceased to be payable from and after the closing date.

The market value per share on July 3, 2019 was $0.015, resulting in a fair value of $2,709,868 of the 180,657,895 shares issued. The carrying value of the Debenture was $6,274,663 at the redemption date, resulting in a gain on redemption of $3,472,811 net of transaction costs of $91,984. The equity component of the Debenture of $96,694 was reclassified to accumulated deficit.

	Liability Component	
	Face Value	Carrying Value
Balance Dec 31, 2017	$ 6,865,000	$ 5,872,607
Notional accretive interest	-	258,141
Balance Dec 31, 2018	$ 6,865,000	$ 6,130,748
Notional accretive interest	-	143,915
Fair value of shares issued Jul 3, 2019	-	(2,709,868)
Transaction costs	-	(91,984)
Gain on redemption Jul 3, 2019	-	(3,472,811)
Redemption Jul 3, 2019	(6,865,000)	-
Balance Dec 31, 2019	**$ -**	**$ -**

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

Credit Facilities

The Company has an agreement for a $9.25 million uncommitted, revolving demand credit. The loan is due upon demand, bearing interest at prime plus 2.65% or bankers' acceptances plus 4.15% per annum.

As of December 31, 2019, there was $7.9 million drawn on the bank loan. 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, 2019, the Company had $7.0 million of its bank loan in bankers' acceptances. Current utilization of the facility at April 17, 2020 is $7.9 million.

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

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. For the year ending Dec 31, 2019 the Company had net loss before tax and gain on redemption of convertible debenture of $634,773 (2018 – $1,227,347). Due to recent periods with net losses and an accumulated deficit of $2,905,888 (2018 - $5,840,620), there exists a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The increase to profitable income operations after adjustment for rent expenses for the 12 month period ending Dec 31, 2019 are a result of the strategic initiative that occurred during 2017 and 2018 to rebrand fifteen of its stores to Great Canadian Liquor ("GCL") and from ongoing investments in related sales and marketing programs. The Company's ability to continue as a going concern is dependent on its ability to continue to generate profitable operations going forward as well as continue to meet the terms of its bank loan as described in Note 9 of the Company's Annual Financial Statements. 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 (2018 - $nil). Nil was recognized in 2019 for bad debts (2018 - $3,843) on trade receivables.

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

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. Assuming an outstanding bank loan balance of $7,854,890, a one percent increase/decrease in interest rates would have an $78,549 effect on net comprehensive loss. At December 31, 2019 all (2018 – 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, 2019, or April 17,2020.

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

Sensitivity testing is conducted as part of the annual impairment tests. A reduction of 9% to sales in 2020 or 11% in 2021 would reduce the recoverable amount to zero. An increase in the WACC to approximately 12.2% would reduce the recoverable amount of the CGU to its carrying value.

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

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.

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

Effective January 1, 2019, the Company adopted IFRS 16, Leases (“IFRS 16”), which supersedes previous accounting standards for leases, including IAS 17, Leases (“IAS 17”), and IFRIC 4, Determining Whether an Arrangement Contains a Lease (“IFRIC 4”). IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Adjustment as a Result of IFRS 16

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rates, ranging from 4.8% to 5.1%, depending on relevant facts and circumstances, geographical location, and lease term duration of the leased property. The associated right-of-use assets were measured as if the standard has been applied since the effective date, discounted using the Company’s estimated incremental borrowing rate as of January 1, 2019. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders’ equity balance as at January 1, 2019.

A reconciliation of the effect of the transition to IFRS 16 on those accounts impacted in the Company’s Interim Consolidated Statement of Financial Position at January 1, 2019, is outlined below:

	As reported Dec 31, 2018	Effect of IFRS 16 Transition	Jan 1, 2019
ASSETS			
NON-CURRENT			
RIGHT-OF-USE ASSETS	-	13,546,143	13,546,143
TOTAL ASSETS	14,843,395	13,546,143	28,389,538
LIABILITIES			
Current portion of lease liabilities	-	1,707,815	1,707,815
	-	1,707,815	1,707,815
NON-CURRENT			
LEASE LIABILITIES	-	11,838,328	11,838,328
	-	13,546,143	13,546,143
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	14,843,395	13,546,143	28,389,538

Effect of the IFRS 16 on Financial Statements for the Year Ended December 31, 2019

The adoption of IFRS 16 has added $13.1 million in right-of-use assets and $13.4 million in lease liabilities as at December 31, 2019. Rent expense, which is included in selling and distribution expense, has been reduced by $1.7 million for the year ended December 31, 2019 with the adoption of IFRS 16, whereby previously expensed rent payments are now capitalized under the new accounting framework. In the current year, and on an ongoing basis, there will be a significant decrease in rent expense recorded as part of selling, distribution and administrative expenses and an increase in depreciation and net interest expense.

The impact of adopting IFRS 16 on the Annual Financial Statements for the three and twelve months ended December 31, 2019, is summarized below:

Select expense accounts	Three Months Ending December 31, 2019 Pre-IFRS 16 Adjustments	Effect of IFRS 16 Transition	Three Months Ending December 31, 2019
Operating and administrative expenses	2,200,000	(416,894)	1,783,106
Right-of-use assets depreciation	-	348,633	348,633
Finance costs on lease liabilities	-	144,180	144,180

Select expense accounts	Twelve Months Ending December 31, 2019 Pre-IFRS 16 Adjustments	Effect of IFRS 16 Transition	Twelve Months Ending December 31, 2019
Operating and administrative expenses	8,574,035	(1,719,050)	6,854,985
Right-of-use assets depreciation	-	1,385,303	1,385,303
Finance costs on lease liabilities	-	658,183	658,183

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.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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, 2019, 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;

Pandemic

The COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. There are meaningful direct and indirect effects developing and the Company will continue to monitor the impact of the outbreak on its business. While the precise impact of the COVID-19 virus on the Company remains unknown, it may have an adverse effect on global economic activity, and can result in volatility and disruption to supply chains and mobility of people and the financial markets, which could affect interest rates, credit risk, inflation, financial conditions, ability to access the Company's retail stores, results of operations and other factors relevant to the Company.

Impact due to Economic Conditions

The Company's financial results for fiscal 2019 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.

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.

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.

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.

Ability to Maintain Acceptable Store Sites and Adapt to Changing Market Conditions

The success of retail stores is influenced by location. It is possible that the current locations or economic conditions where stores are located could decline in the future due to the opening of stores by competitors, resulting in potentially reduced sales in those locations. To the extent that the Company enters into long-term leases for its store locations, its ability to respond in a timely manger to changes at any location due to competition or demographics may be limited.

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.

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 net of cash of approximately $1.7 million at December 31, 2019.

Credit Facility

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

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

Potential Decline in Consumption of Alcoholic Beverages and Products Sold

Consumer preferences may shift due to a variety of factors, including changes in demographic or social trends, public health policies, and changes in leisure, dining and beverage consumption patterns. A decline in consumption in one or more alcoholic beverage product categories could occur in the future due to a variety of factors, including:

- a general decline in economic conditions;
- concern about the health consequences of consuming alcoholic beverage products;
- consumer shopping preferences favouring online shopping, resulting in less foot traffic in shopping centres where the Company's retail liquor stores are located;
- the increased activity of anti-alcohol groups;
- a decline in the consumption of alcoholic beverage products as a result of consumers substituting legalized recreational cannabis or other similar products in lieu of alcoholic beverage products;
- increased federal, provincial and foreign excise or other taxes on alcoholic beverage products;
- inflation; and
- wars, weather and natural or man-made disasters.

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.

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.

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.

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.

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.

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.

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 redemption of convertible debentures, right-of-use assets depreciation, finance costs on lease liabilities, gain / loss on disposal of stores and property and equipment, and other restructuring charges for store closures and less rent expense. EBITDA is also less any non-recurring extraordinary or one-time gains or losses from any

capital asset sales. EBITDAR is EBITDA excluding rent expense. Management believes that, in addition to income or loss, EBITDA and EBITDAR are useful supplemental measures of performance.

EBITDA in 2019 is has been significantly impacted by the adoption of IFRS 16 on a modified retrospective approach. In 2019 all lease-related charges are now recognized through right-of-use depreciation and finance costs. Had IFRS 16 not been adopted EBITDA the three month period ending December 31, 2019 would have included the lease-related expense of $416,894 and $1,719,048 for the twelve-month period, as considered in the below calculation. Refer to the '*Critical Accounting Policies and Estimates*' section of this MD&A for additional details on the adoption of IFRS 16.

Period	**3 months ended Dec 2019**	3 months ended Dec 2018	**12 months ended Dec 2019**	12 months ended Dec 2018
Net comprehensive income (loss)	$ 168,551	$ (276,817)	$ 2,838,038	$ (1,216,653)
Income tax	(203,886)	(10,694)	-	(10,694)
Finance costs	141,365	326,119	977,398	1,245,913
Depreciation	110,299	143,777	444,060	541,557
Right-of-use assets depreciation	348,633	-	1,385,303	-
Finance costs on lease liabilities	144,180	-	658,183	-
Loss (gain) on disposal of property and equipment and goodwill	4,936	79,815	3,470	233,682
Rent expense	(416,894)	-	(1,719,048)	-
Gain on redemption of convertible debenture	-	-	(3,472,811)	-
Store closure expenses	-	23,572	358	142,215
EBITDA	**$ 297,184**	$ 285,772	**$ 1,114,951**	$ 936,020
Rent expense	416,894	432,639	1,719,048	1,793,660
EBITDAR	**$ 714,078**	$ 718,411	**$ 2,833,999**	$ 2,729,680

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, EBITDA and EBITDAR 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/EBITDAR 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, EBITDA and EBITDAR may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, EBITDA, and EBITDAR may not be comparable to similar measures presented by other issuers.