ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended March 31, 2020

As at May 21, 2020

ROCKY MOUNTAIN LIQUOR INC

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This management discussion and analysis ("MD&A") is dated May 21, 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 unaudited consolidated interim financial statements and accompanying notes of the Company for the period ended March 31, 2020. 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 unaudited 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 MD&A, references are made to "EBITDA", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", and other "Non-IFRS Measures". A description of these measures and their limitations are discussed below under "Non-IFRS Measures". See also "Risk Factors" discussed below.

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

FORWARD LOOKING INFORMATION AND STATEMENTS ADVISORY

This management discussion and analysis contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "might" and similar expressions is intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this management discussion and analysis contains forward-looking information and statements pertaining to the following: (i) the stability of retail liquor sales; (ii) increased revenues and decreased margins due to re-branding strategy; (iii) the ability to purchase inventory at a discount; (iv) ongoing impact from price inflation; (v) 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:

- Sales increased by $360,354 to $9.44M (2019 was $9.10M) with 28 stores contributing to sales at the end of the period in 2020 vs 29 at the end of the period in 2019
- EBITDAR increased by $228,252 to $491,262 (2019 was $263,010)
- Net loss improved by $424,314 to $275,182 (2019 loss was $699,496)
- Gross margin percentage increased to 22.0% (2019 was 21.3%)

OUTLOOK

The Company is reporting increased demand in the first quarter of 2020. Building on the growth we were realizing through our Great Canadain Liquor ("GCL") brand, we experienced a further increase in revenue for the latter half of March. Through April and May, the Company has continued to see an increase in demand for its products. We are innovating our marketing strategies to transition to a digital platform, and continue to focus on providing an exceptional customer experience in-store and through social media interactions.

The Alberta government has announced a staged approach to relaunching the economy. The second stage occurred on May 14, 2020, with the re-opening of many restaurants, lounges and pubs. It is unknown if the increased demand experienced by the Company since March will be affected by these re-openings in the coming months.

The economy in Alberta has been severely affected by not only COVID-19 but also by falling oil prices. With unemployment rates in Alberta of 13.4%[1], it is unknown how long the Province will be experiencing this economic downturn. In tough economic times, the demand for liquor could decline, as well as a substitution to lower-priced products could occur. The Company remains focused on delivering efficiency and process improvements while managing operating costs to respond to the slowdown in the economy.

COVID – 19 Update

Since the rapid onset of the COVID-19 pandemic in March, the Company has been impacted with a considerable level of uncertainty, volatility and overall risk during this unprecedented time. The health and safety of the Company's employees and customers have been and will continue to be its priority.

Operations Update

In Alberta, liquor retail has been recognized as an essential business. As such, the Company has been able to operate all 28 of its retail stores. The Company took immediate action in implementing extensive policies and procedures to protect its employees across all departments. The Company is following the guidelines issued for non-health care essential businesses to ensure our employees are working in a safe environment including; increased sanitation, plexiglass shields at the counters, masks for staff when physical distancing cannot be maintained, restricting the number of individuals in the store at a time. In mid-March, the administrative staff were transitioned and continue to work from home.

There remains 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.

[1] Labour Force Survey, April 2020 by Statistics Canada, retrieved on May 11, 2020 from https://www150.statcan.gc.ca/n1/daily-quotidien/200508/t005a-eng.htm

Liquidity Update

At this time, the Company is not eligible for the Canada Emergency Wage Subsidy program or the Emergency Commercial Rent Assistant from the Federal government as it does not meet the programs' revenue reduction requirements. It has not 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.

The Company remains in compliance with the terms of its financing agreement. It has an available $9.25 million revolving credit facility of which $1.35 million was unused as of May 21, 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.

OPERATING RESULTS - 3 Months ending March 31, 2020

Basis of Comparison

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

The following table shows the operating results of the Company for the three month period ending March 31, 2020, and 2019.

Period	**3 months ending March 2020**		**3 months ending March 2019**	
Sales	$ 9,436,875	100.0%	$ 9,076,521	100.0%
Gross margin	2,077,831	22.0%	1,936,663	21.3%
Operating and administrative expense	1,587,293	16.8%	1,674,200	18.4%
Operating Margin (1)	$ 490,538	5.2%	$ 262,463	2.9%
Stores at Period End	28		29	

Notes:
(1) *Operating Margin has been calculated as described under "Non-IFRS Measures."*

Sales

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

Since March 31, 2020, the Company has sold one store. The Company increased average sales per store by $24,048 when evaluating sales based on the number of stores in operation at the end of the period as a result of the Company's continued focus to grow its market share. Sales in the first two months of Q1 2020 saw a modest increase. The overall Q1 2020 increase can be primarily attributed to the later half of March 2020, when sales increased as a result of the Government of

Alberta's decision to close bars and restaurants to the public due to COVID-19 and recognize liquor retail as an essential service.

Cost of Goods Sold

Margins have increased from 21.3% to 22.0% as compared to this quarter last year. The Company has altered its marketing, pricing and promotional strategies to maximize gross margins. The Company strategizes the timing of Limited Time Offer purchases with in store promotions, to realize margin growth.

Operating and Administrative Expenses

The major 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 March 31, 2020, were $1.59 million, compared to $1.67 million for the same period in 2019.

Selling and distribution expenses reduced by $86,907 mainly as a result of a reduction in the number of stores in operation as compared to the prior year and due to a transition from print to digital advertising methods in 2020.

Finance Costs

Interest on the bank loan and convertible debentures reduced by $207,059 for the three month period ending March 31, 2020, 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.

CONVERTIBLE DEBENTURE

On July 3, 2019, the Company redeemed the $6,865,000 outstanding Debenture through the issuance of 180,657,895 common shares. 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. Details of the transaction is disclosed in the consolidated statements.

FINANCING & CREDIT FACILITIES

Effective September 20, 2018, 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%. The current utilization of the facility is $7.9 million.

As of March 31, 2020, there was $7.5 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.

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

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at March 31, 2020, or May 21, 2020.

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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. The spread of COVID-19 in the first quarter of 2020, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, may cause material disruption to businesses globally resulting in an economic slowdown.

The global pandemic related to an outbreak of COVID-19 has cast uncertainty on the assumptions used by management in making its judgements and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian economy and the Company's business is uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgements and estimates. At this time in Alberta, liquor retail has been recognized as an essential business. As at May 21, 2020, all 28 locations are open and operational.

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 March 31, 2020, 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 include pandemic; impact due to economic conditions; supply interruption or delay; labour costs and labour market; regulated competitive environment; ability to maintain acceptable store sites and adapt to changing market conditions; weather; available financing; credit facility; potential decline in consumption of alcoholic beverages and products sold; cybersecurity; impact from provincial tax increases; important of information and control systems; reliance on key personnel; market volatility and unpredictable share price and active trading market.

For a discussion of these risks and other risks associated with an investment in Shares, see "Risk Factors" detailed in the Company's Management Discussion and Analysis dated April 17, 2020, which is available at www.sedar.com.

As at Mar 31, 2020 the Company had net loss of $275,182 (Mar 31, 2019 – loss $699,496). Due to recent periods with net losses and an accumulated deficit of $3,181,070 (Dec 31, 2019 - $2,905,888), there exists a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent 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 7. 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.

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 the 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."

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.

Period	**3 months ended March 2020**	**3 months ended March 2019**
Net comprehensive loss	(275,182)	$ (699,496)
Finance costs	128,397	335,456
Finance costs on lease liabilities	153,632	171,805
Property and equipment depreciation	96,451	111,702
Right-of-use assets depreciation	329,597	346,325
Loss (gain) on disposal of property and equipment	44,300	(2,942)
Store closure expenses	14,067	160
Rent expense	(425,794)	(427,652)
EBITDA	**$ 65,468**	**$ (164,642)**
Rent expense	425,794	427,652
EBITDAR	**$ 491,262**	**$ 263,010**

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.