ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended September 30, 2020

As at November 25, 2020

ROCKY MOUNTAIN LIQUOR INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated November 25, 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 September 30, 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 Company's anticipation that a percentage of liquor consumption that has shifted from restaurants and hospitality businesses to liquor stores as a result of COVID-19 will remain in liquor stores and the duration of the shift to retail consumption; (iv) the impact of supplier disruption or delays; (v) the impact of increases in labour costs; (vi) 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; (vii) the ability to maintain acceptable store sites and adapt to changing market conditions; (viii) the impact of weather on its effect on consumer demand; (ix) the availability of financing; (x) the ability of the Company to meet its financial obligations; (xi) the possibility of a potential decline in consumption of alcoholic beverages and products sold; (xii) importance of cybersecurity; (xiii) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (xiv) the maintenance of management information systems; (xv) the ability of the Company to retain key personnel; (xvi) market volatility and share price; and (xvii) 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 $1.4M or 12% to $13.2M (2019 was $11.8M) with 26 stores contributing to sales at the end of the period in 2020 versus 29 at the end of the period in 2019
- EBITDAR increased by 36% to $1.2M (2019 was $909,433)
- Gross margin percentage increased to 22.8% (2019 was 22.0%)

- Net income is $690,782 (2019 was $123,283 after adjusting for a non-recurring gain of $3.5M as a result of Convertible Debenture redemption)

Key operational and financial highlights, year over year 9 month comparison:

- Sales increased by $4.1M or 12%, to $37.0M (2019 was $32.9M) with 26 stores contributing to sales at the end of the period in 2020 versus 29 at the end of the period in 2019
- EBITDAR increased by 57% to $3.3M (2019 was $2.1M)
- Gross margin percentage increased to 22.8% (2019 was 21.9%)
- Net income is $1.4M (2019 net loss of $599,438 after adjusting for a non-recurring gain of $3.5M as a result of Convertible Debenture redemption)

OUTLOOK

Results for the third quarter and the nine months ended September 30, 2020 reflect the effects of the COVID-19 pandemic. The Company was included on the provincial list of essential businesses, allowing for mostly uninterrupted operations. The pandemic has resulted in restrictions by government authorities and the encouragement for Albertans to stay-at-home, leading to increased safety protocols in stores, and shifts in consumer demand and consumption. Management's top priorities remain the health and safety of employees, customers and communities.

The Company has continued to invest in increased safety and sanitization products and procedures to ensure customers and employees are protected while shopping and working in stores. COVID-19 and related restrictions notably impacted the Company's operating results and financial performance in the third quarter of fiscal 2020, substantially driven by changing customer shopping patterns including a shift in consumption from nightclubs, bars, restaurants and hospitality businesses to retail stores.

The future impact of COVID-19 is uncertain and dependent on the duration, the spread and intensity of the virus, and ultimately, when a vaccine is widely accessible. The recent announcement by the Province of Alberta restricting indoor social gatherings is likely to affect the demand for our products. 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 11.7%[1], it is unknown how long the Province will be experiencing this economic downturn. In difficult economic times, substitution for lower-priced products can occur. The Company remains focused on delivering efficiency and process improvements while managing operating costs to respond to the slowdown in the economy.

[1] Government of Alberta Unemployment Rate for September 2020, retrieved on October 28, 2020 from https://economicdashboard.alberta.ca/Unemployment#:~:text=In%20September%202020%2C%20Alberta's%20seasonally,the%20same%20period%20in%202019.

COVID – 19

Operations Update

In Alberta, liquor retail has been recognized as an essential business. As such, the Company has been able to continue to operate all of its retail stores since the onset of the pandemic. The Company took immediate action in implementing extensive policies and procedures to protect its employees and customers across the Province, following the guidelines issued for non-health care essential businesses as follows;

- All employees in all stores across the Province are required to wear a mask while working
- Increased sanitation
- Plexiglass shields at each till
- Touchless sanitation units at each entrance for customer and staff use
- Restrictions on number of customers in a store based on the ability to social distance in each location
- Floor markings to ensure social distancing
- Encouraging contactless payments
- Screening staff for symptoms before they come to work
- Providing disposable masks to customers
- Temporarily suspending tasting events at our locations

Liquidity Update

On June 30, 2020 the Company signed a new financing agreement with the Toronto-Dominion bank (“TD”). The agreement currently provides an available $8.65 million revolving credit facility of which $2.82 million was unused as of November 25, 2020. Details of the agreement are explained under the heading “Financing & Credit Agreements.” 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.

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.

OPERATING RESULTS - 3 Months ending September 30, 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 September 30, 2020, and 2019.

Period	3 months ending September 2020		3 months ending September 2019	
Sales	$13,210,088	100.0%	$ 11,785,005	100.0%
Gross margin	3,006,246	22.8%	2,595,832	22.0%
Operating and administrative expense	1,770,081	13.4%	1,686,852	14.3%
Operating Margin (1)	$ 1,236,165	9.4%	$ 908,980	7.7%
Stores at Period End	26		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.

Sales have increased by $1.4M and average sales per store have increased by $101,701 notwithstanding the reduction in the overall number of stores operated. The 12% increase to sales in 2020 is primarily attributed to consumers choosing liquor retailers in lieu of licensed establishments as a result of the COVID-19 pandemic where the Company has experienced an increase to both the number of transactions at its stores and basket sizes of transactions. The Company has focused on its marketing and promotion strategies for the Great Canadian Liquor ("GCL") brand and has a sustainable model to capitalize on the growth realized and focus on increased market share.

Cost of Goods Sold

Margins have increased from 22.0% to 22.8% as compared to this quarter last year. The Company strategizes the timing of Limited Time Offer purchases with in store promotions, to realize margin growth. The Company has also altered its marketing, pricing and promotional strategies to maximize gross margins.

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 September 30, 2020 have increased by $83,229 as a result of the additional investment required for the purchase of items relating to the health and safety of employees and customers and increased salary costs relating to sales incentive programs implemented at the store level.

Finance Costs

Interest on the bank loan and convertible debentures reduced by $50,488 for the three month period ending September 30, 2020 as a result of the reduction to the Company's bank loan balance with TD of $2.3M when compared to September 30, 2019.

OPERATING RESULTS - 9 Months ending September 30, 2019

Basis of Comparison

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

The following table shows the operating results of the Company for the nine month period ending September 30, 2020, and 2019.

Period	9 months ending September 2020		9 months ending September 2019	
Sales	$ 36,953,004	100.0%	$ 32,867,193	100.0%
Gross margin	8,413,891	22.8%	7,190,300	21.9%
Operating and administrative expense	5,068,407	13.7%	5,071,879	15.4%
Operating Margin (1)	$ 3,345,484	9.1%	$ 2,118,421	6.4%
Stores at Period End	26		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.

Sales have increased by $4.1M and average sales per store have increased by $287,918 notwithstanding the reduction in the overall number of stores operated. The increase in sales in 2020 is primarily attributed to the Government of Alberta's decision to close bars and restaurants to the public due to COVID-19 in March 2020 and recognize liquor retail as an essential service, resulting in consumers choosing liquor retailers in lieu of licensed establishments. The Government reopened limited licensed establishments in June, and the Company continues to experience increases in basket sizes and customer transactions. The Company has focused on its marketing and promotion strategies for the GCL brand and has a sustainable model to capitalize on the growth realized and focus on increased market share.

Cost of Goods Sold and Gross Margin

Margins have increased from 21.9% to 22.8% as compared to this nine month period last year. The Company strategizes the timing of Limited Time Offer purchases with in store promotions, to realize margin growth. The Company has altered its marketing, pricing and promotional strategies to maximize gross margins.

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 nine month period ended September 30, 2020, were $5.068 million, compared to $5.071 million for the same period in 2019 and are consistent with the same nine months of 2019. The savings realized by selling and closing locations are offset by the additional investment required for the purchase of items relating to the health and safety of employees and customers.

Finance Costs

Interest on the bank loan and convertible debentures reduced by $510,462 for the nine month period ending September 30, 2020 mainly 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. In addition, a reduction in the bank loan balance of $1.7M since December 31, 2019 has reduced interest on the bank loan.

FINANCING & CREDIT FACILITIES

Through TD, the Company signed a new credit agreement effective June 30, 2020. The agreement allows for total availability up to a maximum of $9,250,000, split between two facilities: 1) “operating facility” of $5,400,000 and 2) “bank loan” of $3,850,000.

The operating facility availability is calculated as the lesser of i) $5,400,000 and ii) 75% of accounts receivable to a maximum of $1,000,000, plus 70% of the value of inventory plus goods and services tax and bottle deposits, less trade payables related to liquor and unremitted source deductions. This facility is a revolving loan and is due upon demand.

The bank loan is a demand reducing facility to be repaid by quarterly payments of $300,000 over three years, beginning June 30, 2020 and its availably at September 30, 2020 is $3,250,000. Below is a summary of the utilization of the facilities. As both facilities are due upon demand, they are each classified as current liabilities under IFRS.

The nature of the agreement with TD is for the bank loan facility to be repaid over a period of three years. Presentation based on the nature of the agreement would classify $1,200,000 of the bank loan as current as it is due within 12 months and $2,050,000 would be classified as long term.

Non-IFRS Presentation of TD’s Facilities

	Sep 30, 2020	Dec 31, 2019
Current Liability:		
Operating facility loan	**$ 2,948,515**	$ 7,854,890
Current portion of bank loan	**1,200,000**	-
Total current	**4,148,515**	7,854,890
Non Current Liability:		
Bank loan	**2,050,000**	-
Total utilization of TD's Facilities	**$ 6,198,515**	$ 7,854,890

Non-IFRS Normalized Presentation of Working Capital

	Sep 30, 2020	Dec 31, 2019
Current assets	**$ 6,206,736**	$ 5,875,655
Current liabilities	**8,243,277**	10,018,138
Working capital ratio	**0.75**	0.59
Non-IFRS Current Liabilities Adjusted for the Below		
Current liabilities	**8,243,277**	10,018,138
Less:		
Non current portion of bank loan	**(2,050,000)**	-
Current portion of lease liabilities	**(1,439,806)**	(1,731,967)
Normalized current liabilities	**4,753,471**	8,286,171
Normalized working capital ratio	**1.31**	0.71

Working capital, as represented by the current ratio at September 30, 2020 is 1.31 vs 0.71 at December 31, 2019, when calculated using a non-ifrs calculation for current liabilities as calculated above. The increase of 0.60 is a result of an increase in current assets from higher inventory levels required at stores to meet increasing consumer demand, a reduction of $1.66M in total utilization of TD's facilities from December 31, 2019 to September 30, 2020 and the nature of the new agreement with TD classifying $2.05M of debt as non-current.

Current utilization on November 25, 2020 of the total availability with TD is $5.8 million. Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis.

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

CONVERTIBLE DEBENTURE

On July 3, 2019, the Company redeemed the $6,865,000 outstanding Debenture through the issuance of 180,657,895 common shares. 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. 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.

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at September 30, 2020, or November 25, 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 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 novel coronavirus pandemic has had, and continues to have, a notable impact on the Company. The Company's financial results show increased sales, driven by increased demand for liquor retail product following the onset of the crisis as a result of consumers turning to liquor retailers in lieu of licensed establishments. This trend continues into the third quarter. Additional costs were incurred for safety and sanitization measures. The full economic impact the pandemic will have on the Company, its judgements and estimates remain uncertain and is dependent on the severity and duration of the virus. In Alberta, liquor retail was immediately recognized as an essential business by the Government of Alberta and has not experienced compulsory closure as a result of the COVID-19. As at November 25, 2020, all 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 September 30, 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.

Going Concern

The going concern basis assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Based on the continued improvement of the Company’s performance and statement of financial position we are no longer including disclosure of the uncertainty of the Company as a going concern.

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” and “Operating Results – 9 Months.”

Working capital ratio is calculated as current assets divided by current liabilities, with current liabilities adjusted for a long-term potion of the bank loan and removal of current portion of lease liabilities.

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 September 2020	3 months ended September 2019	9 months ended September 2020	9 months ended September 2019
Net comprehensive income	690,782	$ 3,596,094	1,386,289	$ 2,873,373
Finance costs	91,521	151,246	325,571	836,033
Finance costs on lease liabilities	122,729	173,217	452,421	514,003
Property and equipment depreciation	77,779	111,161	240,268	333,761
Right-of-use assets depreciation	230,107	349,713	860,350	1,036,670
(Gain) loss on disposal of property and equipment	(520)	813	43,780	(1,466)
Store closure expenses	23,986	-	38,054	358
Gain on extinguishment of convertible debenture	-	(3,472,811)	-	(3,472,811)
EBITDAR	**$ 1,236,384**	**$ 909,433**	**$ 3,346,733**	**$ 2,119,921**
Rent expense	(412,899)	(440,068)	(1,268,496)	(1,294,152)
EBITDA	**$ 823,485**	**$ 469,365**	**$ 2,078,237**	**$ 825,769**

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, working capital ratio, 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, working capital ratio 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, working capital ratio, 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, working capital ratio, EBITDA, and EBITDAR may not be comparable to similar measures presented by other issuers.