



ROCKY MOUNTAIN LIQUOR

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period March 31, 2021

As at May 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated May 31, 2021.

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, 2021. 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".

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) impact from competition in the markets where the Company operates; (v) the impact of weather on its effect on consumer demand; (vi) the impact of increases in labour costs; (vii) importance of cybersecurity; (viii) the availability of financing; (ix) the ability of the Company to meet its financial obligations; (x) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (xi) the possibility of a potential decline in consumption of alcoholic beverages and products sold; (xii) the maintenance of management information systems; (xiii) the ability of the Company to retain key personnel; (xiv) the ability to maintain acceptable store sites and adapt to changing market conditions; (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 three month comparison:

- Sales increased to \$9.5M (2020 was \$9.4M) with 26 stores contributing to sales for the end of the period in 2021 versus 28 at the end of the period in 2020
- EBITDA increased by 61% to \$105,134 (2020 was \$65,468)
- Gross margin percentage increased to 22.3% (2020 was 22.0%)
- Net loss improved by 68% to \$87,108 (2020 - \$275,182)

SUBSEQUENT EVENT

Subsequent to March 31, 2021, the Company signed a new financing agreement with TD. The details are explained under the heading "Credit Agreement."

OUTLOOK

The Company continued its growth in the first quarter of 2021. The results of the rebranding strategy first conceived and implemented in 2017 have continued to propel growth and we have been able to operate all locations during the pandemic. The Company is using innovative marketing strategies to transition to a digital platform and continues to focus on providing an exceptional customer experience in-store and through social media interactions.

The increase in existing store sales and gross margins, combined with lower finance costs resulted in an improvement of EBITDA of 61% in the first quarter compared to the prior year. Loan repayments in 2020 and the low interest rate environment have resulted in significant reductions in finance costs.

Demand at our stores continued to be strong in the first quarter. Throughout January, restaurants and on-premise locations were closed as part of the COVID-19 restrictions. These establishments began reopening however are once again closed for in-person service throughout the Province. The future impact of COVID-19 is uncertain and dependent on the duration, the spread and intensity of the virus, and the administration of vaccines. Unemployment rates in Alberta are currently at 9.0%¹ and 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.

Management's top priorities include 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. We will continue to observe all government regulations and are prepared to take any required steps in response to orders to ensure the well-being of our employees and customers.

COVID – 19

Operations Update

The Company has been able to continue to operate all 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

OPERATING RESULTS - 3 Months ending March 31, 2021

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. Historically sales in the Q1 period are the lowest, having earned 21% of total sales in 2020. It is important to note that given the changes in the composition of stores of the Company,

¹ Statistics Canada, Labour Force Survey – April 2021 retrieved on May 25, 2021 from <https://www150.statcan.gc.ca/n1/daily-quotidien/210507/t003a-eng.htm>

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 March 31, 2021, and 2020.

Period	<u>3 months ending</u>		<u>3 months ending</u>	
	Mar 2021		Mar 2020	
Sales of existing stores	\$ 9,496,824	100.0%	\$ 8,942,868	94.8%
Sales of other stores (1)	-	0.0%	494,007	5.2%
Total Sales	9,496,824		9,436,875	
Gross margin	2,115,588	22.3%	2,077,831	22.0%
Operating and administrative expense	1,616,829	17.0%	1,587,293	16.8%
Operating Margin (2)	\$ 498,759	5.3%	\$ 490,538	5.2%
Stores at Period End	26		28	

Notes:

- (1) Sales of other stores are sales from stores that were not in operation in 2021.
- (2) Operating Margin has been calculated as described under "Non-IFRS Measures."

Sales

Sales have increased by \$59,949 notwithstanding the reduction in the overall number of stores operated during the 2021 period versus 2020. Sales of existing stores have increased by 6.2% as a result of the success of the GCL rebranding strategy and improvement of the customer experience, coupled with the effect of the restrictions on place on licensed establishments during the pandemic. 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.

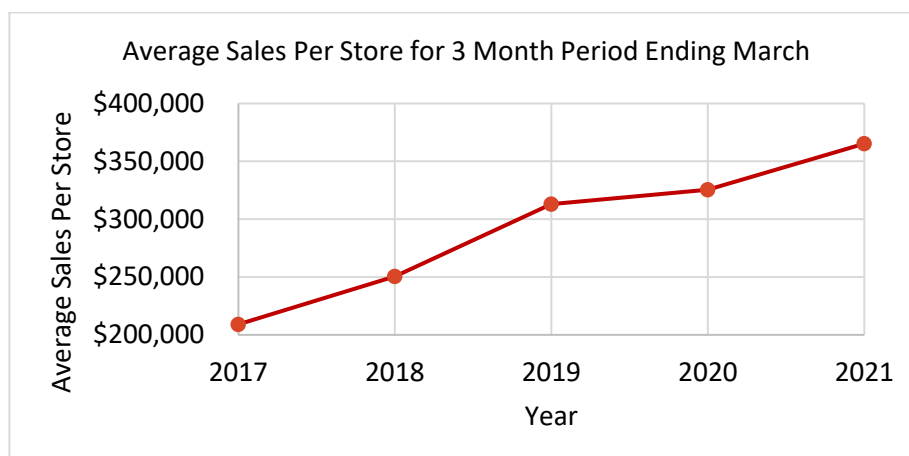
Cost of Goods Sold and Gross Margin

Margins have increased from 22.0% to 22.3% 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 strategizes its marketing, pricing and promotional strategies to maximize gross margins.

Operating and Administrative Expenses

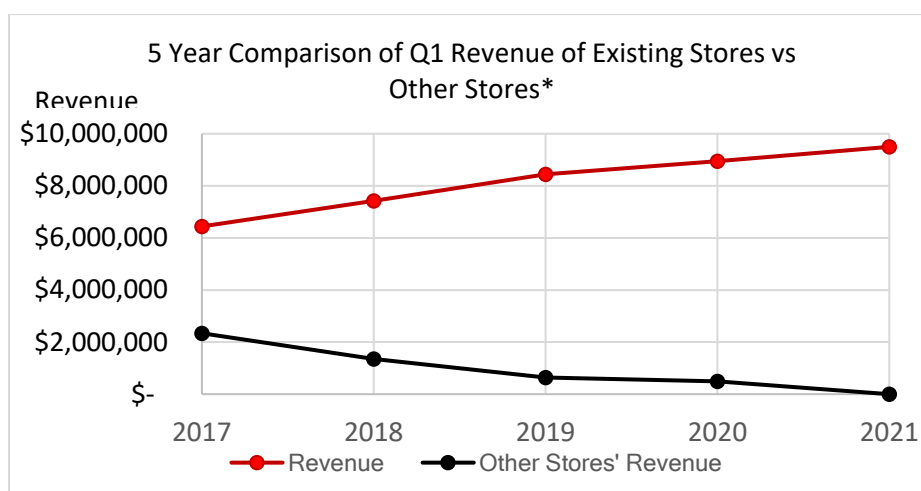
The major expenses included in operating and administrative expenses are salaries and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three month period ended March 31, 2021 are consistent with the prior year. Savings in operating costs for locations sold in 2020 are offset by increases in supplies and repairs and maintenance to existing locations to equip stores with proper safety measures to protect against COVID-19.

Sales per Store



Average sales per store is based on the average number of stores in operation during the three month period ending March. Average sales per store have been increasing since 2017 when the Company initiated its rebranding strategy to grow market share.

Five Year Comparison of Q1 Revenue from Existing Stores to Other Stores



*Other stores' revenue are the revenues from those stores no longer in operation come the end of March 31, 2021.

Existing store revenue is defined as revenues from the 26 stores in operation at the end of the period in 2021. As the company reduced its number of operating stores from 42 in 2017 to 26 in 2021, revenues of those 26 stores have increased steadily over the last 5 years as a result of the Company's focus on growing market share and growth of the GCL brand.

FINANCING & CREDIT FACILITIES

Credit Agreement

At March 31, the Company had a credit agreement providing total availability up to a maximum of \$8,050,000 split between two facilities: 1) "operating facility" of \$5,400,000 and 2) reducing "bank loan" of \$2,650,000. The

bank loan portion is a demand reducing facility to be repaid by quarterly payments of \$300,000 and will reduce over a period of two and a quarter years.

The operating facility availability was 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.

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. Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis.

The nature of the agreement with TD was 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 \$1,450,000 would be classified as long term.

Non-IFRS Presentation of TD's Facilities

	Mar 31, 2021	Dec 31, 2020
Current Liability:		
Operating facility loan	\$ 3,442,828	\$ 2,257,731
Current portion of bank loan	1,200,000	1,200,000
Total current	4,642,828	3,457,731
Non Current Liability:		
Bank loan	1,450,000	1,750,000
Total utilization of TD's Facilities	\$ 6,092,828	\$ 5,207,731

New Agreement Effective May 31, 2021

As highlighted under subsequent events, the Company signed a new agreement with TD effective May 31, 2021 providing total availability up to a maximum of \$8,050,000. The agreement is split between two facilities: 1) a demand, "operating facility" of \$5,400,000 and 2) "term loan" of \$2,650,000, amortized over a period of 39 months.

The operating facility availability is calculated as detailed above under the previous agreement however, the new agreement allows for up to \$250,000 cash-in-transit allowances as confirmed by funds on deposit with another financial institution as of reporting date, to be added to the availability calculation involving accounts receivable and inventory. Both facilities bear interest at prime plus 1.5% under the new agreement. This is a reduction from the previous agreement's rate of 2.65% on its two facilities. Interest payments are due monthly.

The previous bank loan of \$2,650,000 is now a committed reducing term facility, to be amortized over a period of 39 months. Under the new agreement \$815,384 would be classified as a current liability, with \$1,834,616 classified as long term.

The new agreement replaces the previous covenant requiring the Company to maintain a ratio of actual EBITDA to projected EBITDA, with a new debt service covenant of adjusted EBITDA - unfinanced net capital expenditures - permitted distributions - cash taxes / (scheduled principal payments+ interest), calculated based on a rolling four-quarter period.

Finance Costs

Finance costs reduced by \$55,474 for the three month period ending March 31, 2021 as a result of a reduction on the bank loan balance in 2021 over 2020 resulting in reduced interest.

Period	3 months ending Mar 2021	3 months ending Mar 2020
Finance costs	\$ 72,923	\$ 128,397

Liquidity

The Company's use of its operating line fluctuates with the seasonality of sales trends. Historically sales in the Q1 period are the lowest, having earned 21% of total sales in 2020. The Company's use of its operating facility normally peaks at the end of the first quarter and into the second quarter of the year, and is at its lowest value at the end of Q4.

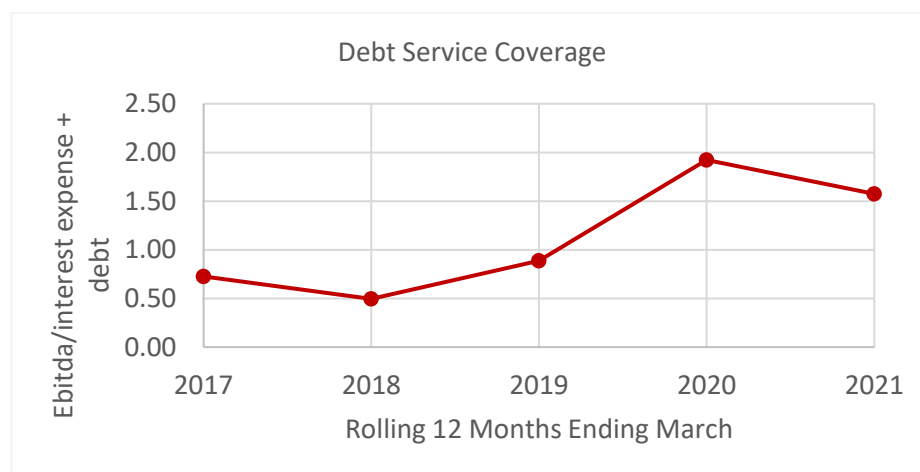
	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19
Total credit facility use	\$ 6,092,828	\$ 5,207,731	\$ 6,198,515	\$ 7,835,701	\$ 7,516,112	\$ 7,854,890	\$ 8,524,687	\$ 8,885,010

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

We 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.

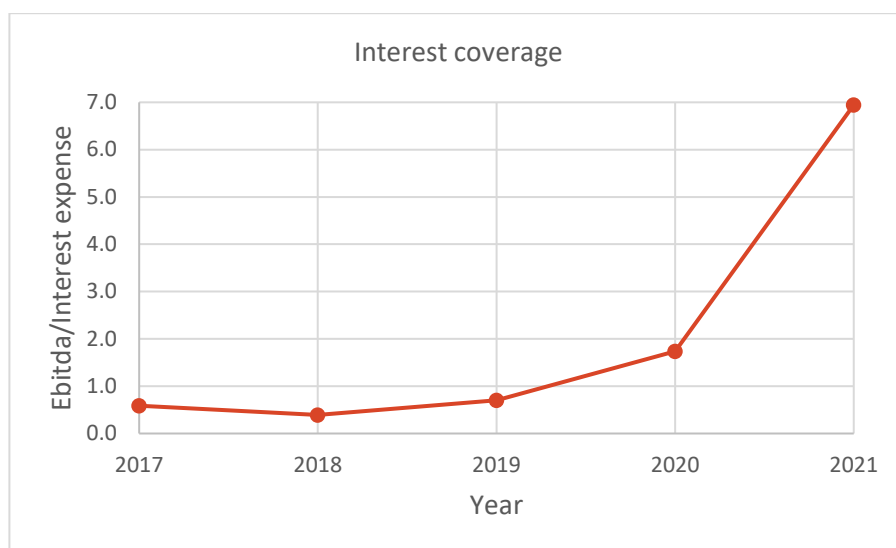
Debt Service Coverage

In 2017 the Company embarked on its plan to grow its market share, increase income from operations and rebalance its statement of financial position. Since 2017 the Company's debt service coverage ratio has steadily increased from rolling four quarters ending March 31, 2017 of 0.73 to 1.58 for the rolling four quarters ending March 31, 2021, due to increased EBITDA and simultaneous reduction of debt as a result of the Company's focused, deleveraging strategy.



Interest Coverage Ratio

The interest coverage ratio, calculated using bank loan and debenture interest payments has increased from the rolling four quarters ending March 31, 2017 of 0.60 to 6.9 for the rolling four quarters ending March, 31 2021, as a result of a reduction in funded debt, an increase in EBITDA, and the lower interest costs. The Company manages its interest rate risk through credit facility negotiations and by identifying future credit requirements based on budgeting and forecasts.



Non-IFRS Normalized Presentation of Working Capital

	Mar 31, 2021	Mar 31, 2020
Non-IFRS Current Liabilities		
Current liabilities	8,129,456	7,516,112
Less:		
Non current portion of bank loan	(1,450,000)	-
Current portion of lease liabilities	(1,553,361)	(1,741,206)
Normalized current liabilities	5,126,095	5,774,906
Normalized working capital ratio	1.07	0.95

Working capital, as represented by the current ratio at March 31, 2021 is 1.07 vs 0.95 at March 31, 2020, when calculated using the non-ifrs calculation for current liabilities above. The increase of 0.12 is a result of an increase in current assets from higher inventory levels at stores to meet increasing consumer demand, a reduction of \$1.42M in total utilization of TD's facilities from March 31, 2020 to March 31, 2021 and the nature of the new agreement with TD classifying \$1.45M of debt as non-current.

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at March 31, 2021, or May 31, 2021.

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

There are no updates to the Company's critical accounting judgements, estimates and assumptions. For further discussion, refer to the Company's annual MD&A for the year ended December 31, 2020.

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, 2021, 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; regulated competitive environment; weather, labour costs and labour market; available financing; credit facility; impact from provincial tax increases; potential decline in consumption of alcoholic beverages and products sold; importance of information and control systems; reliance on key personnel; ability to maintain acceptable store sites and adapt to changing market conditions; ability to maintain acceptable store sites and adapt to changing market conditions; 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 14, 2021 which is available at www.sedar.com.

NON-IFRS MEASURES

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, interest coverage ratio, debt service coverage ratio, existing stores' revenue, EBITDA and EBITDAR are not measures recognized

by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that these measures 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. Furthermore, the Company's method of calculating these measures may differ from the methods used by other issuers. Therefore, the Company's calculation of these measures may not be comparable to similar measures presented by other issuers.

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."

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

Interest coverage ratio is EBITDA divided by finance costs excluding accretive interest.

Debt service coverage ratio is EBITDA divided by current portion of bank loan payable plus finance costs excluding notional accretive interest.

Existing stores' revenue is defined as the revenues from the stores in operation at period end.

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	3 months ended
	Mar 2021	Mar 2020
Net comprehensive loss	\$ (87,108)	\$ (275,182)
Finance costs	72,923	128,397
Property and equipment depreciation	69,022	96,451
Right-of-use assets depreciation	264,727	329,597
Finance costs on lease liabilities	171,222	153,632
Loss on disposal of property and equipment and goodwill	5,138	44,300
Store closure expenses	2,835	14,067
EBITDAR	\$ 498,759	\$ 491,262
Rent expense	(393,625)	(425,794)
EBITDA	\$ 105,134	\$ 65,468