



# ***ROCKY MOUNTAIN LIQUOR***

**Ticker: "RUM"**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the period September 30, 2021

As at November 25, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated November 25, 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 September 30, 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](http://www.sedar.com)) and the Company's website [www.ruminvestor.com](http://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 therefrom, 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

The following table summarizes key operating and financial metrics of the Company's financial performance for the three months ended September 30, 2021, 2020 and 2019:

	3 months ended		
	Sep 2021	Sep 2020	Sep 2019
Sales	\$ 11,778,727	\$ 13,210,088	\$ 11,785,005
Sales of Existing Stores (1)	\$ 11,778,727	\$ 13,139,687	\$ 10,929,363
Gross Margin	23.1%	22.8%	22.0%
EBITDAR	\$ 1,025,249	\$ 1,236,384	\$ 909,433
Net Income*	\$ 468,109	\$ 690,782	123,283

Notes:

- (1) Sales of existing stores are sales from stores that are in operation in 2021.

The following table summarizes key operating and financial metrics of the Company's financial performance for the nine months ended September 30, 2021, 2020 and 2019:

	9 months ended		
	Sep 2021	Sep 2020	Sep 2019
Sales	\$ 33,751,721	\$ 36,953,004	\$ 32,867,193
Sales of Existing Stores (1)	\$ 33,751,721	\$ 35,828,073	\$ 30,577,071
Gross Margin	22.7%	22.8%	21.9%
EBITDAR	\$ 2,655,127	\$ 3,346,733	\$ 2,119,921
Net Income (Loss)*	\$ 928,444	\$ 1,386,289	(599,438)

Notes:

- (1) Sales of existing stores are sales from stores that are in operation in 2021.  
 (2) 2019 value for both the three and nine month is adjusted for one time gain on extinguishment of convertible debenture, \$3,472,811

## OUTLOOK

During the first half of 2020, there was a unique increase in demand realized in our retail liquor locations as other licensed premises were ordered to close to help reduce the spread of COVID-19. As the affected businesses have reopened, we have seen demand return to typical levels with significant organic sales growth over 2019. The results of the rebranding strategy first conceived and implemented in 2017 have continued to drive sales growth. The increase in existing store sales of 10.4% and operating margin of 25.3% for nine months over 2019 demonstrates the continued growth of the company. Bank loan repayments in 2020 and the low interest rate environment have resulted in significant reductions in finance costs.

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 7.6%<sup>1</sup> and it is unknown how long the Province will be experiencing high levels of unemployment. 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.

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. 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.

## OPERATING RESULTS - 3 Months ending September 30, 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. 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 September 30, 2021, 2020 and 2019.

Period	3 months ended					
	Sep 2021		Sep 2020		Sep 2019	
Sales of existing stores	\$ 11,778,727	100.0%	\$ 13,139,687	99.5%	\$ 10,929,363	92.7%
Sales of other stores (1)	-	0.0%	70,401	0.5%	855,642	7.3%
<b>Total Sales</b>	<b>11,778,727</b>		<b>13,210,088</b>		<b>11,785,005</b>	
Gross margin	2,720,959	23.1%	3,006,246	22.8%	2,595,832	22.0%
Operating and administrative expense	1,695,710	14.4%	1,770,081	13.4%	1,686,852	14.3%
<b>Operating Margin (2)</b>	<b>\$ 1,025,249</b>	<b>8.7%</b>	<b>\$ 1,236,165</b>	<b>9.4%</b>	<b>\$ 908,980</b>	<b>7.7%</b>
Stores at Period End	<b>26</b>		26		29	

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."

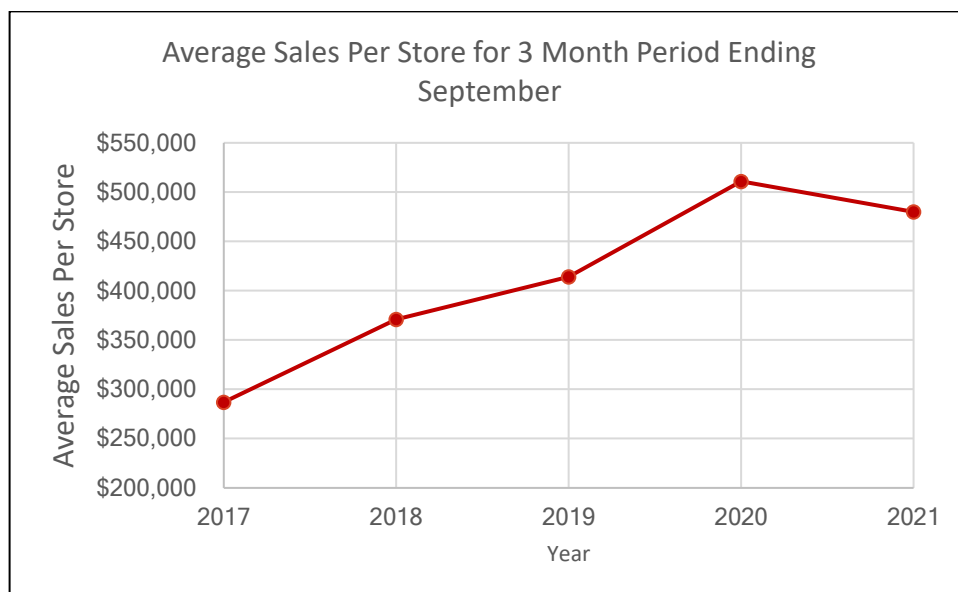
<sup>1</sup> Alberta, Economic Dashboard – November 5, 2021 retrieved on November 15, 2021 from <https://economicdashobard.alberta.ca/unemployment>

## Sales

Upon the onset of the COVID-19 pandemic in March 2020 and the closure of onsite liquor consumption establishments, there was a resulting increase in consumption of liquor in the retail sector. During 2020 and into Q1 2021 amid various openings and closings of consumption establishments, the retail sector maintained its increase in sales. During Q2 2021 and for the majority of Q3 the Alberta Government relaxed restrictions on those onsite consumption establishments, resulting in a reduction to sales from 2020 of 10.8% during the quarter. To fully assess the Company's sales trends and exclude the impact of COVID-19 on sales it is important to review pre-covid periods.

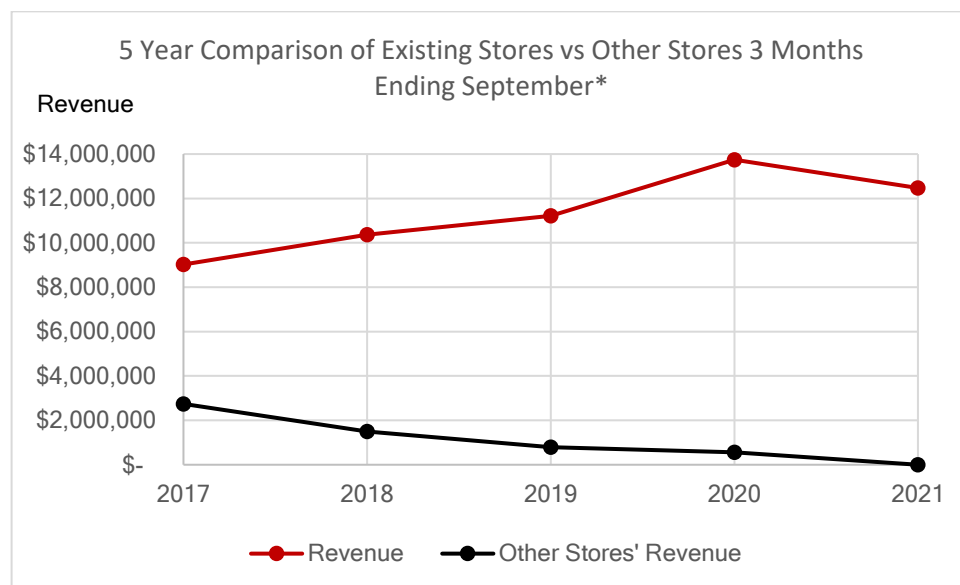
Sales of existing stores have increased by \$32,667 per store in Q3 2021 versus Q3 2019, and overall sales from existing stores increased 7.8%, as a result of the success of the GCL rebranding strategy and improvement of the customer experience. This sustained increase is the result of the Company's focus on its marketing and promotion strategies for the Great Canadian Liquor ("GCL") brand and its sustainable model to focus on increased market share.

## Sales Per Store



Average sales per store are based on the average number of stores in operation during the three months ending September. To fully assess the Company's sales trends and exclude the impact of COVID-19 on average sales per store it is important to review pre-covid periods. Average sales per store have been increasing since 2017 when the Company initiated its rebranding strategy to grow its market share. As discussed, COVID-19 had a one-time positive impact on 2020 sales, however, the Company has been achieving increases to its average sales per store since 2017. The Company has experienced overall growth of 11.3% on average sales per stores in 2021 since 2019.

### Five Year Comparison of Q3 Revenue from Existing Stores to Other Stores



\*Other stores revenue are the revenues from those stores no longer in operation at September 30, 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 over the last 5 years as a result of the Company's focus on growing market share and development of the GCL brand. 2021 existing stores revenue increased by 7.8% when compared to 2019.

### Cost of Goods Sold and Gross Margin

Margins have increased to 23.1% in Q3 2021 from 22.8% in Q3 2020 and 22.0% in Q3 2019. Margins increased over the periods as the Company refined its marketing, pricing and promotional strategies to maximize gross margins. The Company continually uses competitive pricing strategies to maintain market share.

### 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 months ended September 30, 2021, are lower than the same three months in 2020 primarily as a result of the additional investment and onetime costs required for the purchase of items relating to the health and safety of employees and customers in 2020.

## OPERATING RESULTS - 9 months ending September 30, 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. 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 nine months ending September 30, 2021, 2020 and 2019.

Period	9 months ended					
	Sep 2021		Sep 2020		Sep 2019	
Sales of existing stores	\$ 33,751,721	100.0%	\$ 35,828,073	97.0%	\$ 30,577,071	93.0%
Sales of other stores (1)	-	0.0%	1,124,931	3.0%	2,290,122	7.0%
<b>Total Sales</b>	<b>33,751,721</b>		<b>36,953,004</b>		<b>32,867,193</b>	
Gross margin	7,669,421	22.7%	8,413,891	22.8%	7,190,300	21.9%
Operating and administrative expense	5,014,294	14.9%	5,068,407	13.7%	5,071,879	15.4%
<b>Operating Margin (2)</b>	<b>\$ 2,655,127</b>	<b>7.9%</b>	<b>\$ 3,345,484</b>	<b>9.1%</b>	<b>\$ 2,118,421</b>	<b>6.4%</b>
Stores at Period End	26		26		29	

Notes:

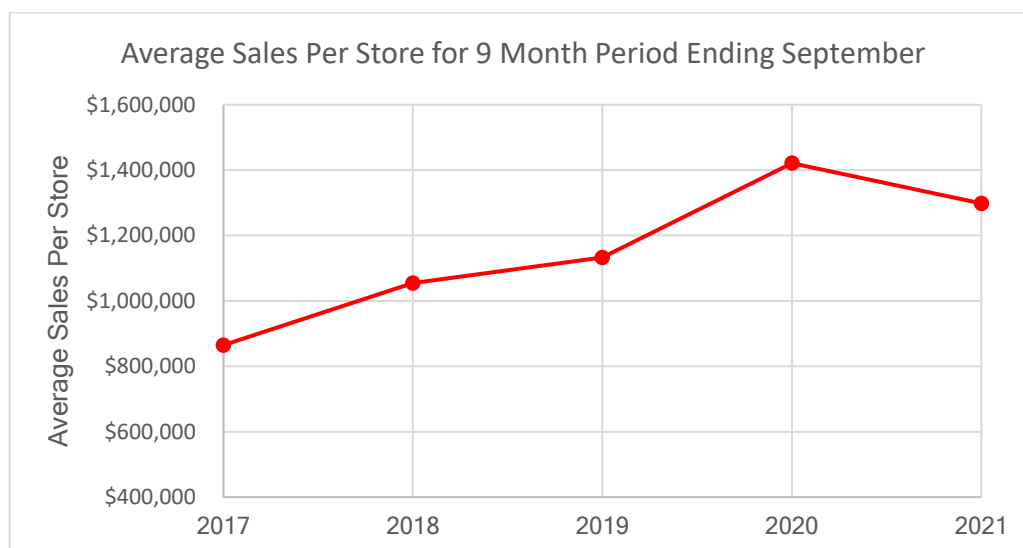
- (1) Sales of other stores are sales from stores that were not in operation in 2021.
- (2) Operating Margin has been calculated as described under "Non-IFRS Measures."

### Sales

Upon the onset of the COVID-19 pandemic in March 2020 and the closure of onsite liquor consumption establishments, there was a resulting increase in consumption of liquor in the retail sector. During 2020 and into Q1 2021 amid various openings and closings of consumption establishments, the retail sector maintained its increase in sales. During Q2 2021 and for the majority of Q3 the Alberta Government relaxed restrictions on those onsite consumption establishments, resulting in a reduction to sales from 2020 of 8.6% during the nine months. To fully assess the Company's sales trends and exclude the impact of COVID-19 on sales it is important to review pre-covid periods.

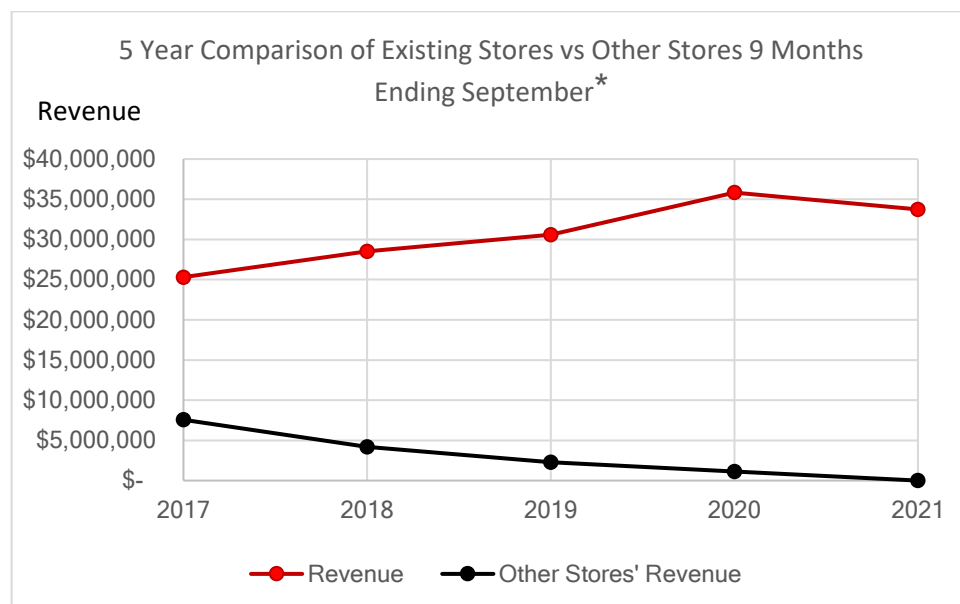
Sales per store increased by \$164,792 per store in Q3 2021 versus Q3 2019, and overall sales of existing stores increased by 10.4% as a result of the continued growth as a result of the GCL rebranding strategy and improvement of the customer experience.

### Sales per Store



Average sales per store are based on the average number of stores in operation during the nine months ending September. Average sales per store have been increasing since 2017 when the Company initiated its rebranding strategy to grow its market share. 2020 average sales per store were impacted by the closing of onsite liquor consumption establishments at the end of Q1 2020 and well into Q3 2020. The Company has experienced overall growth in average sales per store of 14.5% in 2021 since 2019.

### Five Year Comparison of Q3 Revenue from Existing Stores to Other Stores



\*Other stores' revenue is the revenues from those stores no longer in operation on September 30, 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 over the last 5 years as a result of the Company's focus on growing market share and growth of the GCL brand. 2021 existing stores increased by 10.4% when compared to 2019.

### Cost of Goods Sold and Gross Margin

Margins have remained consistent at 22.7% in 2021 compared to 22.8% for the same period in 2020. Gross Margins have increased when compared to the 21.9%. Margins fluctuated between the periods as the Company refined its marketing, pricing and promotional strategies to maximize gross margins. The Company continually uses competitive pricing strategies to maintain market share.

### 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 nine months ended September 30, 2021, are lower than the same period in 2020 as a result of the additional investment and onetime costs required for the purchase of items relating to the health and safety of employees and customers in 2020. Savings in operating costs for locations sold in 2019 and 2020 are offset by increases in advertising and travel as the company begins to resume normal operations.

## FINANCING & CREDIT FACILITIES

### Credit Agreement

On May 31, 2021, through the Toronto-Dominion Bank ("TD"), the Company executed a credit agreement providing total availability up to a maximum of \$8,050,000 split between two facilities: 1) a demand, "operating facility" of \$5,400,000 and 2) a "term loan" of \$2,650,000. Both facilities bear interest at prime plus 1.5% per annum.



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 plus up to \$250,000 cash-in-transit allowances. Interest only payments are due monthly.

The term loan is amortized over 39 months, with monthly payments of interest and principal.

#### Summary Credit Facilities

	Sep 30, 2021	Dec 31, 2020	Sep 30, 2020	Sep 30, 2019
<b>Current Liability:</b>				
Operating facility loan	\$ 2,011,862	\$ 2,257,731	\$ 2,948,515	\$ 8,524,687
Bank loan	815,388	2,950,000	3,250,000	-
<b>Total current</b>	<b>2,827,250</b>	5,207,731	6,198,515	8,524,687
<b>Long term portion of bank loan</b>				
	1,582,507	-	-	-
<b>Total Credit Facility Use</b>	<b>\$ 4,409,757</b>	\$ 5,207,731	\$ 6,198,515	\$ 8,524,687

Credit facilities are held by TD and secured by a general security agreement representing a first charge on all assets. Drawdowns and repayments are disclosed on the consolidated statements of cash flows on a net basis. The agreement includes a debt service covenant of adjusted EBITDA less unfinanced net capital expenditures less permitted distributions less cash taxes / (scheduled principal payments plus interest), calculated based on a rolling four-quarter period, requiring the Company to maintain a ratio of actual earnings before interest, taxes, depreciation, and amortization (EBITDA) to projected EBITDA, on a standalone quarterly basis. As of September 30, 2021, the Company complies with this covenant.

#### **Finance Costs on Credit Facility**

Finance costs on the credit facility were reduced by \$34,892 for the three months ending September 30, 2021, and \$116,196 for the nine months over September 2020 mainly as a result of a reduction of \$1.8M in utilization of credit facilities from September 2020 to September 2021. Finance costs on the credit facility were further reduced as a result of a reduction to interest rates under the new agreement implemented May 31, 2021 with TD, reducing interest rates from 1 prime plus 2.65% to prime plus 1.5%.

2019 included interest costs associated with a convertible debenture of \$4,483 for the 3 months ending Sep 2019 and \$402,092 for the 9 months. When reviewing the impact to bank loan interest as a result of a reduction in total utilization of credit facilities of \$4.1M from September 2019 to September 2021, bank loan interest decreased by \$90,134 for the 3 months and \$224,566 for the 9 months.

Period	3 months ended			9 months ended		
	Sep 2021	Sep 2020	Sep 2019	Sep 2021	Sep 2020	Sep 2019
Bank loan interest	\$ 56,629	\$ 91,521	\$ 146,763	\$ 209,375	\$ 325,571	\$ 433,941
Convertible debenture and notional interest	-	-	4,483	-	-	402,092
<b>Finance costs</b>	<b>\$ 56,629</b>	<b>\$ 91,521</b>	<b>\$ 151,246</b>	<b>\$ 209,375</b>	<b>\$ 325,571</b>	<b>\$ 836,033</b>

#### **Liquidity**

The Company's use of its operating line fluctuates with the seasonality of sales trends, which 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.

Total credit facility use from September 2020 to September 2021 has reduced by \$1.79M as a result of debt repayments.

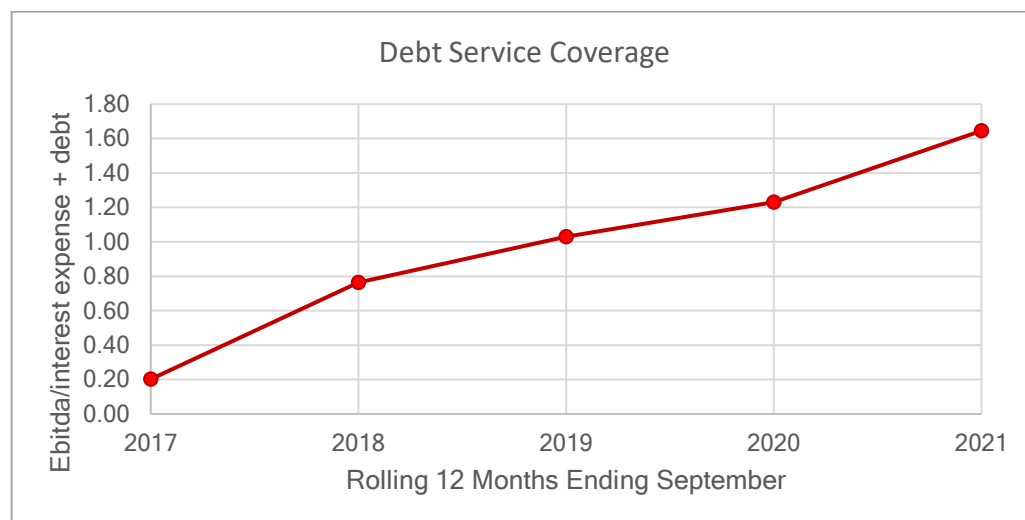
	<u>Q3 Sep 2021</u>	<u>Q2 Jun 2021</u>	<u>Q1 Mar 2021</u>	<u>Q4 Dec 2020</u>	<u>Q3 Sep 2020</u>	<u>Q2 Jun 2020</u>	<u>Q1 Mar 2020</u>	<u>Q4 Dec 2019</u>
Total credit facility use	\$ 4,409,757	\$ 5,889,709	\$ 6,092,828	\$ 5,207,731	\$ 6,198,515	\$ 7,835,701	\$ 7,516,112	\$ 7,854,890

The current use of the credit facility is for investing in inventory, property and equipment, and to fund 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.

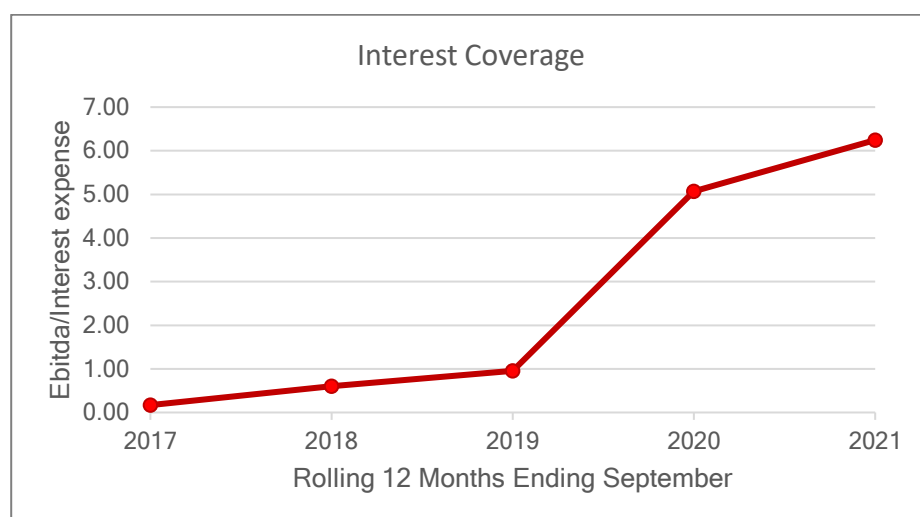
### ***Debt Service Coverage***

In 2017 the Company embarked on its plan to grow its market share, increase income from operations and improve its balance sheet. Since 2017 the Company's debt service coverage ratio has steadily increased from rolling four quarters ending September 31, 2017, of 0.20 to 1.64 for the rolling four quarters ending September 30, 2021. This is attributed 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 September 31, 2017, of 0.17 to 6.24 for the rolling four quarters ending September 30, 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 Calculation of Working Capital**

	Sep 30, 2021	Dec 31, 2020
Current assets	\$ 5,950,946	\$ 5,504,331
Non-IFRS Current Liabilities		
Current Liabilities	5,171,441	7,394,248
Less:		
Current portion of lease liabilities	(1,583,725)	(1,551,951)
Normalized current liabilities	3,587,716	5,842,297
Normalized working capital ratio	1.66	0.94

Working capital, as represented by the current ratio at September 30, 2021, is 1.66 vs 0.94 on December 31, 2020, when calculated using the non-IFRS calculation for current liabilities, removing lease liabilities from the calculation. The increase of 0.72 is a result of the new agreement with TD classifying \$1.6M of debt as non-current combined with an increase in current assets of \$446,615 mainly due to an increase in inventory.

### **OFF BALANCE SHEET ARRANGEMENTS**

There were no off-balance sheet arrangements as of September 30, 2021, or November 25, 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 September 30, 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; the 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](http://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” 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 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			9 months ended		
	Sep 2021	Sep 2020	Sep 2019	Sep 2021	Sep 2020	Sep 2019
Net comprehensive income	\$ 468,109	\$ 690,782	\$ 3,596,094	\$ 928,444	\$ 1,386,289	\$ 2,873,373
Finance costs	56,629	91,521	151,246	209,375	325,571	836,033
Property and equipment depreciation	69,698	77,779	111,161	208,843	240,268	333,761
Right-of-use assets depreciation	264,727	230,107	349,713	794,182	860,350	1,036,670
Finance costs on lease liabilities	165,769	122,729	173,217	505,495	452,421	514,003
Loss on disposal of property and equipment and goodwill	317	(520)	813	5,953	43,780	(1,466)
Store closure expenses	-	23,986	-	2,835	38,054	358
Gain on extinguishment of convertible debenture	-	-	(3,472,811)	-	-	(3,472,811)
<b>EBITDAR</b>	<b>\$ 1,025,249</b>	<b>\$ 1,236,384</b>	<b>\$ 909,433</b>	<b>\$ 2,655,127</b>	<b>\$ 3,346,733</b>	<b>\$ 2,119,921</b>
Rent expense	(407,893)	(412,899)	(440,068)	(1,193,740)	(1,268,496)	(1,294,152)
<b>EBITDA</b>	<b>\$ 617,356</b>	<b>\$ 823,485</b>	<b>\$ 469,365</b>	<b>\$ 1,461,387</b>	<b>\$ 2,078,237</b>	<b>\$ 825,769</b>