Rocky Mountain Liquor

Ticker: “RUM”

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the period June 30, 2023

As at August 29, 2023

MANAGEMENT’S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated August 29, 2023.

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 June 30, 2023. 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) impact of economic events affecting discretionary consumer spending; (ii) the impact of increases in labour costs; (iii) the possibility of a potential decline in consumption of alcoholic beverages and products sold; (iv) Cybersecurity; (v) impact from competition in the markets where the Company operates; (vi) the impact of weather on its effect on consumer demand; (vii) the impact of supplier disruption or delays; (viii) the impact of the pandemic; (ix) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (x) the ability of the Company to retain key personnel; (xi) the availability of financing; (xii) the ability of the Company to meet its financial obligations; (xiii) the maintenance of management information systems; (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 and six months ended June 30, 2023, and 2022:

	3 months ended		6 months ended	
	Jun 2023	**Jun 2022**	**Jun 2023**	**Jun 2022**
Sales	**$ 10,921,339**	$ 11,053,602	**$ 19,303,571**	$ 19,696,952
Sales of Existing Stores (1)	**$ 10,921,339**	$ 10,865,473	**$ 19,303,571**	$ 19,336,176
Average Sales Per Existing Store (2)	**$ 436,854**	$ 417,903	**$ 772,143**	$ 743,699
Gross Margin	**24.2%**	22.7%	**23.6%**	22.6%
EBITDA (3)	**$ 517,683**	$ 441,659	**$ 424,878**	$ 363,235
Net Income	**$ 312,689**	$ 230,105	**$ 22,429**	$ 18,516
Number of Stores in Operating at Period End	**25**	26	**25**	26
Total Credit Facility Use	**$ 3,651,048**	$ 5,447,928	**$ 3,651,048**	$ 5,447,928

Notes:

(1) Sales of existing stores are sales from stores that are in operation in 2023.
(2) Average sales per existing store is based on sales of existing stores.
(3) Calculation of EBITDA is described under the heading "Non-IFRS Measures."

Three month comparison:

- Sales of existing stores increased by $55,866 or 1% to $10.92M (2022 $10.87M)
- Average sales per existing store increased by $18,951 per store or 5% to $436,854 (2022 $417,903)
- Gross margin increased by 7% to 24.2% (2022 22.7%)
- EBITDA increased by 76,024 or 17% to $517,683 (2022 $441,659)
- Net income increased by $82,584 or 36% to $312,689 (2022 $230,105)

Six month comparison:

- Sales of existing stores decreased by $32,605 or less than 1% to $19.30M (2022 $19.34M)
- Average sales per existing store increased by $28,444 per store or 4% to $772,143 (2022 $743,699)
- Gross margin increased by 4% to 23.6% (2022 22.6%)
- EBITDA increased by $61,643 or 17% to $424,878 (2022 $363,235)
- Net income increased by $3,913 or 21% to $22,429 (2022 $18,516)
- Total credit facility use reduced by $1.8M or 33% to $3.65M (2022 $5.45M)

OUTLOOK

EBITDA for the three and six month period ending Q2 2023 outperformed 2022 by 17% during a time in which inflation remains persistently high. This has allowed the Company to reduce debt by $1,796,880 in the last 12 months, improving the balance sheet position and helping offset interest costs from increases in the prime rate. The Company remains dedicated to reducing debt and related interest costs, while identifying opportunities for increasing shareholder value.

ATB Financial released their quarterly Alberta Economic Outlook in June 2023 and noted the following:

> "Alberta's economy is forecast to grow by 2.4% in 2023 followed by 2.2% in 2024. Although slower than the 5.1% pace set last year, Alberta is expected to be one of Canada's growth leaders. In the fourth quarter of 2022, Alberta's year-over-year population growth clocked in at 3.7%, the highest rate since 1982 and a full percentage point above the national increase. From retail to construction, the influx of residents is helping to support a wide range of economic activity while also filling some of the labour shortages faced by Alberta's employers. While the Alberta economy is doing well and better than most other parts of the country, the lingering effects of elevated inflation and the still-to-come full impact of high interest rates will pose challenges for many Alberta families and businesses.[1]"

The Great Canadian Liquor brand is strategically focused on providing and exceptional customer experience while maintaining competitive pricing. The Company continues to adapt to changing economic conditions.

The Company is continually evaluating its marketing plans to ensure that the strategies are generating and maintaining brand awareness and brand engagement as well as driving customer traffic to its stores. Management will continue focusing on improving category management through standardization of store layouts, pricing strategies and a strong promotional focus.

OPERATING RESULTS – 3 Months ending June 30, 2023

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.

[1] ATB Alberta Economic Outlook, June 8, 2023, retrieved on August 17, 2023, from https://www.atb.com/siteassets/pdf/company/insights/outlook/economic-outlook-june-2023.pdf

The following table shows the sales and operating results of the Company for the three months ending June 30, 2023, and 2022.

Period	3 months ended			
	Jun 2023		Jun 2022	
Sales of existing stores	**$ 10,921,339**	100.0%	$ 10,865,453	98.3%
Sales of other stores (1)	**-**	0.0%	188,149	1.7%
Total Sales	**10,921,339**		11,053,602	
Average sales per exisiting store (2)	**436,854**		417,902	
Gross margin	**2,648,117**	24.2%	2,510,975	22.7%
Operating and administrative expense	**1,794,184**	16.4%	1,757,151	15.9%
Operating Margin (3)	**$ 853,933**	7.8%	$ 753,824	6.8%
Stores at Period End	**25**		26	

Notes:

(1) Sales of other stores are sales from stores that are not in operation in 2023.
(2) Average sales per existing store is based on sales of existing stores.
(3) Operating Margin has been calculated as described under "Non-IFRS Measures."

Sales

The Company sold an underperforming store in Q3 2022. Sales of existing stores for the three months ending June 30, 2023, are higher than the same period in 2022, with an increase to average sales per existing store of 4% from June 30, 2023, over June 30, 2022. The positive sales increase is primarily due to inflationary pressures on pricing.

Cost of Goods Sold and Gross Margin

Margins are higher at 24.2% in 2023 compared to 22.7% in 2022 as management has been focusing on its marketing, pricing, and promotional strategies to support profitable 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 June 30, 2023, are slightly higher than 2022 due to inflationary pressures and rising costs of professional fees, insurance, and property taxes.

OPERATING RESULTS - 6 Months ending June 30, 2023

The following table shows the sales and operating results of the Company for the six months ending June 30, 2023, and 2022.

Period	6 months ended			
	Jun 2023		Jun 2022	
Sales of existing stores	**$ 19,303,571**	100.0%	$ 19,336,176	98.2%
Sales of other stores (1)	-	0.0%	360,776	1.8%
Total Sales	**19,303,571**		19,696,952	
Average sales per existing store (2)	**772,143**		743,699	
Gross margin	**4,562,307**	23.6%	4,446,461	22.6%
Operating and administrative expense	**3,463,626**	17.9%	3,399,993	17.3%
Operating Margin (3)	**$ 1,098,681**	5.7%	$ 1,046,468	5.3%
Stores at Period End	**25**		26	

Notes:

(1) Sales of other stores are sales from stores that are not in operation in 2023.
(2) Average sales per existing store is based on sales of existing stores.
(3) Operating Margin has been calculated as described under "Non-IFRS Measures."

Sales

The Company sold an underperforming store in Q3 2022. Sales of existing stores for the six month period ending June 30, 2023 are less than 1% lower than the same period in 2022. For the first two months in 2022, restrictions were in place to on-site liquor consumption establishments resulting in a positive effect on retail liquor sales in that period. As restrictions were removed February 2022, there was subsequent decrease to retail liquor sales in the first quarter of 2023. Average sales per existing store increased by 3% for the six month period ending June 30, 2023 over June 30, 2022 primarily due to inflationary pressures on pricing.

Cost of Goods Sold and Gross Margin

Margins are higher at 23.6% for the six month period in 2023 compared to 22.6% in 2022 as management has been focusing on its marketing, pricing, and promotional strategies to support profitable 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 six months ended June 30, 2023, are 1% higher than 2022 due to inflationary pressures and rising costs of professional fees, insurance, and property taxes and an increase in travel costs as store support teams are more active in the 2023 since covid restrictions have lifted.

FINANCING AND CREDIT FACILITIES

Credit Agreement

Through the Toronto-Dominion Bank ("**TD**"), the Company has a credit agreement providing total availability up to a maximum of $8,050,000 split between two facilities: (i) a demand, "operating facility" of $5,400,000; and (ii) a "term loan" of $2,650,000. Both facilities bear interest at prime plus 1.25% 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 was initially amortized over 39 months, due August 31, 2024, with monthly payments of interest and principal. On November 1, 2022, the Company extended the term loan with TD a further 12 months, to August 30, 2025. The extension did not result in a loan modification under IFRS 9.

Summary of Credit Facilities

	Jun 30, 2023	Dec 31, 2022	Jun 30, 2022
Current Liability:			
Operating facility loan	**$ 2,430,290**	$ 1,622,322	$ 3,635,343
Bank loan	**536,992**	519,487	801,906
Total current	**2,967,282**	2,141,809	4,437,249
Long term portion of bank loan	**683,766**	952,005	1,010,679
Total Credit Facility Use	**$ 3,651,048**	$ 3,093,814	$ 5,447,928

Both facilities are 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 credit agreement includes a 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. As at June 30, 2023, the Company is in compliance with this covenant.

Current use of the credit facility is for investing in inventory, property, and equipment.

Finance Costs on Credit Facility

Period	**3 months ended**		**6 months ended**	
	Jun 30, 2023	Jun 30, 2022	**Jun 30, 2023**	Jun 30, 2022
Finance costs	**$ 81,500**	$ 63,584	**$ 154,038**	$ 109,197

Finance costs on the credit facility increased by $17,916 for the three months ending June 30, 2023, and $44,841 for the six month period as a result of increasing prime interest, offset by the repayment of debt. Prime at June 30, 2022 was 3.70% and increased incrementally to 6.95% by the end of June 30, 2023. To reduce the impact from rising interest rates, the Company reduced debt by $1,796,880 from June 30, 2022, to June 30, 2023. In addition, the Company's interest rate reduced to prime + 1.25% effective September 30, 2022, from prime + 1.50%.

Liquidity

The Company's use of its operating line fluctuates with the seasonality of sales trends. The Company's use of its operating facility normally peaks at the end of the second quarter of the year and is at its lowest value at the end of Q4.

	Q2 Jun 2023	Q1 Mar 2023	Q4 Dec 2022	Q3 Sep 2022	Q2 Jun 2022	Q1 Mar 2022	Q4 Dec 2021	Q3 Sep 2021
Total credit facility use in (000's)	**$ 3,651**	$ 3,658	$ 3,094	$ 3,838	$ 5,448	$ 4,670	$ 4,065	$ 4,410

Current use of the credit facility is for investing in inventory, property, and equipment.

Non-IFRS Normalized Presentation of Working Capital

	Period Ended Jun 30, 2023	Period Ended Jun 30, 2022
Current assets	$ 6,142,963	$ 7,014,989
Non-IFRS Current Liabilities		
Current liabilities	4,855,929	6,328,289
Less:		
Current portion of lease liabilities	(1,374,983)	(1,491,166)
Normalized current liabilities	3,480,946	4,837,123
Normalized working capital ratio	**1.76**	1.45

Working capital, as represented by the current ratio at June 30, 2023, is 1.76 vs 1.45 on June 30, 2022, when calculated using the non-IFRS calculation for current liabilities, removing lease liabilities from the calculation. The increase of 0.31 for 2023 over 2022 is a result of a reduction in overall debt as a result of the Company's focused deleveraging strategy.

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at June 30, 2023, or August 29, 2023.

PROPOSED TRANSACTIONS

There were no proposed transactions at June 30, 2023, or August 29, 2023 that have not been disclosed.

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, 2022.

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 June 30, 2023, 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 25, 2023, 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" and "Operating Results – 6 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.
Existing stores' revenue is defiend as the reveneus from the stores in operation at year 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 share-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. 2023 includes two leases and 2022 include a single lease that has its rent expense included in operating and administrative expenses rather than in finance costs on lease liabilities and right of use assets depreciation due to the terms of that lease. The calculation for EBITDAR has total cash rent payments made in the period, removed. Management believes that, in addition to income or loss, EBITDA and EBITDAR are useful supplemental measures of performance.

Existing stores' revenue is defiend as the reveneus from the stores in operation at period end.

Period	**3 months ended**		**6 months ended**	
	Jun 2023	Jun 2022	**Jun 2023**	Jun 2022
Net comprehensive income	$ 312,689	$ 230,105	$ 22,429	$ 18,516
Finance costs	81,500	63,584	154,038	109,197
Property and equipment depreciation	61,254	63,713	116,912	126,942
Right-of-use assets depreciation	250,472	231,755	500,944	463,512
Finance costs on lease liabilities	146,558	163,307	293,116	326,613
Loss on disposal of property and equipment and goodwill	1,460	1,360	2,277	1,688
Store closure expenses	-	-	8,965	-
Share-based compensation	-	59,237	-	59,237
EBITDAR	**$ 853,933**	**$ 813,061**	**$ 1,098,681**	**$ 1,105,705**
Rent expense	(336,250)	(371,402)	(673,803)	(742,470)
EBITDA	**$ 517,683**	**$ 441,659**	**$ 424,878**	**$ 363,235**