



ROCKY MOUNTAIN LIQUOR

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period March 31, 2024

As at May 23, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated May 23, 2024.

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 interim condensed consolidated financial statements and accompanying notes of the Company for the 3 months ended March 31, 2024 and the Company's 2023 audited annual consolidated financial statements and notes thereto for the years ended December 31, 2023 and 2022 (the "Annual Financial Statements"). 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 interim condensed consolidated financial statements and the notes thereto have been prepared in accordance with IFRS Accounting Standards ("IFRS") and are reported in Canadian dollars. References to notes are to notes of the interim condensed consolidated financial statements unless otherwise stated.

Throughout this MD&A, references are made to "Adjusted EBITDA", "Debit service coverage ratio", "EBITDA", "EBITDAR", "Gross margin", "Interest coverage ratio", "Non-recurring items", "Normalized current liabilities", "Normalized working capital ratio", "Operating margin", "Operating margin before non-recurring items", and "Operating margin as a percentage of sales". 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.sedarplus.com) and 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 margins due to pricing strategy; (iii) the ability to purchase inventory at a discount; (iv) ongoing impact from price inflation; and (v) 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 Company's ability to secure financing to suit its strategy; (iv) the Company's future operating and financial results; (v) treatment under governmental regulatory regimes, tax, and other laws; and (vi) the ability to attract and retain employees for the Company.

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 from competition in the markets where the Company operates; (ii) the possibility of a potential decline in consumption of alcoholic beverages and products sold; (iii) impact of economic events affecting discretionary consumer spending; (iv) the impact of weather on its effect on consumer demand; (v) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (vi) cybersecurity; (vii) the impact of increases in labour costs; (viii) the impact of supplier disruption or delays; (ix) the ability of the Company to retain key personnel; (x) the availability of financing; (xi) the ability of the Company to meet its financial obligations; (xii) the maintenance of management information systems; (xiii) the ability to maintain acceptable store sites and adapt to changing market conditions; (xiv) market volatility and share price; and (xv) 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.

OVERALL PERFORMANCE: KEY OPERATING AND FINANCIAL METRICS

Key operational and financial highlights, quarter over quarter 3 months comparison:

	3 months ended	
	March 2024	March 2023 Restated ⁽¹⁾
Sales	\$ 8,445,394	\$ 8,612,540
Gross margin ⁽²⁾	22.8%	22.2%
Net comprehensive loss ⁽³⁾	\$ (365,581)	\$ (290,258)
EBITDAR ⁽²⁾	\$ 60,579	\$ 295,899

Notes:

- (1) The Company previously presented under cost of sales the net amount of bottle deposit charges collected from customers and the bottle deposits paid to suppliers. The Company has determined that the correct presentation is to show the collections and payments on a gross basis in sales. For the 3 months ended, refer to the "CONDENSED QUARTERLY INFORMATION" heading below in this report for reconciliation of previously reported sales to restated sales.
- (2) The calculation of Gross margin and EBITDAR is described under the heading "Non-IFRS Measures" section below.
- (3) 'Net Loss' was used in previous reports but changed to 'Net comprehensive loss' in this year's report to be consistent with the wording used throughout this report and in the Company's unaudited interim condensed consolidated financial statements.

Gross margin percentage for the 3 months ended March 31, 2024, is higher than the same 3 month period in 2023 despite lower sales, as management remained focused on providing customers with an exceptional in-store experience. The company consistently reviews and refines its marketing strategies, ensuring their efficacy in both establishing and sustaining brand recognition and engagement, while also bolstering foot traffic to our retail stores.

Net comprehensive loss is higher and EBITDAR is lower for the 3 months ended March 31, 2024, compared to the same 3 months in 2023, primarily due to higher operating and administrative expenses partially offset by an income tax recovery.

OUTLOOK

The Great Canadian Liquor brand is strategically focused on providing an exceptional customer experience while maintaining competitive pricing. The Company continues to adapt to changing economic conditions however the persistent presence of elevated inflation rates and interest levels has notably impacted consumer spending patterns.

A recent survey conducted by the Bank of Canada, published on April 1, underscored the enduring strain felt by consumers due to the dual challenges of inflation and high interest rates throughout the initial quarter of 2024. Despite these adversities, there's a discernible but gradual uptick in consumer sentiment regarding the future economic outlook, driven partly by anticipations of forthcoming interest rate adjustments slated for 2024¹.

In alignment with strategic imperatives, a decision was made in April 2024 to close one underperforming store. This action reflects the company's commitment to prudent resource allocation and operational optimization, reinforcing its proactive stance in adapting to market dynamics.

Management will continue in 2024 to focus on improving category management through pricing strategies and a strong promotional focus. During 2024 management will also implement the Company's new point-of-sale system designed to streamline operations, empower team members, and elevate the overall customer experience.

OPERATING AND QUARTERLY RESULTS - 3 Months ended March 31, 2024

Income and Cash flows

The following table is a summary of select quarterly results for the Company for the 3 months ended March 31, 2024 and 2023:

	3 months ended			
	March 2024		March 2023 Restated ⁽¹⁾	
Sales	\$ 8,445,394		\$ 8,612,540	
Gross margin ⁽²⁾	1,923,990	22.8%	1,914,191	22.2%
Operating and administrative expense	1,894,255	22.4%	1,669,442	19.4%
Operating margin ⁽²⁾	\$ 29,735	0.4%	\$ 244,749	2.8%
Non-recurring items ⁽²⁾	66,904	0.8%	-	0.0%
Operating margin before non-recurring items ⁽³⁾	\$ 96,639	1.1%	\$ 244,749	2.8%
Cash flow used in operating activities	\$ (703,827)		\$ (313,517)	
Cash flow used in investing activities	(57,953)		(114,609)	
Cash flow from financing activities	\$ 734,902		\$ 373,048	

Notes:

- (1) The Company previously presented under cost of sales the net amount of bottle deposit charges collected from customers and the bottle deposits paid to suppliers, The Company has determined that the correct presentation is to show the collections and payments on a gross basis in sales. For the 3 months ended, refer to the "CONDENSED QUARTERLY INFORMATION" heading below in this report for reconciliation of previously reported sales to restated sales.
- (2) Gross margin, Operating margin and Non-recurring items have been calculated as described under "Non-IFRS Measures" section below.
- (3) Operating margin before non-recurring items is adjusted to remove non-recurring costs and has been calculated as described under "Non-IFRS Measures."

¹. Bank of Canada Survey of Consumer Expectations - April 1, 2024, retrieved on May 8, 2024, from <https://www.bankofcanada.ca/2024/04/canadian-survey-of-consumer-expectations-first-quarter-of-2024/>.

Sales

Sales for the 3 months ended March 31, 2024, are lower than the same 3 month period in 2023, primarily due to increased competition in certain markets and declining Alberta consumer confidence in March regarding the economy². 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, representing 20% of total sales in the year.

Cost of Goods Sold and Gross Margin

Margins are higher at 22.8% in 2024 compared to 22.2% for the same period in 2023. This improvement is attributed to our strategic emphasis on marketing, pricing, and promotional strategies. By implementing competitive pricing strategies, the Company effectively supported profitable growth, thereby enhancing our gross margins.

Operating and administrative expenses

The main expenses included in operating and administrative costs are salaries and location-related expenses like utilities, property taxes, and insurance. For the three months ended March 31, 2024, total operating and administrative expenses are higher than the same period in 2023. This increase can be attributed to higher salary expenses resulting from annual staff salary increments. Additionally, there's a rise in utility expenses due to new, higher-rate contracts signed in 2023. Moreover, there's an uptick in non-recurring office expenses associated with the implementation of the Company's new point-of-sale system, along with increased non-recurring professional expenses linked to shareholder agreements, previously disclosed in a Company press release on March 15, 2024.

Cash flow used in operating activities

Cash flow used in operating activities was higher for the 3 months ended March 31, 2024, compared to the same period ended in 2023, primarily due to a higher net comprehensive loss and higher changes in non-cash working capital as a result of an increase in accounts receivable for the period ended March 31, 2024.

Cash flow used in investing activities

Cash flow used in investing activities was lower for the 3 months ended March 31, 2024, compared to the same period ended in 2023, due to fewer property plant and equipment additions during the period ended March 31, 2024. The first 3 months ended March 31, 2023, were higher due to the acquisition of various property and equipment assets from a competitor store.

Cash flow from financing activities

Cash flow from financing activities was higher for the 3 months ended March 31, 2024, compared to the same period ended in 2023, primarily due to additional uses of the operating facility due to a higher net comprehensive loss for the 3 months ended March 31, 2024.

². Alberta Weekly Economic Review – April 26, 2024, retrieved on May 8, 2024, from <https://open.alberta.ca/dataset/f3e5623b-2389-46b7-b2cc-fb32cf473f0b/resource/595fe15d-a6eb-4070-98d0-3994da445d7a/download/tbf-weekly-economic-review-2024-04-26.pdf>

Balances

The following table is a summary of select quarterly results for the Company as at March 31, 2024 and 2023 and year-ended December 31, 2023:

	March 31, 2024	December 31, 2023	March 31, 2023
Current assets	\$ 5,681,804	\$ 5,089,793	\$ 5,858,459
Non-current assets	17,952,268	17,696,477	18,097,225
Total assets	\$ 23,634,072	\$ 22,786,270	\$ 23,955,684
Current liabilities	\$ 4,818,034	\$ 3,576,338	\$ 4,847,211
Non-current liabilities	10,232,187	10,260,500	10,912,361
Total liabilities	\$ 15,050,221	\$ 13,836,838	\$ 15,759,572
Stores at period end	25	25	25

Assets

As of March 31, 2024, total assets decreased compared to March 31, 2023. This decline was mainly driven by a higher inventory balance in 2023, although partially offset by a higher accounts receivable balance resulting from transactions with the Company's credit card processing organization. The increase in accounts receivable is attributed to March 31 falling on a non-business day in 2024, unlike in 2023 when it fell on a business day.

Conversely, as of March 31, 2024, total assets increased compared to December 31, 2023. This rise can be primarily attributed to a higher inventory balance and remeasurements of right-of-use assets. The remeasurements occurred due to lease renewals for certain stores during the period ending March 31, 2024.

Liabilities

Total liabilities decreased as at March 31, 2024, compared to March 31, 2023, primarily due to bank loan principal repayments throughout 2023.

Total liabilities increased as at March 31, 2024, compared to December 31, 2023, mainly driven by additional operating facility usage and lease remeasurements.

CONDENSED QUARTERLY INFORMATION

The following table summarizes information derived from the Company's audited consolidated financial statements for each of the eight most recently completed quarters.

Expressed in (000's)	2024	2023			2022			
	March 31	December 31	September 30 Restated ⁽¹⁾	June 30 Restated ⁽¹⁾	March 31 Restated ⁽¹⁾	December 31 Restated ⁽¹⁾⁽²⁾	September 30 Restated ⁽¹⁾⁽²⁾	June 30 Restated ⁽¹⁾⁽²⁾
# stores end of period	25	25	25	25	25	25	26	26
Sales	8,445	10,241	11,380	11,242	8,613	10,693	12,244	11,392
Net comprehensive (loss) income	(366)	179	261	312	(290)	(11)	271	230
Basic (loss) income per share	(0.01)	0.01	0.01	0.01	(0.01)	0.00	0.01	0.01
Diluted (loss) income per share	(0.01)	0.01	0.01	0.01	(0.01)	0.00	0.01	0.01

Notes:

- (1) The Company previously presented under cost of sales the net amount of bottle deposit charges collected from customers and the bottle deposits paid to suppliers, The Company has determined that the correct presentation is to show the collections and payments on a gross basis in sales.

Below is a reconciliation of previously reported sales to restated sales.

Expressed in (000's)	2023			2022		
	September 30	June 30	March 31	December 31	September 30	June 30
Sales as previously reported	11,057	10,921	8,383	10,416	11,868	11,054
Sales from bottle deposits	323	321	230	277	376	338
Restated Sales	11,380	11,242	8,613	10,693	12,244	11,392

- (2) Prior year quarterly net comprehensive income (loss) amounts restated due to amounts previously reported in the 2022 Management Discussion and Analysis report not representing the correct amounts.

Below is a reconciliation of previously reported to restated net comprehensive income.

Expressed in (000's)	2022		
	December 31	September 30	June 30
Net comprehensive income (loss) in 2022 Management and Discussion Analysis for the year ended December 31, 2022	132	222	183
Correction	(143)	49	47
Net comprehensive (loss) income in 2022 quarterly interim financial statements	(11)	271	230

Sales

Sales in the first quarter of 2024 are lower when compared to all quarters in 2023 and 2022 due to a combination of increased competition in certain markets and declining consumer confidence in March regarding the economy.

Net comprehensive loss

Quarterly net comprehensive loss in Q1 2024 is higher compared to Q1 2023 primarily due to higher non-recurring operating and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

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: 1) a demand, "operating facility" of \$5,400,000 and 2) a "bank loan" of \$2,650,000. Both facilities bear interest at prime plus 1.25% per annum.

As at March 31, 2024, the interest rate applicable to the operating facility and bank loan was 8.45% (December 31, 2023 – 8.45% and March 31, 2023 – 7.95%).

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 payments are due monthly. The bank loan is amortized over 36 months, with monthly payments of interest and principal to August 30, 2025.

Below is a summary of the operating facility and bank loan as at March 31, 2024 and 2023 and as at December 31, 2023:

	March 31, 2024	December 31, 2023	March 31, 2023
Current Liability:			
Operating facility	\$ 2,127,800	\$ 1,052,185	\$ 2,309,698
Bank loan	570,343	559,472	526,459
Total current	2,698,143	1,611,657	2,836,157
Long term portion of bank loan	253,584	400,027	821,701
Total Credit Facility Use	\$ 2,951,727	\$ 2,011,684	\$ 3,657,858

The decrease in the credit facility usage for the 3 months ended March 31, 2024, compared to the same 3 months ended in 2023, is a result of the Company continuing to pay down the bank loan. The total credit facility usage is higher for the 3 months ended March 31, 2024, compared to the year ended December 31, 2023, due to sales seasonality fluctuations.

Below is a summary of the total bank loan and operating facility usage for each of the eight most recently completed quarters.

	Q1 March 2024	Q4 December 2023	Q3 September 2023	Q2 June 2023	Q1 March 2023	Q4 December 2022	Q3 September 2022	Q2 June 2022
Total credit facility use in (000's)	\$ 2,952	\$ 2,012	\$ 2,443	\$ 3,651	\$ 3,658	\$ 3,094	\$ 3,838	\$ 5,448

The Company's use of its operating facility fluctuates with the seasonality of sales trends. 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.

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

The operating facility and bank loan are both secured by a general security agreement representing a first charge on all assets. Proceeds from and repayments are disclosed on the consolidated statements of cash flows on a gross basis. The 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 March 31, 2024, the Company is in compliance with this covenant.

Finance Costs on Operating Facility and Bank loan

	3 months ended	
	March 31, 2024	March 31, 2023
Finance costs	\$ 59,368	\$ 72,538

Finance costs decreased by \$13,170 for the 3 months ended March 31, 2024, as a result of a lower average operating facility balance and a lower bank loan balance as a result of repayments.

Debt Service Coverage Ratio

The Company's debt service coverage ratio has increased to 1.29 for the four rolling quarters ended March 31, 2024, from 1.25 for the four rolling quarters ended March 31, 2023. The increase is due to lower finance costs due to a lower operating facility balance and lower principal payments due to a lower bank loan balance. The debt service coverage ratio calculation is described under the heading "Non-IFRS Measures" below.

Interest Coverage Ratio

The interest coverage ratio, calculated using bank loan and operating facility finance costs has decreased from 4.1 for the four rolling quarters ended March 31, 2023, to 3.8 for the four rolling quarters ended March 31, 2024. The decrease is attributed to a lower operating margin as a result of higher operating and administrative expenses in the first 3 months of 2024 compared to the first 3 months of 2023. The calculation of the interest coverage ratio is described under the heading "Non-IFRS Measures" below.

Normalized Working Capital Ratio

Below is a summary of the normalized working capital ratios as at March 31, 2024 and 2023 and as at December 31, 2023:

	March 31, 2024	December 31, 2023	March 31, 2023
Current assets	\$ 5,681,804	\$ 5,089,793	\$ 5,858,459
Non-IFRS Current Liabilities			
Current liabilities	4,818,034	3,576,338	4,847,211
Less:			
Current portion of lease liabilities	(1,388,030)	(1,327,584)	(1,371,621)
Normalized current liabilities	3,430,004	2,248,754	3,475,590
Normalized working capital ratio	1.66	2.26	1.69

The decrease in the normalized working capital ratio of 0.6 from December 31, 2023, to March 31, 2024, is primarily a result of higher inventory and operating facility balances as of March 31, 2024. There is only a slight decrease in the ratio for March 31, 2024, compared to March 31, 2023. The calculation of the normalized working capital ratio is described under the heading "Non-IFRS Measures" below.

Outstanding Common Shares

Below is a summary of outstanding common shares for the Company:

	Number	Amount
Balance December 31, 2023 and March 31, 2024	47,827,775	\$ 7,427,311

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at March 31, 2024, or May 23, 2024.

PROPOSED TRANSACTIONS

There were no proposed transactions as at March 31, 2024, or May 23, 2024, that have not been disclosed.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

There are no updates to the Company's commitments and contractual obligations. For further discussion, refer to the Company's 2023 audited annual consolidated financial statements, note 14, which has details of commitments under lease arrangements.

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, 2023.

FINANCIAL INSTRUMENTS

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates their carrying value due to their short-term nature. The fair value of the operating facility and bank loan approximates their carrying value as the instruments carry interest rates that reflect the current market rates available to the company

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the period the Company paid rents of \$23,946 (March 2023 - \$23,946), in respect of three retail liquor stores, to privately held companies in which a key member of management is a significant shareholder.

CHANGES IN ACCOUNTING POLICIES

New Accounting Pronouncements Adopted in 2024

The Company adopted Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current, clarifying the classification requirements in the standard for liabilities as current or non-current. The amendment was effective for the Company's interim and annual consolidated financial statements commencing January 1, 2024. The adoption of these standards has not had a material impact on the Company's financial results.

Recent accounting pronouncements not yet adopted

The IASB has issued IFRS 18, Presentation and Disclosure in Financial Statements (replacing IAS 1, Presentation of Financial Statements). The new standard aims to improve how information is communicated in the financial statements, with a focus on information in the statement of comprehensive income and performance reporting. The new standard will become effective on January 1, 2027, and the Company is assessing the impacts IFRS 18 will have on its consolidated financial statements.

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, 2024, 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 competition; consumer spending; a potential decline in consumption of alcoholic beverages and products sold; weather; governmental regulation; cybersecurity; labour costs and the labour market; supplier disruption; retention of key personnel; availability of financing; sufficient liquidity to meet financial obligations; information systems; the ability to maintain acceptable store sites and adapt to changing market conditions; financial market volatility; and a limited trading market.

For a full discussion of these risks and other risks associated with an investment in Shares, see "Risk Factors" detailed in the Company's annual Management Discussion and Analysis for the year ended December 31, 2023, dated April 25, 2024, which is available at www.sedarplus.com.

NON-IFRS MEASURES

Adjusted EBITDA, Debit service coverage ratio, EBITDA, EBITDAR, Gross margin, Interest coverage ratio, Non-recurring items, Normalized current liabilities, Normalized working capital ratio, Operating margin, Operating margin before non-recurring items, and Operating margin as a percentage of sales are not measures recognized by IFRS Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards.

Investors are cautioned that these measures should not replace net comprehensive income or loss (as determined in accordance with IFRS Accounting Standards) 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.

The Company has these measures in place as they provide information to investors, analysts, and others to aid in understanding and evaluating the Company's operating results in a similar manner to its management team.

Definitions

ADJUSTED EBITDA is defined as EBITDAR less all lease payments. Adjusted EBITDA is defined in the Company's credit agreement with TD as part of the debt service coverage ratio financial covenant and therefore represents a useful measure to ensure the Company is in compliance with the financial covenant.

Debt service coverage ratio is Adjusted EBITDA plus non-reoccurring items for the four rolling quarters divided by bank loan principal payments plus finance costs excluding notional accretive interest. Debt service coverage ratio is a financial covenant in the Company's credit agreement with TD and therefore represents a useful measure to ensure the Company complies with the financial covenant.

EBITDA is Adjusted EBITDA adding back right-of-use lease payments, share-based compensation, gain/loss on disposal of stores and property and equipment, and store closure expenses. Right-of-use lease payments are considered a financing activity, not an expense; thus they are added back to calculate EBITDA, which is a pre-financing costs measure. EBITDA is a useful measure as it provides management with a better view of the Company's operating profitability, removing non-operating expenses.

EBITDAR is defined as net comprehensive income of the Company and adding back the following: rent expense, interest expense, current and deferred income tax, depreciation, amortization, non-cash items such as share-based compensation expense and issue costs of securities, deferred taxes, write down of goodwill, right-of-use assets depreciation, finance costs on lease liabilities, gain/loss on disposal of stores and property and equipment, share-based compensation, store closure expenses, and non-recurring extraordinary or one-time gains or losses from any capital asset sales. EBITDAR is a useful measure as it allows management to assess the operational performance of the Company separate from non-cash expenses, financing costs, and non-recurring items.

Gross margin under “Operating Results” is derived by subtracting costs of sales from sales. Gross margin represents a useful measure because it allows management to assess how successfully the company can generate revenues from the cost of goods purchased.

Interest coverage ratio is Adjusted EBITDA plus non-reoccurring items divided by finance costs excluding accretive interest. Interest coverage ratio is a useful measure as it allows management to measure the Company’s ability to pay interest on outstanding debt.

Non-recurring items include expenses incurred and recoveries received by the Company that are not part of ongoing operations and that are not expected to recur.

Normalized current liabilities are current liabilities less the current portion of lease liabilities. Normalized current liabilities is a useful measure as it removes the impact of short-term lease liabilities, which are not a part of working capital.

Normalized working capital ratio is calculated as current assets divided by normalized current liabilities. Normalized working capital ratio is a useful measure as it identifies any shortfalls in the ability to meet short-term obligations.

Operating margin for purposes of disclosure under “Operating Results” has been derived by subtracting Operating and Administrative expenses from Gross Margin. Operating margin is equal to “Income from operations before depreciation and other” as reported on the Consolidated Statements of Comprehensive Income. Operating margin as a percentage of sales is calculated by dividing the operating margin by sales. Operating margin represents a useful measure because it allows management to assess the profitability of the Company.

Operating margin before non-recurring items is derived by adding non-recurring items to the operating margin. Operating margin before non-recurring items as a percentage of sales is calculated by dividing the operating margin before non-recurring items by sales. Operating margin before non-recurring items is a useful measure because it removes revenue or expenditures that are not likely to happen again and, therefore, presents a more meaningful comparison of quarterly and annual results.

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 – 12 Months.”

The following table for the 3 months ended March 31, 2024 and 2023, reconciles Net comprehensive loss to EBITDAR, Adjusted EBITDA, and EBITDA.

	March 2024	March 2023 ⁽¹⁾
Net comprehensive loss	\$ (365,581)	\$ (290,258)
Rent expense ⁽²⁾	30,838	51,150
Deferred income tax recovery	(119,000)	-
Finance costs	59,368	72,538
Property and equipment depreciation	57,364	55,657
Intangible assets depreciation	1,267	-
Right-of-use assets depreciation	239,449	250,472
Finance costs on lease liabilities	150,075	146,558
Loss on disposal of property and equipment	6,799	817
Store closure expenses	-	8,965
EBITDAR	\$ 60,579	\$ 295,899
Rent expense ⁽²⁾	(30,838)	(51,150)
Right-of-use lease payments ⁽³⁾	(355,216)	(337,561)
Adjusted EBITDA	\$ (325,475)	\$ (92,812)
Right-of use lease payments ⁽³⁾	355,216	337,561
Store closure expenses	-	(8,965)
Loss on disposal of property and equipment	(6,799)	(817)
EBITDA	\$ 22,942	\$ 234,967

(1) EBITDAR and EBITDA comparative figures have been changed to conform to the current quarters' presentation.

(2) Rent expense is defined as payments for the right to use the underlying leased asset that does not meet the definition of a lease payment under IFRS 16 and, as such, is not included in the determination of lease payments in the above table.

(3) Right-of-use lease payments are payments to use the underlying leased asset that meets the lease payment definition under IFRS 16.