ROCKY MOUNTAIN LIQUOR

Ticker: “RUM”

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the period June 30, 2024

As at August 27, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated August 27, 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 and 6 months ended June 30, 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", "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 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 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; (vii) 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 management 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 and 6 months comparison:

	3 months ended		6 months ended	
	June 2024	June 2023 Restated (1)	June 2024	June 2023 Restated (1)
Sales	$ 10,183,261	$ 11,242,366	$ 18,628,655	$ 19,854,906
Gross margin (2)	23.0%	23.6%	22.9%	23.0%
Net comprehensive (loss) income (3)	$ (171,500)	$ 312,689	$ (537,081)	$ 22,429
EBITDAR (2)	$ 527,806	$ 905,222	$ 588,385	$ 1,201,120

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 and 6 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 are described under the "Non-IFRS Measures" section below.

(3) "Net (loss) income)" was used in previous reports but changed to "Net comprehensive (loss) income" 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 percentages for the 3 and 6 months ended June 30, 2024, are lower than the same 3 and 6 month periods in 2023 due to competition in certain markets driving down margins. The company will continue throughout the remainder of 2024 to review and refine its marketing strategies, ensuring their efficacy in both establishing and sustaining brand recognition and engagement, while also bolstering foot traffic in retail stores.

A net comprehensive loss was incurred and EBITDAR is lower for the 3 and 6 months ended June 30, 2024, compared to net comprehensive income and higher EBITDAR for the same 3 and 6 month periods in 2023, primarily due to:

- Lower sales and the corresponding lower dollar gross margin due to increased competition in certain markets, road construction in a significant market impacting customer access to the store, milder weather throughout Alberta in the second quarter with less favorable weather conditions, and continued historically low consumer confidence[1].
- Higher operating and administrative expenses due to annual salary increments and an increase in non-recurring items attributed to the new point-of-sale implementation and the closure of one store.
- Higher loss on disposal of property and equipment and intangible assets from the loss on disposal of a building as part of the closure of one store location.

SUBSEQUENT EVENT

Subsequent to June 30, 2024, and before the approval and release of these unaudited interim consolidated financial statements, through the Toronto-Dominion Bank ("TD"), a new Demand Operating Facility agreement was signed between TD and the Company on July 17, 2024. The maximum availability of the Company's "operating facility" as disclosed under note 5 of the unaudited interim condensed consolidated financial statements, was decreased from $5,400,000 to $4,000,000. The new agreement removed the debt service covenant which was adjusted EBITDA - unfinanced net capital expenditures - permitted distributions - cash taxes / (scheduled principal payments + interest). The interest rate and the calculation of the operating facility availability remained unchanged. The decrease in maximum availability is not expected to have a material impact on the Company's operations or financial results.

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 in the first six months of 2024.

Furthermore, in the Bank of Canada's second-quarter consumer expectations survey published on July 15, the historically low consumer confidence remains subdued and unchanged from the first quarter in 2024 as concerns about inflation and high interest rates continue to constrain consumer spending[2]. This is despite inflation continuing to cool off in 2024[3] and optimism around expected interest rate cuts during the remainder of 2024.

A recent Alberta economic outlook update has indicated Alberta's forecasted GDP of 2024 of 2.5% will be double the national GDP due to improvements in the energy sector, stronger home construction, and expansions in emerging sectors. Retail sales though are forecasted in 2024 to be lower than in 2022 and 2023 and then rebounding in 2025 and 2026[4].

[1] Trading Economics, Canada Consumer Confidence, "MAX Graph", retrieved on July 15, 2024 from https://tradingeconomics.com/canada/consumer-confidence#:~:text=Consumer%20Confidence%20in%20Canada%20increased,source%3A%20Ipsos.

[2] Canadian Survey of Consumer Expectation, retrieved on July 15, 2024 from https://www.bankofcanada.ca/2024/07/canadian-survey-of-consumer-expectations-second-quarter-of-2024.

[3] Inflation cools ahead of Bank of Canada rate decision June inflation – retrieved on July 16, 2024, from https://financialpost.com/news/economy/inflation-cools-ahead-bank-of-canada-rate-decision.

[4] Quarterly Economic Outlook – June 18, 2024, retrieved on June 18, 2024 from https://interactive.atb.com/economic-outlook-jun-2024?_gl=1*1vrsgus*_gcl_au*Njg4NDQ2MS4xNzE4NzM3MTE5*_ga*MTIyNDU2NDcyLjE3MTg3MzcxMjA.*_ga_79ZVTKT225*MTcxODczNzExOS4xLjAuMTcxODczNzEyMC41OS4wLjA.

Management will continue for the remainder of 2024 to focus on improving category management through pricing strategies and a strong promotional focus. In early quarter three of 2024, management will complete the implementation of 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 June 30, 2024

Operating Income and Cash flows

The following table is a summary of select quarterly results for the Company for the 3 months ended June 30, 2024 and 2023:

	3 months ended			
	June 2024		**June 2023 Restated (1)**	
Sales	$ 10,183,261		$ 11,242,366	
Gross margin (2)	2,345,661	23.0%	2,648,117	23.6%
Operating and administrative expenses	1,845,264	18.1%	1,794,184	16.0%
Operating margin (2)	**$ 500,397**	**4.9%**	$ 853,933	7.6%
Non-recurring items (2)	54,868	0.5%	-	0.0%
Operating margin before non-recurring items (3)	**$ 555,265**	**5.5%**	$ 853,933	7.6%
Cash flow (used in) from operating activities	$ (240,833)		$ 236,875	
Cash flow used in investing activities	(155,571)		(19,100)	
Cash flow from (used in) financing activities	$ 493,114		$ (196,502)	

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 the "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" section below.

Sales

Sales for the 3 months ended June 30, 2024, are significantly lower than the same 3 month period in 2023, primarily due to increased competition in certain markets, road construction in one significant market impacting customer access to the store, less favorable weather conditions during the quarter compared to the same quarter in 2023, one less store in the quarter, and continuing low consumer confidence throughout the quarter.

Cost of Goods Sold and Gross Margin

Margins are lower at 23.0% in 2024 compared to 23.6% for the same 3 month period in 2023. While management has implemented a strategic emphasis on marketing, pricing, and promotional strategies to improve margins, margins in the second quarter have been impacted by increased competition in certain markets driving down 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 3 months ended June 30, 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 and higher non-recurring office expenses associated with the implementation of the Company's new point-of-sale system offset by lower rent expenses.

Rent expenses were higher in 2023 due to a lease for one store not meeting the lease payment definition under IFRS 16 during that period, as a result of the renewal being finalized after the term expired.

Cash flow used in operating activities

Cash flow used in operating activities occurred for the 3 months ended June 30, 2024, compared to cash flow from operating activities for the same period ended in 2023, primarily due to the net comprehensive loss incurred in the quarter compared to net comprehensive income in the same 3 month period in 2023 and higher changes in non-cash working capital as a result of higher inventory purchases in the 3 months ended June 30, 2024, compared to the same period in 2023.

Cash flow used in investing activities

Cash flow used in investing activities was higher for the 3 months ended June 30, 2024, compared to the same period ended in 2023, due to costs associated with the Company's new point-of-sale system.

Cash flow from financing activities

Cash flow from financing activities occurred for the 3 months ended June 30, 2024, compared to cash flow used in financing activities for the same period ended in 2023, primarily due to additional uses of the operating facility because of the net comprehensive loss for the 3 months ended June 30, 2024 and funding of the increase in the inventory balance during the quarter.

OPERATING AND QUARTERLY RESULTS: 6 Months ended June 30, 2024

Operating Income and Cash flows

The following table is a summary of select quarterly results for the Company for the 6 months ended June 30, 2024 and 2023:

	6 months ended					
	June 2024			June 2023 Restated (1)		
Sales	$	18,628,655		$	19,854,906	
Gross margin (2)		4,269,651	22.9%		4,562,307	23.0%
Operating and administrative expenses		3,739,519	20.1%		3,463,626	17.4%
Operating margin (2)	**$**	**530,132**	**2.8%**		1,098,681	5.5%
Non-recurring items (2)		122,146	0.7%		-	0.0%
Operating margin before non-recurring items (3)	**$**	**652,278**	**3.5%**	$	1,098,681	5.5%
Cash flow used in operating activities	$	(944,660)		$	(76,643)	
Cash flow used in investing activities		(213,524)			(133,709)	
Cash flow from financing activities	$	1,228,016		$	176,547	

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 6 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 the "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" section below.

Sales

Sales for the 6 months ended June 30, 2024, are significantly lower than the same 6 month period in 2023, primarily due to increased competition in certain markets, road construction in one significant market impacting customer access to the store, less favorable weather conditions in the quarter compared to 2023, one less store in the second quarter, and continuing low consumer confidence throughout the first six months of 2024.

Cost of Goods Sold and Gross Margin

Margins are fairly consistent at 22.9% in 2024 compared to 23.0% for the same 6 month period in 2023. The slight decrease can be attributed to decreased margins for the 3 months ended June 30, 2024, discussed above.

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 6 months ended June 30, 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 and higher utility costs partially offset by lower rent expenses. 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 significantly higher for the 6 months ended June 30, 2024, compared to the same period ended in 2023, primarily due to the significantly large net comprehensive loss incurred during the first six months of 2024 and higher changes in non-cash working capital as a result of higher inventory purchases in the 6 months ended June 30, 2024, compared to the same period in 2023.

Cash flow used in investing activities

Cash flow used in investing activities was higher for the 6 months ended June 30, 2024, compared to the same period ended in 2023, due to costs associated with the Company's new point-of-sale system.

Cash flow from financing activities

Cash flow from financing activities was significantly higher for the 6 months ended June 30, 2024, compared to the same period ended in 2023, primarily due to additional uses of the operating facility driven by the net comprehensive income loss for the 6 months ended June 30, 2024 and funding of the increase in inventory balances for first 6 months of 2024.

Balances

The following table is a summary of select quarterly results for the Company as at June 30, 2024 and 2023 and year-ended December 31, 2023:

	June 30, 2024	December 31, 2023	June 30, 2023
Current assets	$ 6,101,207	$ 5,089,793	$ 6,142,963
Non-current assets	17,735,530	17,696,477	17,803,138
Total assets	$ 23,836,737	$ 22,786,270	$ 23,946,101
Current liaibilities	$ 5,606,692	$ 3,576,338	$ 4,855,929
Non-current liabilities	9,817,694	10,260,500	10,581,373
Total liabilities	$ 15,424,386	$ 13,836,838	$ 15,437,302
Stores at period end	**24**	**25**	**25**

Assets

As of June 30, 2024, total assets decreased compared to June 30, 2023. This decrease was mainly driven by the disposal of a building under property and equipment and the removal of one right-of-use asset, as part of the closure of one store and a lower inventory balance in 2024 compared to 2023 partially offset by a higher cash-on-hand balance and a higher deferred tax assets balance in 2024 attributable to the net comprehensive loss incurred in the first six months of 2024.

Conversely, as of June 30, 2024, total assets increased compared to December 31, 2023. This rise can be primarily attributed to a higher inventory balance, a higher deferred tax assets balance, and remeasurements of right-of-use assets partially offset by the disposal of a building under property and equipment and the removal of one right-of-use asset, as part of the closure of one store. The right-of-use assets remeasurements occurred due to lease renewals for certain stores during the period ended June 30, 2024.

Liabilities

Total liabilities slightly decreased as at June 30, 2024, compared to June 30, 2023, primarily due to a decrease in lease liabilities related to the closure of one store partially offset by remeasurements of lease liabilities. The remeasurements are due to lease renewals for certain stores occurring since June 30, 2023.

Total liabilities increased as at June 30, 2024, compared to December 31, 2023, mainly driven by increased operating facility usage as a result of the net comprehensive loss incurred in the six months of 2024, funding of the increase in inventory balance, and remeasurements of lease liabilities partially offset by a decrease in lease liabilities related to the closure of one store.

The Company closed one store location in April. The Company reached an agreement, whereas the purchased building and the leased land premises were provided back to the lessor with no termination costs incurred by the Company. This resulted in a loss on disposal of property and equipment of $140,907 and a net gain of $26,509 related to the lease termination adjustments for the remeasurement of the right-of-use asset and corresponding lease liability.

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	
	June 30	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)
# stores end of period	24	25	25	25	25	25	25	26
Sales	$ 10,183	$ 8,445	$ 10,241	$ 11,380	$ 11,242	$ 8,613	$ 10,693	$ 12,244
Net comprehensive (loss) income	$ (171)	$ (366)	$ 179	$ 261	$ 312	$ (290)	$ (11)	$ 271
Basic (loss) income per share	$ (0.00)	$ (0.01)	$ 0.01	$ 0.01	$ 0.01	$ (0.01)	$ (0.00)	$ 0.01
Diluted (loss) income per share	$ (0.00)	$ (0.01)	$ 0.01	$ 0.01	$ 0.01	$ (0.01)	$ (0.00)	$ 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 to restated quarterly sales:

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

Below is a reconciliation of previously reported to restated sales for the 6 months ended June 30, 2023:

Expressed in (000's)	2023
	6 months ended June 30
Sales as previously reported	$ 19,304
Sales from bottle deposits	551
Restated Sales	$ 19,855

(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
Net comprehensive income in 2022 Management and Discussion Analysis for the year ended December 31, 2022	$ 132	$ 222
Correction	(143)	49
Net comprehensive (loss) income in 2022 quarterly interim financial statements	$ (11)	$ 271

Sales

Sales in the first two quarters of 2024 are lower when compared to the same first two quarters in 2023 due to increased competition in certain markets, road construction in one significant market impacting customer access to the store, less favorable weather conditions in the second quarter of 2024 compared to 2023, one less store in 2024 compared to 2023, and the continued historically low consumer confidence regarding the economy.

Net comprehensive loss

There is a quarterly net comprehensive loss in Q2 2024 compared to Q2 2023 net comprehensive income primarily due to lower sales and the resulting lower dollar gross margin, higher operating and administrative expenses, and a higher loss on disposal of property and equipment and intangible assets as part of the closure of one store location.

LIQUIDITY AND CAPITAL RESOURCES

Credit Agreement

On June 21, 2024, through the Toronto-Dominion Bank ("TD"), the remaining outstanding principal balance of $731,809 on the original "bank loan" of $2,650,000 was repaid using the demand "operating facility". The maximum availability of the "operating facility" as at June 30, 2024 was $5,400,000 and the operating facility's interest was prime plus 1.25% per annum. As at June 30, 2024, the interest rate applicable to the operating facility was 8.20% (December 31, 2023 – 8.45% and June 30, 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.

As discussed under the "Subsequent Events" section above, a new Demand Operating Facility agreement was signed between TD and the Company in July. The maximum availability of the Company's "operating facility" was decreased from $5,400,000 to $4,000,000. The new agreement removed the debt service covenant which was adjusted EBITDA - unfinanced net capital expenditures - permitted distributions - cash taxes / (scheduled principal payments + interest). The interest rate and the calculation of the operating facility availability remained unchanged. With the new maximum availability, the company would have a surplus of $349,000 as at June 30, 2024. Through prudent cash flow monitoring the Company does not expect to be over the $4,000,000 maximum availability for the remainder of 2024.

Below is a summary of the operating facility and bank loan as at June 30, 2024 and 2023 and as at December 31, 2023:

	June 30, 2024	December 31, 2023	June 30, 2023
Current Liability:			
Operating facility	**$ 3,650,746**	$ 1,052,185	$ 2,430,290
Bank loan	**-**	559,472	536,992
Total current	**3,650,746**	1,611,657	2,967,282
Long term portion of bank loan	**-**	400,027	683,766
Total Credit Facility Use	**$ 3,650,746**	$ 2,011,684	$ 3,651,048

The credit facility usage for the 3 months ended June 30, 2024, when compared to the same 3 months ended in 2023, remained relatively unchanged due to the bank loan principal repayments since June 30, 2023, erased by additional facility usage as a result of the net comprehensive loss incurred in the first six months of 2024.

The total credit facility usage is higher for the 3 months ended June 30, 2024, compared to the year ended December 31, 2023, due to operating facility usage always being higher in quarter two compared to quarter four and the net comprehensive loss incurred in the first six months of 2024.

Below is a summary of the total bank loan and operating facility usage for each of the 8 most recently completed quarters.

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

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 operating facility is for the purchase of inventory, investing in property and equipment, and used for operating and administrative expenses. The operating facility is secured by a general security agreement representing a first charge on all assets. The Company is in compliance with the operating facility's covenants and reporting requirements as at June 30, 2024. Principal repayments on and proceeds from the operating facility are disclosed on the consolidated statements of cash flows on a gross basis.

Finance Costs on Operating Facility and Bank loan

	3 months ended		6 months ended	
	June 30, 2024	June 30, 2023	**June 30, 2024**	June 30, 2023
Finance costs	**$ 74,440**	$ 81,500	**$ 133,808**	$ 154,038

Finance costs decreased by $7,060 for the 3 months ended June 30, 2024, and $20,230 for the 6 months ended June 30, 2024, as a result of a slightly lower average monthly credit facility balance in the first six months of 2024 compared to 2023.

Interest Coverage Ratio

The interest coverage ratio has decreased from 4.1 for the four rolling quarters ended June 30, 2023, to 2.6 for the four rolling quarters ended June 30, 2024. The decline is attributed to a lower Adjusted EBITDA as a result of lower sales and higher operating and administrative expenses in the first six months of 2024 compared to the first six 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 June 30, 2024 and 2023 and as at December 31, 2023:

	June 30, 2024	December 31, 2023	June 30, 2023
Current assets	$ 6,101,207	$ 5,089,793	$ 6,142,963
Non-IFRS Current Liabilities			
Current liabilities	5,606,692	3,576,338	4,855,929
Less:			
Current portion of lease liabilities	(1,395,316)	(1,327,584)	(1,374,983)
Normalized current liabilities	$ 4,211,376	$ 2,248,754	$ 3,480,946
Normalized working capital ratio	**1.45**	2.26	1.76

The decrease in the normalized working capital ratio of 0.81 from December 31, 2023, to June 30, 2024, and 0.31 from June 30, 2023, to June 30, 2024, are both primarily driven by the higher operating facility balance as of June 30, 2024. The higher facility balance is due to the net comprehensive loss incurred in the first six months of 2024 and paying off the bank loan using the operating facility. 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 June 30, 2024	47,827,775	$ 7,427,311

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at June 30, 2024, or August 27, 2024.

PROPOSED TRANSACTIONS

There were no proposed transactions as at June 30, 2024, or August 27, 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

The Company paid rents of $24,446 (June 2023 - $23,946) for the 3 months ended June 30, 2024 and $48,392 (June 2023 - $47,892) for the 6 months ended June 30, 2024, in respect of three retail liquor stores, to privately held companies in which a key member of management is a significant shareholder.

The remuneration of Directors and other members of key management personnel are as follows:

	3 months ended June 30, 2024	3 months ended June 30, 2023	**6 months ended June 30, 2024**	6 months ended June 30, 2023
Wages and salaries	**$ 125,581**	$ 140,875	**$ 240,138**	$ 278,000
Other	**1,458**	1,036	**2,948**	2,244
	$ 127,039	$ 141,911	**$ 243,086**	$ 280,244

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 June 30, 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, 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 rent expense and all lease payments. Adjusted EBITDA represents a useful measure because the inclusion of rent expense and lease payments as costs represents to management a more accurate reflection of the Company's overall performance and performance by store.

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 and 6 months ended June 30, 2024 and 2023, reconciles Net comprehensive (loss) income to EBITDAR, Adjusted EBITDA, and EBITDA.

	3 months ended		6 months ended	
	June 2024	June 2023 (1)	**June 2024**	June 2023 (1)
Net comprehensive (loss) income	**$ (171,500)**	**$ 312,689**	**$ (537,081)**	**$ 22,429**
Rent expense (2)	27,409	51,289	58,247	102,439
Deferred income tax recovery	(23,000)	-	(142,000)	-
Finance costs	74,440	81,500	133,808	154,038
Property and equipment depreciation	52,845	61,254	110,209	116,912
Intangible assets depreciation	2,056	-	3,323	-
Right-of-use assets depreciation	239,602	250,472	479,051	500,944
Finance costs on lease liabilities	146,450	146,558	296,525	293,116
Loss on disposal of property and equipment	179,597	1,460	186,396	2,277
Gain on lease termination	(26,509)	-	(26,509)	-
Store closure expenses	26,416	-	26,416	8,965
EBITDAR	**$ 527,806**	**$ 905,222**	**$ 588,385**	**$ 1,201,120**
Rent expense (2)	(27,409)	(51,289)	(58,247)	(102,439)
Right-of-use lease payments (3)	(352,354)	(336,248)	(707,570)	(673,809)
Adjusted EBITDA	**$ 148,043**	**$ 517,685**	**$ (177,432)**	**$ 424,872**
Right-of use lease payments (3)	352,354	336,248	707,570	673,809
Store closure expenses	(26,416)	-	(26,416)	(8,965)
Loss on disposal of property and equipment	(179,597)	(1,460)	(186,396)	(2,277)
Gain on lease termination	26,509	-	26,509	-
EBITDA	**$ 320,893**	**$ 852,473**	**$ 343,835**	**$ 1,087,439**

(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.