ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended June 30, 2017

As at August 24, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated August 24, 2017

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, 2017. 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 audited 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". See also "Risk Factors" discussed below.

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) the ability to acquire additional liquor stores and/or locations; (iii) increased revenues and margins due to tax increase, (iv) the ability to purchase inventory at a discount, (v) ongoing impact from price inflation, (vi) potential exercise of warrants, (vii) equity issuance and (viii) 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 management discussion and analysis reflect several material factors, expectations and assumptions including, without limitation: (i) demand for adult beverages; (ii) the ability to acquire additional liquor stores and/or locations; (iii) the Company's ability to secure financing to suit its growth strategy; (iv) the integration risk and requirements for the purchase or development of liquor stores; (v) the Company's future operating and financial results; (vi) treatment under governmental regulatory regimes, tax, and other laws; and (vii) 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 a number of 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) impact from competition in the markets where the Company operates; (iii) the impact of increases in labour costs; (iv) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (v) the impact of weather on its effect on consumer demand; (vi) the impact of supplier disruption or delays; (vii) the maintenance of management information systems; (viii) the ability of the Company to retain key personnel; (ix) the availability of financing; (x) the ability of the Company to meet its financial obligations; (xi) the importance of the Company's integrated inventory and distribution systems; (xii) market volatility and share price; (xiii) the impact of a limited trading market; (xiv) importance of cybersecurity; and (xv) the ability to source locations and acquisitions for growth strategy and to complete construction projects.

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward looking information and statements contained in this discussion and analysis speak only as of the date of this management discussion and analysis, and the Company assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

KEY OPERATING AND FINANCIAL METRICS

Key operational and financial highlights, year over year 3-month comparison:

- Gross margin percentage is 23.1% (2016 – 24.1%)
- Sales decreased to $11.8M (2016 - $12.6M)
- EBITDA decreased to $143,296 (2016 – $502,349)
- Net loss is $240,697 (2016 - income $1,142,852)

Key operational and financial highlights, year over year 6-month comparison:

- Gross margin percentage is 23.7% (2016 – 24.1%)
- Sales decreased to $20.5M (2016 - $22.1M)
- EBITDA decreased to a loss of $240,013 (2016 – income $230,270)
- Net loss is $1,194,128 (2016 – income $517,528)

RECENT DEVELOPMENTS SINCE PERIOD ENDED JUNE 30, 2017

Subsequent to period end, as part of the previously discussed rebranding strategy, an additional two stores transitioned to the Great Canadian Liquor ("GCL") trade name after renovations, rebranding and implementation of new pricing strategies. These stores held grand openings in July 2017. The Company has now transitioned seven of its stores to GCL.

On July 17, 2017, the Company sold one of its stores in Central Alberta along with its assets. On Jul 17, 2017, the Company sold a store in Central Alberta along with its assets. Subsequent to quarter end, the Company signed an agreement to sell one store in Central Alberta, expected to close during the third quarter of 2017.

OUTLOOK

The retail liquor industry continues to experience increased competitive pressures from discounting and loss leader promotions. Management has responded by re-branding seven stores since May of 2017. Early results have been encouraging, and management is in discussions about future plans to rebrand additional stores.

The initiative undertaken includes store renovations, new pricing strategies and establishing a consistent brand to address changes in consumer buying preferences. The seven locations are operating under the Great Canadian Liquor brand. We have launched a new website and digital advertising platform to support the introduction of the brand. While our main focus is on the new initiatives, we are continuing to evaluate greenfield and acquisition opportunities. We also plan to continue to sell stores in markets that are not compatible with our current business plan, ensuring the most effective use of our capital. We expect this approach will be sustainable in the long term with improvement in the economy and increased consumer spending.

Unemployment in Alberta was 7.8%[1] as of July 2017. While the price of oil in June 2017 was below the price of the previous year, data suggests the number of active drill rigs and the number of wells drilled has increased significantly from 2016.[2]

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[1] Government of Alberta, Economic Dashboard – Unemployment Rate Published May 5, 2017, Retrieved August 15, 2017 from http://economicdashboard.alberta.ca

[2] Government of Alberta, Economic Dashboard – Rig Activity, Published July 26, 2017, Retrieved August 15, 2017 from http://economicdashboard.alberta.ca/RigActivity

The Alberta government increased the minimum wage to $12.20 on October 1, 2016, and has announced two further increases of $1.40 per hour. The minimum wage will increase to $13.60 in October 2017 and to $15.00 in October 2018. The increases will continue to cause upward pressure on wage costs across the industry. Management expects to incur increased salary costs in the 2017 and 2018 fiscal years as a result.

The Company has an available $10 million revolving credit facility of which $1.4 million was unused as of August 24, 2017. Management believes this is sufficient for the successful execution of our business plan.

OPERATING RESULTS - 3 Months ending June 30, 2017

Basis of Comparison

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. It is key to note that given the changes in the composition of stores of the Company, historical performance does not reflect the annualized results from recently acquired liquor stores, and more recent periods do not include results from stores that have been sold or closed.

The following table shows the operating results of the Company for the three-month period ending June 30, 2017 and 2016.

Period	3 months ending Jun 2017		3 months ending Jun 2016	
Sales	$ 11,765,181	100.00%	$ 12,583,440	100.00%
Gross margin	2,722,516	23.14%	3,028,021	24.06%
Operating and administrative expense	2,580,940	21.94%	2,567,352	20.40%
Operating Margin (1)	$ 141,576	1.20%	$ 460,669	3.66%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	$ 141,576	1.20%	$ 460,669	3.66%
Annual Incentives (2)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	$ 141,576	1.20%	$ 460,669	3.66%
Stores at Period End	41		43	

Notes:

1. *Operating Margin and Operating Margin before non-recurring expenses has been calculated as described under "Non-IFRS Measures"*
2. *Annual Incentives include bonuses paid to management and executives, and employee share savings plan benefits*

Sales

Sales represent the combination of adult beverages including spirits, beer, and wine, with other ancillary products such as ice, juice, and mix.

Total sales for the three-month period ended June 30, 2017 were $11.8 million. Sales are lower than the same quarter in 2016 due to the closure of two stores since June 30, 2016. The increase in revenue from the five transitioned GCL stores offset the slowdown in the economy in Alberta which has affected sales in certain rural markets where energy is the dominant industry.

Cost of Goods Sold and Gross Margin

Margins have decreased from 24.1% to 23.1% as compared to this quarter last year as a result of the implementation of competitive pricing strategies at our rebranded stores. Further, as a result of the slower economy, Alberta consumers have been substituting the products they purchase to lower margin items.

Operating and Administrative Expenses

The major expenses included in operating and administrative expenses are salaries, rents, and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three-month period ended June 30, 2017 were $2.58 million, compared to $2.57 million for the same period in 2016. There has been an increase in advertising costs related to the rebranding strategy, as well as an increase in wages as a result of the minimum wage changes are offset by the property cost savings from closing two stores.

Finance Costs

Interest on the bank loan and convertible debentures increased from $268,887 for the three months ending June 30, 2016 to $277,086 for the same period in 2017. The increase is due to the accretive interest charge as a result of the amended debenture terms. Actual interest paid is lower as the coupon rate on the debenture was reduced under its new terms, as discussed below.

OPERATING RESULTS - 6 Months ending June 30, 2017

Basis of Comparison

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. It is key to note that given the changes in the composition of stores of the Company, historical performance does not reflect the annualized results from recently acquired liquor stores, and more recent periods do not include results from stores that have been sold or closed.

The following table shows the operating results of the Company for the six-month period ending June 30, 2016 and 2015.

Period	6 months ending June 2017		6 months ending June 2016	
Sales	$ 20,546,710	100.00%	$ 22,126,805	100.00%
Gross margin	4,874,977	23.73%	5,331,914	24.10%
Operating and administrative expense	5,111,870	24.88%	5,147,089	23.26%
Operating Margin (1)	$ (236,893)	-1.15%	$ 184,825	0.84%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	$ (236,893)	-1.15%	$ 184,825	0.84%
Annual Incentives (2)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	$ (236,893)	-1.15%	$ 184,825	0.84%
Stores at Period End	41		43	

Notes:

(1) *Operating Margin and Operating Margin before non-recurring expenses has been calculated as described under "Non-IFRS Measures"*

(2) *Annual Incentives include bonuses paid to management and executives, and employee share savings plan benefits*

Sales

Sales represent the combination of adult beverages including spirits, beer, and wine, with other ancillary products such as ice, juice, and mix.

Total sales for the six-month period ended June 30, 2017 were $20.5 million. Sales are lower than the same period in 2016 due to the closure of two stores since June 30, 2016. The increase in revenue from the five transitioned GCL stores offset the slowdown in the economy in Alberta which has affected sales in certain rural markets where energy is the dominant industry.

Cost of Goods Sold and Gross Margin

Margins have decreased from 24.1% to 23.7% as compared to the same period last year. As the economy worsens in Alberta consumers have been substituting the products they purchase to lower margin items. Additionally, the Company has altered its marketing, pricing and promotional strategies to maintain market share through its rebranding strategy.

Operating and Administrative Expenses

The major expenses included in operating and administrative expenses are salaries, rents, and location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the six-month period ended June 30, 2017 were $5.11 million, compared to $5.15 million for the same period in 2016. The decrease is mainly due to reduced property costs resulting from the closure and sale of two stores in the past year. There has been an increase in advertising costs related to the rebranding strategy, as well as an increase in wages as a result of the minimum wage changes

Finance Costs

Interest on the bank loan and convertible debentures decreased by $32k for the six months ending June 30, 2017 compared to 2016. The reduction is due to reduced interest expense on the convertible debentures repurchased by the Company and subsequently cancelled.

CONVERTIBLE DEBENTURES

In 2011 the Company issued a $9,200,000 unsecured subordinated convertible debenture ("the Debenture") due on April 30, 2016. On April 1, 2016, the Company announced that holders of the Debenture approved the proposed amendments extending the maturity date to April 30, 2021, reducing the conversion price to $0.25 from $0.50, and reducing the coupon rate to 7.50% from 7.75%.

On June 10, 2016, the Company redeemed $1,211,000 of the outstanding principal amount of the amended Debenture reducing it to $6,865,000.

On the Company's Consolidated Statements of Financial Position the balance of the Debenture at June 30, 2017 is $5,756,067. For accounting purposes the value of the convertible option was calculated and the difference was recorded as equity. The remaining liability for the Debentures will be increased to $6,865,000 over the five-year term.

FINANCING & CREDIT FACILITIES

On June 30, 2017, the Company had a bank agreement with lender, TD for a $10 million uncommitted, revolving demand credit facility. This agreement is not subject to any monitoring ratios. Current utilization of the facility is $8.6 million.

As of June 30, 2017, the Company had $767,401 of cash on hand, and the $10 million Facility was drawn at $8.9 million. The Company pays interest at prime plus 1.25% or bankers' acceptances plus 2.75% per annum. At June 30, 2017, the Company has $5.0 million of its bank loan in bankers' acceptances.

The interest rate on the convertible debenture is fixed at 7.5%.

The Company manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at June 30, 2017 or August 24, 2017.

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, 2016.

CHANGES IN ACCOUNTING POLICIES

There were no new accounting standards adopted in the period. See Note 2 of the annual consolidated financial statements for the year ending December 31, 2016 for further information.

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 period ended June 30, 2017 that have materially affected, or are a 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 an 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 a number of risks. These risk factors include: impact due to economic conditions; regulated competitive environment; labour costs and labour market; impact from provincial tax increases; weather; supply interruption or delay; importance of information and control systems; reliance on key personnel; available financing; credit facility and financial instrument covenants; importance of inventory and EFC; market volatility and unpredictable

share price; active trading market; cybersecurity and acquisition growth strategy and development risks.

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 24, 2017, which is available at www.sedar.com.

NON-IFRS MEASURES

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 operating margin by sales.

Operating margin before non-recurring items has been 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 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.”

EBITDA is defined as the net income of the Company plus the following: interest expense, provision for income taxes, depreciation, amortization, mark to market adjustments on financial instruments, non-cash items such as stock based compensation expense and issue costs of securities, deferred taxes, write down of goodwill, gain on repurchase of convertible debentures, gain / loss on disposal of stores and property and equipment, and other restructuring charges for store closures. EBITDA is also less any non-recurring extraordinary or one-time gains or losses from any capital asset sales. Management believes that, in addition to income or loss, EBITDA is a useful supplemental measure of performance.

	3 months ended June 2017	3 months ended June 2016	6 months ended June 2017	6 months ended June 2016
Net comprehensive (loss) income	$ (240,697)	$ 1,142,852	$ (1,194,128)	$ 517,528
Interest expense	277,086	268,887	534,840	505,116
Income tax	-	36,000	-	36,000
Depreciation	165,112	165,005	314,744	315,068
(Gain) Loss on disposal of property and equipment	(58,205)	3,438	21,570	10,604
Store closure expenses	-	-	82,961	-
Gain on repurchase of convertible debenture	-	(2,000)	-	(42,213)
Gain on extinguishment of convertible debenture	-	(1,111,833)	-	(1,111,833)
EBITDA	**$ 143,296**	**$ 502,349**	**$ (240,013)**	**$ 230,270**

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 and EBITDA are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that operating margin, operating margin as a percentage of sales, and EBITDA 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. The Company's method of calculating operating margin, operating margin as a percentage of sales, and EBITDA may differ from the methods used by other issuers. Therefore, the Company's operating margin, operating margin as a percentage of sales, and EBITDA may not be comparable to similar measures presented by other issuers.