ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended June 30, 2016

As at August 29, 2016

ROCKY MOUNTAIN LIQUOR INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis("MD&A") is dated August 29, 2016.

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 audited consolidated financial statements and accompanying notes of the Company for the period ended June 30, 2016. 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 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 theinterim 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) equity issuance and (vii) 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 MD&A 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) 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) ability to obtain required financing to continue growth strategy; (iii) changes in Government regulation of the retail liquor industry; (iv) impact from competition in the market's where the Company operates; (v) ability to source locations and acquisitions for growth strategy; (vi) actions by governmental or regulatory authorities including changes in income tax laws and excise taxes; (vii) the ability of the Company to retain key personnel; (viii) the Company's ability to adapt to changes in competition; (ix) the impact of supplier disruption or delays; (x) the maintenance of management information systems; (xi) the impact of increases in labour costs, shortages or labour relations; (xii) the impact of weather on its effect on consumer demand, (xiii) the ability to raise capital, and (xiv) the ability 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:

- Sales decreased to $12.6M (2015 - $13.7M)
- EBITDAdecreased to$502,349 (2015-$844,257)
- Net income is $1,152,579 (2015 - $307,469)
- Gain on extinguishment of convertible debenture is $1,120,560 (2015 – nil)
- Gross margin percentage decreased to 24.1% (2015 – 25.7%)

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

- Sales decreased to $22.1M (2015 - $24.1M)
- EBITDA decreased to $230,270 (2015- $850,481)
- Net income is $527,255 (2015 - $12,807)
- Gain on extinguishment of convertible debenture is $1,120,560 (2015 – nil)
- Gross margin percentage decreased to 24.1% (2015 – 25.6%)

RECENT DEVELOPMENTS SINCE PERIOD ENDED JUNE 30, 2016

On July 2, 2016 the Company closed a store in Southern Alberta. The Company has entered into an agreement to sell the fixed assets of this store by the end of the year.

OUTLOOK

Management does not expect changes in the short term to the previously forecast downturn in economic conditions in Alberta. High unemployment rates and overall reductions in consumer spending will continue to put downward pressure on the Company's gross margins. The Company's historic data in these circumstances indicate that consumers make product substitutions to lower priced, lower margin products.The Government of Alberta's first quarter fiscal update released this week reads "Alberta's real GDP is now forecast to decline by 2.7% in 2016 compared with the 1.4% reduction anticipated in Budget 2016"[1].

On August 5, 2016 a $1.25 levy on each litre of beer sold in Alberta was announced and the graduated taxation on beer was eliminated. Some Alberta beer producers will receive grants to offset the effect of the levy. While there has been negative media articles written about this change, it will only effect brewers in Alberta, BC and Saskatchewan, as all other brewers were subject to the $1.25 levy previously. Management does not believe it will have a significant impact on the Company's beer sales or related contribution margins.

The Alberta government remains committed to raising minimum wage rates. The Company pays its team members in excess of minimum wage, however the increase will place upward pressure on wage costs across the industry and is expected to result in increased salary costs. The Alberta government has announced a further increase of $1.00 per hour to $12.20 per hour effective October 1, 2016. Management expects to experience an increase in wage expense in Q4 2016 and in the 2017 fiscal year.

Management continues to monitor and assess individual store performance. Some stores may be sold or closed. Proceeds from any sales will be applied to reduce debt. The Company does not intend to curtail investment in enhancements to its industry leading enterprise resource systems.

The Company has an available $10 million revolving credit facility of which $2.4 million is unused as of August 29, 2016. Management believes this is sufficient for the successful execution of our business plan.

[1] Government of Alberta -"2016-2017 First Quarter Fiscal Update and Economic Statement" Retrieved August 24, 2016 from http://finance.alberta.ca/publications/budget/quarterly/2016/2016-17-1st-Quarter-Fiscal-Update.pdf

CONVERTIBLE DEBENTURES

On April 1, 2016 the Company received debenture holder approval to restructure the terms of the debentures originally issued in 2011 (the “original debentures”). The Company restructured the $8,076,000 outstanding unsecured subordinated convertible debenture (the “Debenture”) on Apr 30, 2016 as follows; the maturity date of the Debenture is April 30, 2021; the interest rate payable semi-annually was reduced to 7.50%; and the Debenture is convertible to common shares of the Company at a conversion price of $0.25 per common share.

The restructuring was accounted for as an extinguishment, which resulted in a gain on extinguishment of $1,121,560 after deducting related transaction costs of $481,526. The original debentures were derecognized and the revised Debenture was measured at fair value on the date of restructuring with an effective interest rate of 13.17%. The fair value of the Debenture of $6,472,914 was estimated using discounted future cash flows of the principal amount. The difference of $1,603,086 less deferred tax of $358,498 was allocated to the equity component as the conversion feature. This resulted in an accumulated deficit on the statement of financial position.

On June 10, 2016 the Company exercised its option to partially redeem $1,211,000 of the Debenture at face value. The equity component of the Debenture was decreased by $236,465 as a result.

The Company has announced three NCIB’s to repurchase the Debenture. In 2015 the Company repurchased and cancelled $927,000 in principal amount of Debentures. In the 6 month period ending June 30, 2016 the Company repurchased and cancelled $197,000 Debentures, for a total of $1,124,000 in principal amount of Debentures since inception of the NCIB’s.

OPERATING RESULTS - 3 Months ending June 30, 2016

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.Itiskeytonotethatgiventhe changes in the composition of stores of the Company, historical performance does not reflect theannualized results from recently acquired liquorstores, 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, 2016 and 2015.

Period	3 months ending June 2016		3 months ending June 2015	
Sales	$ 12,583,440	100.00%	$ 13,658,721	100.00%
Gross margin	3,028,021	24.06%	3,503,772	25.65%
Operating and administrative expense	2,567,352	20.40%	2,661,568	19.49%
Operating Margin (1)	$ 460,669	3.66%	$ 842,204	6.17%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	$ 460,669	3.66%	$ 842,204	6.17%
Annual Incentives (2)	-	0.00%	17,500	0.13%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	$ 460,669	3.66%	$ 859,704	6.29%
Stores at Period End	43		45	

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, 2016 were $12.6million.Sales are lower than the same quarter in 2015, due tothe closure of one store and the sale of three stores in the prior year. In addition, the Company was affected by the wildfire in Fort McMurray. We have one location that was closed for 2 months during the quarter. There has also been a 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 from25.7% to 24.1% as compared to this quarter last year.As the economy worsens in Alberta consumers have been substituting the products they purchase to lower margin items. The Company has altered its marketing and promotional strategies to maintain market share.

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, 2016 were $2.57 million, compared to $2.66 million for the same period in 2015.The decrease is due to the closure and sale of certain stores in the past year. As a percentage of sales, wages have increased 0.6% over the same period last year due to increases in minimum wages in Alberta.

Finance Costs

Interest on thebank loandecreased by $8kfor the three months ending June 30, 2016compared to 2015. The convertibles debenture coupon interest decreased by $29k due to the convertible debentures repurchased by the Company and subsequently cancelled. Accretive interest increased by $27k for the three month period due to the restructuring of the convertible debentures on April 30, 2016. All deferred issuance costs were recognized on the original debentures. The transaction costs associated with the restructuring were recognized on the statement of comprehensive income (loss) for the period.

Gain on Extinguishment of Convertible Debenture

The restructuring of the convertible debentures on April 30, 2016 was accounted for as an extinguishment for accounting purposes, which resulted in a gain on extinguishment of $1,121,560 after deducting related transaction costs of $481,526. The original debentures were derecognized and the revised debenture was measured at fair value on the date of restructuring with an effective interest rate of 13.17%.

OPERATING RESULTS - 6 Months ending June 30, 2016

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. Itiskeytonotethatgiventhe changes in the composition of stores of the Company, historical performance does not reflect theannualized results from recently acquired liquorstores, 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 2016**		**6 months ending June 2015**	
Sales	$ 22,126,805	100.00%	$ 24,094,269	100.00%
Gross margin	5,331,914	24.10%	6,177,846	25.64%
Operating and administrative expense	5,147,089	23.26%	5,332,118	22.13%
Operating Margin (1)	$ 184,825	0.84%	$ 845,728	3.51%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	$ 184,825	0.84%	$ 845,728	3.51%
Annual Incentives (2)	-	0.00%	61,250	0.25%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	$ 184,825	0.84%	$ 906,978	3.76%
Stores at Period End	43		45	

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, 2016 were $22.1 million. Sales are lower than the same period in 2015, due to the closure of one store and the sale of three stores in the prior year. In addition, the Company was affected by the wildfire in Fort McMurray. We have one location that was closed for 2 months during the period. There has also been a 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 from25.6% to 24.1% 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. The Company has altered its marketing and promotional strategies to maintain market share.

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, 2016 were $5.15 million, compared to $5.33 million for the same period in 2015. The decrease is due to the closure and sale of certain stores in the past year. As a percentage of sales, wages have increased 0.7% over the same period last year due to increases in minimum wages in Alberta.

Finance Costs

Interest on thebank loandecreased by $12k for the six months ending June 30, 2016compared to 2015. The convertibles debenture coupon interest decreased by $47k due to the convertible debentures repurchased by the Company and subsequently cancelled. Accretive interest increased by $24k for the three month period due to the restructuring of the convertible debentures on April 30, 2016. All deferred issuance costs were recognized on the original debentures. The transaction costs associated with the restructuring were recognized on the statement of comprehensive income (loss) for the period.

Gain on Extinguishment of Convertible Debenture

The restructuring of the convertible debentures on April 30, 2016 was accounted for as an extinguishment for accounting purposes, which resulted in a gain on extinguishment of $1,121,560 after deducting related transaction costs of $481,526. The original debentures were derecognized and the revised debenture was measured at fair value on the date of restructuring with an effective interest rate of 13.17%.

FINANCING & CREDIT FACILITIES

On June 30, 2016 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 $7.6 million.

As of June 30, 2016, the Company had $0.66M of cash on hand, and the $10 million Facility was drawn at $7.97M. The Company pays interest at prime plus 1.25% or bankers' acceptances plus 2.75% per annum. At June 30, 2016 the Company has $5.0M of its bank loan in bankers' acceptances. 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, 2016orAugust 25, 2016.

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, 2015.

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, 2015 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, 2016 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; impact from provincial tax increases; market volatility and unpredictable share price; weather; acquisition growth strategy and development risks; importance of inventory and EFC; supply interruption or delay; reliance on key personnel; labour costs and labour market; available financing; credit facility and financial instrument covenants; active trading market.

For a discussion of these risks and other risks associated with an investment in Shares, see "Risk Factors" detailed in the Company's Management Discussion and Analysis dated April 27, 2016, 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 2016	3 months ended June 2015	6 months ended June 2016	6 months ended June 2015
Net comprehensive income (loss)	$ 1,152,579	$ 307,469	$ 527,255	$ (12,807)
Income taxes	36,000	102,489	36,000	(4,269)
Interest expense	268,887	278,384	505,116	539,772
Depreciation	165,005	160,487	315,068	314,225
Unrealized gain on interest rate swap	-	(22,743)	-	(45,977)
Gain on extinguishment of convertible debenture	(1,121,560)	-	(1,121,560)	-
Gain on repurchase of convertible debenture	(2,000)	(54,430)	(42,213)	(54,430)
Amortization of deferred issuance costs	-	40,812	-	81,175
Store closure expenses	-	10,125	-	10,125
Loss on disposal of property and equipment	3,438	21,664	10,604	22,667
EBITDA	**$ 502,349**	**$ 844,257**	**$ 230,270**	**$ 850,481**

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.