



ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the period ended September 30, 2016

As at November 24, 2016

ROCKY MOUNTAIN LIQUOR INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated November 24, 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 September 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 the interim 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 \$12.2M (2015 - \$13.3M)
- EBITDA decreased to \$424,210 (2015 - \$790,851)
- Net loss is \$467,358 (2015 - income \$380,504)
- Gross margin percentage decreased to 24.5% (2015 – 26.5%)

Key operational and financial highlights, year over year 9 month comparison:

- Sales decreased to \$34.3M (2015 - \$37.4M)
- EBITDA decreased to \$654,478 (2015 - \$1,641,332)
- Net income is \$59,895 (2015 - \$367,697)
- Gross margin percentage decreased to 24.2% (2015 – 25.9%)

OUTLOOK

Weak economic conditions, increases in Provincial deficits, and reductions in Government investments continue to be the short term outlook in Alberta. High unemployment rates are expected to continue and the government has forecast a 3%¹ reduction in primary household income for the balance of 2016. We expect conditions will continue to put downward pressure on the Company's gross margins. The Company's historic data indicate that in these circumstances consumers make product substitutions to lower priced, lower margin products.

The Alberta government increased the minimum wage to \$12.20 on October 1st, 2016 and has announced two further increases of \$1.40 per hour leading to a \$15.00 minimum wage by October 2018. The Company pays its team members in excess of minimum wage, however the increase will continue to cause upward pressure on wage costs across the industry. Management expects to incur increased salary costs in Q4 2016 and in the 2017 and 2018 fiscal years.

We continue 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. We will also continue to evaluate investment opportunities in our sector.

The Company has an available \$10 million revolving credit facility of which \$2.2 million is unused as of November 24, 2016. Management believes this is sufficient for the successful execution of our business plan.

OPERATING RESULTS - 3 Months ending September 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. 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 September 30, 2016 and 2015.

¹ Alberta Treasury Board and Finance-“2016 –2017 First Quarter Fiscal Update and Economic Statement (August 2016)” Retrieved November 23, 2016 from <http://finance.alberta.ca/publications/budget/quarterly/2016/2016-17-1st-Quarter-Fiscal-Update.pdf>

Period	3 months ending September 2016		3 months ending September 2015	
	Sales	\$ 12,210,492	100.00%	\$ 13,295,174
Gross margin	2,993,175	24.51%	3,523,550	26.50%
Operating and administrative expense	2,572,649	21.07%	2,722,093	20.47%
Operating Margin (1)	\$ 420,526	3.44%	\$ 801,457	6.03%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	\$ 420,526	3.44%	\$ 801,457	6.03%
Annual Incentives (2)	-	0.00%	42,625	0.32%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	\$ 420,526	3.44%	\$ 844,082	6.35%
Stores at Period End	42		42	

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 September 30, 2016 were \$12.2 million. Sales are lower than the same quarter in 2015, due to the sale of three stores which occurred during the third quarter in the prior year. 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 from 26.5% to 24.5% 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 other location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the three month period ended September 30, 2016 were \$2.57 million, compared to \$2.72 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 0.5% over the same period last year due to increases in minimum wages in Alberta.

Finance Costs

Interest on convertible debentures decreased by \$44k for the three months ending September 30, 2016 compared to 2015. The reduction is due to reduced interest expense on the convertible debentures repurchased by the Company and subsequently cancelled, and to the 25 basis point reduction in interest payable on the convertible debentures following the April 2016 amendment described below. Interest on the bank loan has increased by \$24k for the three months ending September 30, 2016 compared to 2015 as the bank loan was drawn at a higher amount throughout the period.

OPERATING RESULTS - 9 Months ending September 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. 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 nine month period ending September 30, 2016 and 2015.

Period	<u>9 months ending</u>		<u>9 months ending</u>	
	<u>September 2016</u>		<u>September 2015</u>	
Sales	\$ 34,337,297	100.00%	\$ 37,389,443	100.00%
Gross margin	8,325,089	24.25%	9,701,396	25.95%
Operating and administrative expense	7,719,740	22.48%	8,054,211	21.54%
Operating Margin (1)	\$ 605,349	1.76%	\$ 1,647,185	4.41%
Non-recurring Items (1)	-	0.00%	-	0.00%
Operating Margin before non-Recurring Items (1)	\$ 605,349	1.76%	\$ 1,647,185	4.41%
Annual Incentives (2)	-	0.00%	103,875	0.28%
Operating Margin before non-Recurring Items (1) and Annual Incentives (2)	\$ 605,349	1.76%	\$ 1,751,060	4.68%
Stores at Period End	42		42	

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 nine month period ended September 30, 2016 were \$34.3 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 in 2016. 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 from 25.9% to 24.2% 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 other location costs such as utilities, property taxes, and insurance. Total operating and administrative expenses for the nine month period ended September 30, 2016 were \$7.7 million, compared to \$8.1 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 convertible debentures decreased by \$91k for the nine months ending September 30, 2016 compared to 2015. The reduction is due to reduced interest expense on the convertible debentures repurchased by the Company and subsequently cancelled, and to the 25 basis point reduction in interest payable on the convertible debentures following the April 2016 amendment described below. Interest on the bank loan has increased by \$11k for the three months ending September 30, 2016 compared to 2015 as the bank loan was drawn at a higher amount throughout the period.

CONVERTIBLE DEBENTURES

In 2011 the Company issued a \$9,200,000 unsecured subordinated convertible debenture (“the Debenture”) due on April 30, 2016. The Debenture was interest bearing at 7.75% payable semi-annually. The Debenture was convertible to common shares of the Company at a conversion price of \$0.50 per common share.

On April 1, 2016 the Company announced that the holders of the Debentures approved the proposed amendments extending the maturity date to April 30, 2021, reducing the conversion price to \$0.25, and reducing the coupon rate to 7.50%.

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 9 month period ending September 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.

In addition, the Company redeemed \$1,211,000 of the outstanding principal amount of the amended debentures on June 10, 2016. On the Company’s Interim Consolidated Statements of

Financial Position the balance of the Debenture at September 30, 2016 is \$5,588,923. 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 September 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 \$7.8 million.

As of September 30, 2016, the Company had \$530K of cash on hand, and the \$10 million Facility was drawn at \$7.52M. The Company pays interest at prime plus 1.25% or bankers' acceptances plus 2.75% per annum. At September 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 September 30, 2016 or November 24, 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 September 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 – 9 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.

	<u>3 months ended</u> <u>Sept 2016</u>	<u>3 months ended</u> <u>Sept 2015</u>	<u>9 months ended</u> <u>Sept 2016</u>	<u>9 months ended</u> <u>Sept 2015</u>
Net comprehensive income (loss)	\$ (467,358)	\$ 380,504	\$ 59,895	\$ 367,697
Income tax expense	-	136,269	36,000	132,000
Interest expense	258,136	233,590	763,252	773,362
Depreciation	168,844	181,008	483,912	495,233
Unrealized gain on interest rate swap	-	-	-	(45,977)
Gain on repurchase of convertible debenture	-	(57,834)	(42,213)	(112,264)
Gain on extinguishment of convertible debenture	-	-	(1,121,560)	-
Amortization of deferred issuance costs	-	1,852	-	83,027
Store closure expenses	111,980	30,218	111,980	40,343
Loss (Gain) on disposal of property and equipment	352,608	(114,756)	363,212	(92,089)
EBITDA	\$ 424,210	\$ 790,851	\$ 654,478	\$ 1,641,332

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.