# ROCKY MOUNTAIN LIQUOR INC

## Ticker: "RUM"

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**August 29, 2012**

# ROCKY MOUNTAIN LIQUOR INC

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated August 29, 2012.

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 financial statements and accompanying notes of the Company for the six months ending June 30, 2012. 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 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 financial statements unless otherwise stated.

## 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) 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; (xi) the maintenance of management information systems; (xii) the impact of increases in labour costs, shortages or labour relations; (xiii) the impact of weather on its affect on consumer demand, (ix) the ability to raise capital, and (x) 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.

Throughout this management discussion and analysis 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).

**KEY HIGHLIGHTS FOR THE SECOND QUARTER**

The Company acquired one new store in Stony Plain, Alberta.

Key Operational Highlights, year over year 3 month comparison:

- Sales were $14,741,611 (2011 -  $14,365,599) , an increase of 2.6%;
- Gross margin was 23.0% (2011 – 22.0%);
- EBITDA was $1,112,559 (2011 – 1,063,624), an increase of 4.6%;
- Operating margin was $1,109,693 (2011 – $1,036,244), an increase of 7.1%;
- Net income $414,998 (2011 - $163,195), an increase of 154.3%.

Key Operational Highlights, year over year 6 month comparison:

- Sales were $25,253,980 (2011 -  $24,405,572) , an increase of 3.5%;
- Gross margin was 23.1% (2011 – 21.6%);
- EBITDA was $1,411,339 (2011 – $1,333,706), an increase of 5.8%;
- Operating margin was $1,431,476 (2011 – $1,273,770), an increase of 12.4%;
- Net income $295,913 (2011 - $17,693), an increase of 1572.5%.

## RECENT DEVELOPMENTS SINCE PERIOD ENDED JUNE 30, 2012

- The Company completed the acquisition of two new stores in Red Deer, Alberta, one on August 21, 2012 and one August 28, 2012.
- The Company renewed its financing agreement with its senior lender TD Canada Trust.

## OUTLOOK

We opened our 43rd store in Alberta yesterday, August 28, 2012, concluding the acquisition of two new stores this month. This is our fourth acquisition in this fiscal year. We expect at least two more new store developments before year end. Privatized liquor in Alberta is on the cusp of celebrating its 20th year in 2013. We have had no recent liquor tax increases, and overall, the industry appears stable and consistent. The economy of Western Canada in general and Alberta in particular, is improving.

With 1279 private stores in the province as of January 2012 [Source: Alberta Gaming and Liquor Commission-"Quick Facts Liquor – Jan 2012"], management sees continued opportunity for consolidation of private liquor stores in the province. We are not as positive about the opportunities currently in British Columbia, but we continue to monitor that marketplace as it may be a source of future growth as its industry and marketplace evolve.

We are pleased with our Company's improved balance sheet and capital structure and do not see any risk from interest rate increases going forward as our senior bank debt and our debentures are hedged or fixed for several more years. Our debt service ability is well above required levels and our debt leverage is well positioned when compared to the industry.

We expect to see an increase in net comprehensive income this year as compared with last year. In addition to continued operational success, improvements in net income have been positioned as a result of a $3 million principal debt repayment late in 2011 at a 9.9% coupon plus quarterly fees. This repayment was funded using proceeds from the debenture issued in Q2 2011. We have previously reported that this repayment of principal debt is expected to result in a reduction of $89,250 in interest expense each quarter. Operational synergies and an increase in gross margin primarily provided the other enhancements in net income this quarter which increased to $414,998 (2011 - $163,195).

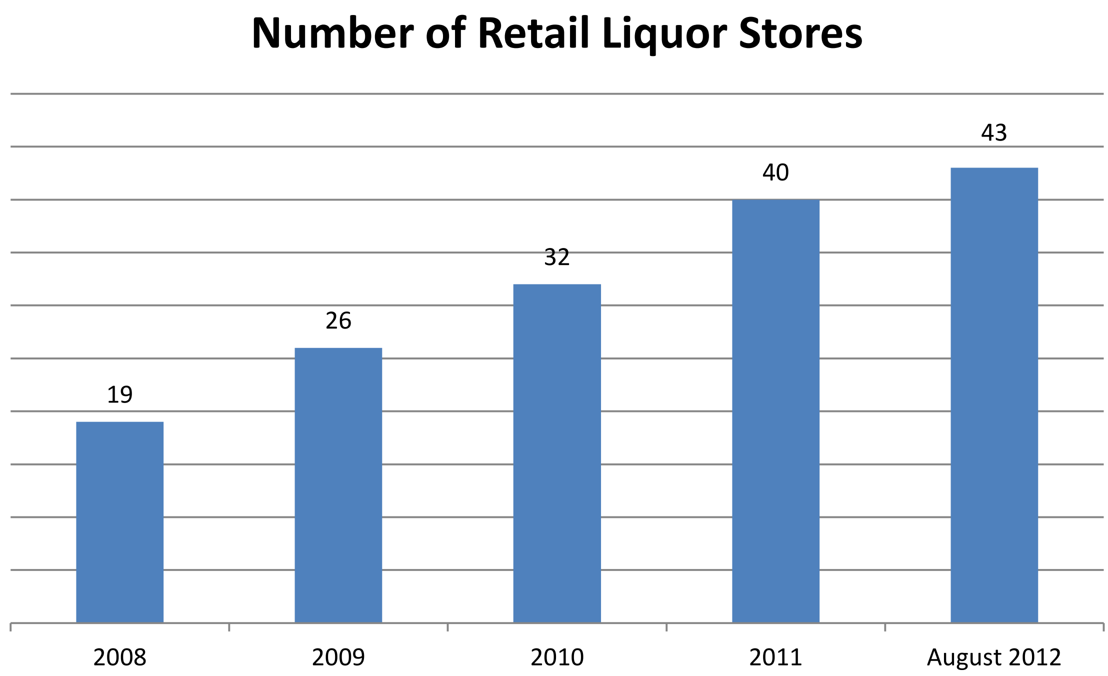
In Q3 2012 the new Alberta drinking and driving laws will take effect. Enforcement will occur at .05 whereas federal laws are enforced at .08. We do not know the impact these legislative changes will have on liquor retailing, if any.

## OVERVIEW OF ROCKY MOUNTAIN LIQUOR INC

The Company is an incorporated Company established under the laws of the Business Corporations Act (Canada) with its common shares ("shares") trading on the TSX Venture Exchange under the symbol ("RUM").

Andersons, headquartered in Edmonton, Alberta, owns and operates private liquor stores in that province. Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The product mix generally offered by Andersons at its retail stores includes beer, spirits, wine and ready to drink liquor products, as well as ancillary items such as juice, ice, mix and giftware. Andersons has focused on store operations while pursuing an active acquisition strategy to acquire additional stores within the Alberta market, focusing largely outside of the major urban centres. To date, Andersons has been successful in improving the performance of its acquisitions through effective integration with its existing operations.

As of August 29, 2012 Andersons operated and owned 43 stores.

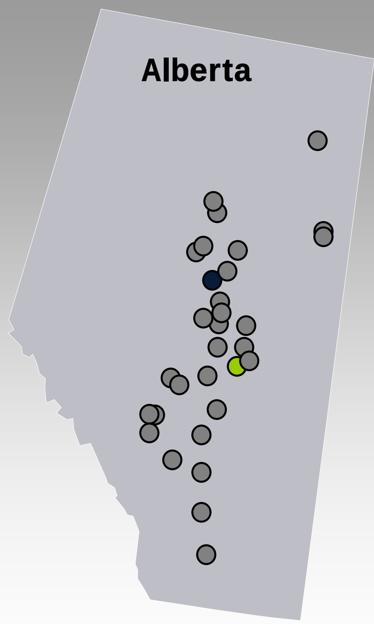



**COMPETITIVE ENVIRONMENT**

Andersons operates 43 liquor stores in Alberta where there are approximately 1,279 liquor stores and 97 agency stores as at January 2012 [Source: Alberta Gaming and Liquor Commission- "Quick Facts Liquor – Jan 2012"]. The primary drivers of liquor store sales are location, convenience, and range of product selection. Management of the Company believes that price and service also play a role in the competitive market, but to a lesser degree than convenience, location and selection. The Company has therefore pursued an acquisition strategy that closely analyzes the location of retail operations, including the location of any competition. The Company has focused on locations largely outside of the major urban centers (Edmonton and Calgary) and on specific sites with maximum traffic and minimal competition. In addition, the Company has integrated inventory and warehousing systems into its retail operations, allowing it to take advantage of procurement opportunities.

Andersons operates 11 stores in Northern Alberta, 20 stores in Central Alberta and 12 stores in Southern Alberta.

## Locations




- Head Office - Edmonton
- Distribution Center - Wetaskiwin
- Retail locations

| | |
|---|---|
| Athabasca | 2 |
| Beaumont | 2 |
| Calgary | 1 |
| Claresholm | 1 |
| Cochrane | 1 |
| Cold Lake | 1 |
| Devon | 3 |
| Didsbury | 1 |
| Drayton Valley | 1 |
| Edmonton | 1 |
| Fort Macleod | 1 |
| Fort McMurray | 1 |
| Gibbons | 1 |
| Lac La Biche | 1 |
| Leduc | 1 |
| Lethbridge | 4 |
| Millet | 2 |
| Morinville | 2 |
| Nisku | 1 |
| Pincher Creek | 1 |
| Red Deer | 2 |
| Rocky Mountain House | 2 |
| St. Paul | 3 |
| Stony Plain | 1 |
| Sylvan Lake | 3 |
| Wetaskiwin | 2 |
| Wainwright | 1 |
| | **43** |

**AWARDS FOR GROWTH**

***Fast Growth 50 – 3-year growth in Alberta***

The Company was one of 50 of Alberta's leading growth companies awarded the "Fast Growth 50" award in February 2012 based on the Company's 2010 results. The tenth annual event was hosted by Ruth Kelly, publisher of Alberta Venture Magazine. Rocky Mountain Liquor was ranked 18th overall. Ms. Kelly explained how the magazine, with the assistance of KPMG Chartered Accountants, evaluated 1100 Alberta companies before selecting the Fast Growth 50 winners. The Fast Growth 50 are judged annually on sales increases and capital asset increases over the past 3 years as well as employee growth, R&D expenditures, marketing programs, and capital investments. This is the second consecutive year the Company has been ranked in the Fast Growth 50.

***Profit 200 – 5-year growth in Canada***

The Company was ranked in the 24th annual PROFIT 200 ranking of Canada's Fastest-Growing Companies by PROFIT Magazine in June 2012 based on 2011 results. The Company ranked 160th overall. The award was evaluated on the five-year growth of Andersons Liquor Inc., the wholly owned subsidiary of the Company. The rankings were published in the Summer issue of PROFIT and online at PROFITguide.com. The PROFIT 200 is Canada's largest annual celebration of entrepreneurial achievement. This is the second consecutive year the Company has been ranked in the Profit 200.

**BUSINESS STRATEGY**

***Growth - New Stores***

The Company's strategy is to grow by increasing the number of customer transactions as well as through new store development and acquisitions. Andersons is actively exploring opportunities to acquire and/or develop stores in Alberta, and evaluate growth opportunities in British Columbia. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and shareholder value.

***Differentiation: Product, Operations, and Management Information Systems***

Through the use of the Andersons warehousing and distribution capability, management will continue to focus on product optimization by providing more product choices for its customers. Through the use of management information systems, Andersons will derive efficiencies and continue its efforts in providing operational effectiveness.

***Technology***

The Company utilizes a combination of third party and custom designed applications for point of sale, reconciliation, accounting, business intelligence and reporting. We maintain our own internal Information Technologies support staff and programmers. Hardware at store locations is serviced by a contract with an external supplier we have been using since 2004. Their contract now includes all of our locations; however onsite work is co-supervised by our support staff.

All our applications run on Windows operating systems both at the store and enterprise level. Laptop and remote services, like scanning tools, use a combination of virtual private network and terminal services to interface from outside our enterprise security perimeter. To increase certainty and scalability, and to allow for future growth of stores, management has outsourced our enterprise servers and installed software based, automated data replication servers at each store location. These replication servers require no additional investment in computer hardware. We have installed an enterprise data-container capable of containing and reporting on two billion transactions in an SQL data container.

We are concentrating on producing a robotic data environment where automation software is used to push spreadsheet-based reporting output on a regular and timely basis to store level, operations level and enterprise level. There are a variety of key performance indicators such as operational exceptions that are provided in near real time to our front line managers and their supervisors.

Time and attendance systems utilize web-based solutions, which integrate seamlessly with web-based payroll solutions provided by an industry leading supplier. All our employees receive their pay records online in a secure, self-service environment. The efficiencies we realize from integrating and automating these world-class technologies through software robotics allows us to reduce and manage administrative and overhead costs.

Our custom designed and outsourced software drives efficiencies in our warehouse and enterprise distribution systems. This approach is a custom form of Enterprise Resource Planning (ERP). We use ERP to automate forecasting replenishment and receiving of inventories, providing efficient and lower cost distribution and transportation management, as well as reduce administration costs and latency. Our goal is to have the right products, in sustainable quantities, with service levels consistently over 96%, on our shelves at the right time.

At store level we have multiple redundancies that allow our point of sale systems to operate in a non-network or non-enterprise dependent manner. Our stores are able to continue operations autonomously. Our redundant infrastructure has provided us with uptime of almost 100% since the wholly owned subsidiary Andersons Liquor Inc. began operations in 2001. Notwithstanding the lack of downtime, the system is designed so that any one liquor store experiencing connectivity constraint will not affect any other liquor store in the enterprise.

The Company has achieved rapid store growth and has had continued success integrating its store acquisitions into its existing retail system, thereby validating management's strong belief in the efficiency and effectiveness of the Company's operational systems. An important element of the Company's operational support is its Enterprise Fulfillment Centre ("EFC") which is now integrated in our Centre 149 retail store in Edmonton. Suppliers tend to provide retailers with large bundles of product, rather than single items. In addition, supplier service levels can be lower than our 96% minimum acceptable service levels. The EFC enables the Company to break down bundles into individual pieces in order to better meet the demands of individual stores. This in turn improves the inventory flexibility, provides increased selection in individual stores, while producing an industry leading gross margin return on inventory investment as measured by gross profit divided by average inventory. A second advantage of the EFC at Centre 149 is it allows the Company to take advantage of inventory purchasing at opportune stages, such as Limited Time Offers ("LTO's"). LTO's are discounts offered by liquor distributors and are typically offered one to four times per year.

The EFC efficiently manages the temporary influx of inventory that can result from increased purchasing at these times. Moreover, having a centralized warehouse that can service retail stores effectively has reduced the need to lease larger retail store spaces to incorporate warehousing functions, which traditionally have high rent and utility consumption. Management of the Company believes the cost to run the EFC is less than the costs to lease larger stores with on-site warehousing capabilities.

The Company's approach to risk planning for its information technology systems encompasses risk assessment, risk mitigation, periodic evaluation and assessment as well as daily automated logging and reporting of system performance. In this way our technology investment remains aligned with operational goals. Our key operational leaders and our support staff have regular reviews on a weekly basis. This direct collaboration and timely accountability results in both improvements in existing technologies and ideas for new automated processes.

We believe we have an industry leading technology base that has consistently and safely achieved gains in our integrated capabilities.

***Stable Business***

Andersons operates in a stable business environment. The business is largely cash-based with alcohol-based products accounting for approximately 99% of total sales as of June 30, 2012.

***Financing***

The Company has financed its growth with the issuance of shares, the issuance of convertible debentures and through available credit facilities.

## FINANCIAL MEASURES

### *Maintenance Capital Expenditures*

In order to maintain its productive capacity, the Company incurs expenses for routine maintenance, invests and upgrades information systems and replaces assets as required.

### *Net Change in Non-cash Working Capital*

The Company has closely analyzed the product mix at all stores and modified available inventory at stores to meet the needs of the customers. This, along with our ability to integrate our ordering system with our suppliers, has resulted in minimal inventory requirements. The decrease in non-cash working capital is partially due to an increase in inventory as a result of an increase in the number of stores in operation, as well as due to an increase in accounts receivable as a result of on account sales to festivals that occurred at quarter end in 2012. This decrease to non-cash working capital is partially offset by reductions in accounts payable and accrued liabilities as a result of timing of liabilities compared to prior year.

### *Long-Term Incentive Plans*

The Company has used stock option grants with vesting periods for its Long-Term Incentive Plan. These grants were used as both an incentive and a reward for performance of key employees. In 2011, the Company implemented a share purchase plan for which employees are able to purchase shares of Rocky Mountain Liquor, and the Company will match 50% of those contributions.

## MANAGEMENT TEAM

| | |
|---|---|
| **Peter Byrne, President, CEO** | Mr. Byrne is the President, Chief Executive Officer and co-founder of Andersons and previously has been Chief Executive Officer and Chairman of the Board of Channel Drugs Limited, a private company that owned and operated the PharmaCare franchise until its sale in 2004. |
| **Allison Byrne, COO** | Ms. Byrne is the Chief Operating Officer of Andersons and prior to joining Andersons, she worked at Deloitte & Touche LLP from September 2002 until June 2007, receiving her Chartered Accountant designation in 2005. |
| **Sarah Stelmack, CFO** | Ms. Stelmack articled at Deloitte & Touche LLP from September 2005 until September 2008, receiving her Chartered Accountant designation in 2008. Ms. Stelmack previously held the position of Controller with Rocky Mountain Liquor Inc. |

## OPERATING RESULTS - 3 Months ended June 30, 2012

### *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 rapid expansion of the Company, historical performance does not reflect the annualized performance from recently acquired liquor stores.

The following table shows the operating results of the Company for the 3-month period ended June 30, 2012 and 2011.

| **Period** | **3 months ending Jun 2012** | | **3 months ending Jun 2011** | |
|---|---|---|---|---|
| | | | | |
| (Expressed in Canadian dollars) | **$** | **%** | **$** | **%** |
| | | | | |
| Sales | 14,741,611 | 100.00% | 14,365,599 | 100.00% |
| Gross margin | 3,388,761 | 22.99% | 3,154,872 | 21.96% |
| Operating and administrative expense | 2,279,068 | 15.46% | 2,118,628 | 14.75% |
| Operating Margin (1) | 1,109,693 | 7.53% | 1,036,244 | 7.21% |
| | | | | |
| Non-recurring Items (1) | - | 0.00% | 3,377 | 0.02% |
| Operating Margin before non-Recurring Items (1) | 1,109,693 | 7.53% | 1,039,621 | 7.24% |
| Annual Incentives (2) | 5,436 | 0.04% | 2,876 | 0.02% |
| Operating Margin before non-Recurring Items (1) and Annual Incentives (2) | 1,115,129 | 7.56% | 1,042,497 | 7.26% |
| Stores at Period End | 41 | | 36 | |

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 3-month period ended June 30, 2012 were $14.74 million. Sales are higher than 2011 mainly due to acquisitions completed and four new stores constructed during 2011.

### *Cost of Goods Sold and Gross Margin*

Margins have improved from 22.0% to 23.0% as compared to this quarter last year for an increase of $234,000. This is a result of new forecasting technologies that reduces the need to take mark downs by matching available Limited Time Offers to consumer demand. Improvements in the economy are also expected to provide the Company with margin advancement opportunities.

### *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 3 month period ended June 30, 2012 was $2.28 million. The increase in operating and administrative expenses as a percentage of sales from 2011 to 2012 is due to the increase in salaries, insurance, property tax, and utility costs due to the increased number of stores in operation. Rent expense increased as a percentage of sales as a result of lease renewal rates.

***Operating Margin***

Operating margin was 7.53% or $1,110,000 for the 3 months ended June 30, 2012 and 7.21% or $1,036,000 June 30, 2011. The increase is mainly due to an increase in gross margins. Less significant impacts are decreased advertising costs and a decrease in stock based compensation as a result of fewer options issued.

## OPERATING RESULTS - 6 Months ended June 30, 2012

***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 rapid expansion of the Company, historical performance does not reflect the annualized performance from recently acquired liquor stores.

The following table shows the operating results of the Company for the 6-month period ended June 30, 2012 and 2011.

| **Period** | **6 months ending Jun 2012** | | **6 months ending Jun 2011** | |
|---|---|---|---|---|
| | | | | |
| (Expressed in Canadian dollars) | **$** | **%** | **$** | **%** |
| | | | | |
| Sales | 25,253,980 | 100.00% | 24,405,572 | 100.00% |
| Gross margin | 5,826,367 | 23.07% | 5,277,980 | 21.63% |
| Operating and administrative expense | 4,394,891 | 17.40% | 4,004,210 | 16.41% |
| Operating Margin (1) | 1,431,476 | 5.67% | 1,273,770 | 5.22% |
| | | | | |
| Non-recurring Items (1) | - | 0.00% | 8,040 | 0.03% |
| Operating Margin before non-Recurring Items (1) | 1,431,476 | 5.67% | 1,281,810 | 5.25% |
| Annual Incentives (2) | 10,628 | 0.04% | 6,466 | 0.03% |
| Operating Margin before non-Recurring Items (1) and Annual Incentives (2) | 1,442,104 | 5.71% | 1,288,276 | 5.28% |
| Stores at Period End | 41 | | 36 | |

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 6-month period ended June 30, 2012 were $25.25 million. Sales are higher than 2011 mainly due to acquisitions completed and four new stores constructed during 2011.

***Cost of Goods Sold and Gross Margin***

Margins have improved from 21.6% to 23.1% as compared to this quarter last year for an increase of $548,000. This is a result of new forecasting technologies that reduces the need to take mark downs by matching available Limited Time Offers to consumer demand. Improvements in the economy are also expected to provide the Company with margin advancement opportunities.

***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 6 month period ended June 30, 2012 was $4.39 million. The increase in operating and administrative expenses as a percentage of sales from 2011 to 2012 is due to the increase in salaries, insurance, property tax, and utility costs due to the increased number of stores in operation. Rent expense increased as a percentage of sales as a result of lease renewal rates.

***Operating Margin***

Operating margin was 5.67% or $1.41 million for the 6 months ended June 30, 2012 and 5.22% or $1.27 million June 30, 2011. The increase is due to an increase in gross margins.

**CONDENSED QUARTERLY INFORMATION**

| Expressed in thousands of dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | | **2011** | | | | | **2010** |
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 |
| # stores, end of period | 41 | 40 | 40 | 39 | 36 | 34 | 32 | 32 |
| Total revenue | 14,742 | 10,512 | 13,274 | 15,139 | 14,366 | 10,039 | 12,834 | 13,547 |
| Profit (loss) from continuing operations | 415 | (119) | (539) | 69 | 163 | (146) | (122) | 64 |
| Basic earnings (loss) per share | 0.00 | (0.01) | (0.01) | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 |
| Diluted earnings (loss) per share | 0.00 | (0.01) | (0.01) | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 |

## LIQUIDITY AND CAPITAL RESOURCES AS OF JUNE 30, 2012

*Shareholders' Equity*

| | |
|---|---|
| Authorized: | Unlimited number of common shares |
| Issued and outstanding: | 57,797,788 common shares |

### *Warrants*

The following tables summarize information about warrants outstanding:

| Expiry date | Exercise price $ | Number of warrants outstanding – June 30, 2012 | Number of warrants exercisable – June 30, 2012 |
|---|---|---|---|
| November 24, 2014 | 0.3675 | 1,000,000 | 1,000,000 |
| **Outstanding, end of period** | | **1,000,000** | **1,000,000** |

### *Options*

The following tables summarize information about options outstanding:

| Expiry Date | Participant | Exercise Price $ | Number of Options Outstanding - June 30, 2012 | Number of Options Exercisable - June 30, 2012 |
|---|---|---|---|---|
| April 21, 2013 | Stock Option Plan (Pre-RTO) | 0.20 | 357,137 | 357,137 |
| June 2, 2013 | Stock Option Plan (Executive) | 0.50 | 180,000 | 180,000 |
| August 24, 2013 | Stock Option Plan (Directors) | 0.30 to 0.39 | 300,000 | 300,000 |
| October 13, 2014 | Stock Option Plan (Directors) | 0.18 to 0.22 | 150,000 | 150,000 |
| | Stock Option Plan | | | |
| **Outstanding June 30, 2012** | | | **987,137** | **987,137** |

### *Convertible Debenture*

On June 16, 2009, the Company issued an $809,140 unsecured convertible debenture maturing on June 16, 2014 and bearing an interest rate of 8.25% per annum, payable in arrears annually. The initial principal amount of the debenture is convertible, at the election of the holder, in whole or in part, into common shares at a conversion ratio of $0.315 per share, representing up to 2,568,968 shares.

On April 13, 2011 the Company completed a financing of $9,200,000 in convertible unsecured subordinated debentures resulting in net proceeds of $8,662,365. The Debentures bear interest at an annual rate of 7.75% payable semi-annually in arrears on April 30 and October 31 in each year, commencing October 31, 2011. The maturity date of the Debentures is April 30, 2016. The Debentures will be convertible into common shares of the Company at a conversion price of $0.50 per Common Share.

### *Credit Facilities*

On June 30, 2012 the Company had a $6 million Operating Line and a $14 million Acquisition Facility.

As of June 30, 2012, the Company had $1.2 million in cash on hand and its operating line drawn at $1.3 million. The $14 million Acquisition Facility was drawn at $4.5 million.

With total credit of $20 million less net utilization of $5.8 million, the Company had access to $14.2 million under its Operating Line and Acquisition Facility as of June 30, 2012.

On November 25, 2011 the Company voluntarily paid off its Sub-Debt Financing in full. This will reduce interest expense in fiscal 2012. In addition, quarterly fees of $15,000 for the remaining quarterly periods to the maturity date of the Sub-Debt facility will be saved.

After payment of all fees, the net savings between November 25, 2011 and September 15, 2014 will be $748,427.

The Company's indebtedness is subject to a number of external covenants. Under the terms of the Andersons credit facility, the following ratios are monitored: adjusted debt to EBITDA, and fixed charge coverage ratio. For the period ending June 30, 2012, Andersons continues to be in compliance with all covenants.

### *Capital Expenditures*

The Company will continue to pursue acquisition opportunities and opportunities to open new stores. Moderate capital investments that reduce energy consumption, and capital investments primarily in technology that will improve efficiencies by reducing salary and administration expenses are also planned.

### *Liquidity Risk*

The Company uses a variety of sources of capital to fund acquisitions, new store development and ongoing operations, including cash provided by operations, bank indebtedness, and issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependent upon capital market conditions and interest rate levels. The degree to which the Company is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

To manage liquidity risk, the Company is proactive with its review of the capital structure. Management believes the Company currently has the resources to meet obligations as they come due. The Company does not have any financing leases as defined by IFRS.

### *Credit Risk*

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company maintains its cash and cash equivalents with a major Canadian chartered bank and local Alberta credit unions.

The risk for accounts receivable is that a wholesale customer of Andersons might fail to meet its obligations under their credit terms. The Company, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose purchases are expected to represent approximately 12% of the Company's sales. Risk associated with respect to accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been immaterial. The Company is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the Alberta hospitality industries. $0 in bad debts were recorded for the period ending June 30, 2012. In order to reduce credit risk, the Company has reduced the number of commercial accounts it services

***Interest Rate Risk***

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

As a further part of its interest rate strategy, on April 6, 2010 Andersons contracted with a Canadian Chartered Bank to hedge interest rates for a 5-year period in the amount of $4.5 million at 3.35% plus applicable credit spread. This hedge matures April 6, 2015.

We would note that in our financial statement reporting, our swap mark to market is measured on the basis of one month banker's acceptances. We are currently using three month banker's acceptances which could result in a non-material difference of our market to market valuations. For the $4.5 million remaining swap with our senior lender, any mark to market adjustment on a quarterly basis remains a non-cash impact to the Company unless the swap is not held to maturity.

As of August 29, 2012 Andersons has $4.5 million in hedges representing 22.5% of Andersons' available credit facilities.

## OFF BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements as at June 30, 2012.

## CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated statement of financial position are:

*Inventory*

Management has estimated the value of inventory based upon their assessment of the realizable amount less selling costs. No unsaleable merchandise has been identified by management.

*Taxation*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

*Impairment of Goodwill*

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable. An impairment review was performed December 31, 2011. No impairment indicators existed at that date.

*Useful lives of property and equipment*

Management has estimated the useful lives of property, plant and equipment as outlined in Note 2 based on their assessment of the time frame in which these assets will be used by the Company.

*Business Combinations*

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. Goodwill is calculated based on the purchase price less the fair value of the net tangible assets.

*Financial Instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Detailed information with respect to key assumptions used in determining fair value of financial instruments is discussed in note 18.

*Share Based Compensation*

The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

## CHANGES IN ACCOUNTING POLICIES

## ACCOUNTING STANDARDS ISSUED BUT NOT YET IN EFFECT

*Financial Instruments*
The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2015. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

*Consolidated Financial Statements*
The IASB has issued a new standard, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which defines control for the purposes of determining which arrangements should be consolidated, including guidance on participating rights.

*Fair Value Measurement*
The IASB has issued a new standard, IFRS 13, "Fair Value Measurement" ("IFRS 3"), which sets out a single IFRS framework for measuring fair value, and establishes disclosure requirements for fair value measurements.

The above standards are effective for annual periods commencing on or after Jan 1, 2013, which earlier adoption permitted. The Company is currently evaluating the impact the new standards will have on its financial reporting.

## FINANCIAL INSTRUMENTS

For the Company, fair value is equal to carrying value for all of its financial instruments.

For cash and cash equivalents, accounts receivables, due from related parties, bank indebtedness, short-term debt, promissory note, accounts payable and accrued liabilities, wages payable and due to (from) shareholders the carrying value approximates fair value due to the short-term nature of the instruments.

The interest rate swap has a fair value equivalent to the carrying value and is calculated on a mark to market basis.

The fair value of the convertible debenture is equivalent to its carrying value and is assessed at each period.

Bank indebtedness and long term debt have fair values which approximate their carrying value as the interest rate is at a variable market rate.

## TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Company paid rents in respect to of a retail liquor store of $9,720 for the 6 month period ending June 30, 2012 (2011 - $9,720) to Byrne Alberta, a privately held Company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market value.

## 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 three months ending June 30, 2012 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.

### Internal Control Over Financial Reporting

On January 1, 2010 the Company adopted IFRS as its standard for financial reporting. The transition to IFRS did not result in any significant changes to the Company's internal controls over financial reporting.

## 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; reliance on key personnel; acquisition growth strategy and development risks; labour costs and labour market, weather; market volatility and unpredictable share price; supply interruption or delay; impact from provincial tax increases; available financing; importance of inventory and EFC; 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 24, 2012, 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, and other restructuring charges for store closures. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales. Management believes that, in addition to income or loss, EBITDA is a useful supplemental measure of performance.

| **Period** | **3 months ending Jun 2012** | **3 months ending Jun 2011** | **6 months ending Jun 2012** | **6 months ending Jun 2011** |
|---|---|---|---|---|
| (Expressed in CDN $) | | | **$** | **$** |
| Net income | 414,998 | 163,195 | 295,913 | 17,693 |
| Income tax | 145,810 | 44,648 | 102,875 | 3,148 |
| Interest | 305,561 | 476,703 | 613,489 | 775,223 |
| Depreciation | 191,351 | 238,370 | 387,896 | 453,019 |
| Loss (Gain) on Interest Rate | 8,527 | 91,138 | (57,923) | 2,934 |
| Stock Based Compensation | 5,502 | 14,589 | (10,012) | 46,708 |
| Issue Costs of Securities | 40,810 | 34,981 | 81,623 | 34,981 |
| Gain on store closure | - | - | (2,522) | - |
| EBITDA | 1,112,559 | 1,063,624 | 1,411,339 | 1,333,706 |

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.