

ROCKY MOUNTAIN LIQUOR INC

Ticker: "RUM"

MANAGEMENT'S DISCUSSION AND ANALYSIS
May 28, 2013

## ROCKY MOUNTAIN LIQUOR INC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis is dated May 28, 2013.
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 three months ending March 31, 2013. 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 FIRST QUARTER

The Company acquired two new stores and closed one, in Central Alberta.

Key Operational Highlights, year over year First Quarter comparison:

- $\quad$ Sales were $\$ 11,043,431$ (2012 - $\$ 10,512,369$ ) , an increase of $5.1 \%$;
- Gross margin was 23.3\% (2012-23.2\%);
- $\quad$ Net loss was $\$ 383,957$ (2012 - loss $\$ 119,085$ )


## RECENT DEVELOPMENTS SINCE PERIOD ENDED MARCH 31, 2013

The Company obtained $\$ 526,000$ from its acquisition facility as a result of the purchase of 2 stores in the first quarter and applied it to its bank indebtedness.

## OUTLOOK

We will continue to focus on improving our top line revenue per store and introducing programs designed to achieve continued improvements in efficiency. The challenge of operating in a tight labour market like Alberta is that our operating and administrative expenses have increased.

Notwithstanding higher sales and steady margins our operating margin this quarter is reduced by $\$ 234,110$ as compared to Q1 2012 (see Operating Results discussions below at Page 9).

The Alberta economy is driven primarily by the energy sector which is experiencing slower growth in 2013. This is being compounded by Alberta government spending cuts for services and infrastructure in the March 7, 2013 budget. Reduced spending is very likely to have an effect on the general retail market in Alberta, including liquor. Previous recessionary experience has shown that demand for alcohol does not reduce dramatically at times of consumer spending restraint, instead our data indicates that substitutions from higher priced to lower priced products are more likely to occur. Such shifts may affect sales revenues and margins.

We have acquired two stores in 2013. We expect at least one development to be completed before the end of the second quarter of 2013 and are evaluating other acquisition opportunities. Our experience is that new store developments require one to three years to develop their potential. As of May 28, 2013 we have access to $\$ 13.72$ million under its operating line and acquisition facility. We currently have sufficient capital available to acquire and develop new stores.

## 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 May 28, 2013 Andersons operated and owned 43 stores.

## Number of Retail Liquor Stores



Andersons operates 43 liquor stores in Alberta where there are approximately 1,314 liquor stores and 92 agency stores as at January 2013 [Source: Alberta Gaming and Liquor Commission"Quick Facts Liquor - Jan 2013"]. 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. 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, 21 stores in Central Alberta and 11 stores in Southern Alberta.


## AWARDS FOR GROWTH

## Alberta Venture 250 - 1-year gross revenue in Alberta

The Company was ranked 220 in the inaugural Alberta Venture 25, recognizing Alberta's highest grossing companies based on 2011 results. The ranking published in the September 2012 issue of Alberta Venture and online at v250.albertaventure.com was evaluated on the 2011 revenue of Andersons Liquor Inc., a wholly owned subsidiary of RML.

## Profit 200 - 5-year growth in Canada

The Company was ranked in the $24^{\text {th }}$ annual PROFIT 200 ranking of Canada's Fastest-Growing Companies by PROFIT Magazine in September 2012 based on 2011 results. The Company ranked $160^{\text {th }}$ 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 evaluating the potential for future 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 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. This new system is expected to be fully operational by the end of 2013. The transition will not affect current systems which will continue to operate in tandem with the new database focus. Our current systems are not overloaded but we are being proactive in developing platforms that allow us more flexibility in the future.

We are concentrating on producing a robotic data environment where automation software is used to push reporting output on a regular and timely basis to store level, operations level and enterprise level. Future platforms need to accommodate employees’ desire to bring a range of mobile devices to play. Social platforms are likely to play a larger function in future marketing and operations. The ability to accommodate change will be network-centric. We are focused on having an industry leading enterprise network.

All our time and attendance systems are cloud based and integrated with our web based payroll system. The system is business rules based. All our employees receive their pay records in a secure cloud based, self-service environment. Currently they can use their own devices or company devices to access their current and historic information. The efficiencies we realize from the integration of the two processes allowed 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 reducing administration costs and latency. Our goal is to have the right products, in sustainable quantities, with service levels consistently over $95 \%$, 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.

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 March 31, 2013.

## 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 increase in noncash working capital is mainly due to a decrease in inventory as innovations in our inventory management allowed the Company to reduce inventory levels at stores at the same time as maintaining and increasing service levels, as well as an increase in accounts payable and accrued liabilities as a result of timing of payments and invoices.

## 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.

## Employee Benefits

In the first quarter of 2013, the Company implemented a medical benefit plan for key employees. The cost of the plan is split equally between the Company and the employees.

## MANAGEMENT TEAM

Peter Byrne,
President,
CEO

## Allison

Byrne, COO

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.

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.

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 March 31, 2013

## 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 March 31, 2013 and 2012.

| Period | $\frac{3 \text { months enc }}{2013}$ | ing Mar | $\frac{3 \text { months en }}{201}$ | 1g Mar |
| :---: | :---: | :---: | :---: | :---: |
| (Expressed in Canadian dollars) | \$ | \% | \$ | \% |
| Sales | 11,043,431 | 100.00\% | 10,512,369 | 100.00\% |
| Gross margin | 2,572,789 | 23.30\% | 2,437,606 | 23.19\% |
| Operating and administrative expense | 2,485,025 | 22.50\% | 2,115,822 | 20.13\% |
| Operating Margin (1) | 87,764 | 0.79\% | 321,784 | 3.06\% |
| Non-recurring Items (1) | - | 0.00\% | - | 0.00\% |
| Operating Margin before non- <br> Recurring Items (1) | 87,764 | 0.79\% | 321,784 | 3.06\% |
| Annual Incentives (2) | 47,500 | 0.43\% | 5,283 | 0.05\% |
| Operating Margin before nonRecurring Items (1) and Annual Incentives (2) | 135,264 | 1.22\% | 327,067 | 3.11\% |
| Stores at Period End | 43 |  | 40 |  |

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 March 31, 2013 were $\$ 11.04$ million. Sales are higher than 2012 mainly due to acquisitions completed during 2012 and Q1 2013, as well due to the timing of Easter in 2013 which occurred in Q1, versus it occurring in Q2 2012. This is offset by the loss of one day of sales due to February 2012 being a leap year.

## Cost of Goods Sold and Gross Margin

Margins have improved from $23.2 \%$ to $23.3 \%$ as compared to this quarter last year for an increase of $\$ 132$ thousand. This is a result of new forecasting technologies that reduce the need to take mark downs by matching available Limited Time Offers to consumer demand as well as an increase in the ratio of retail sales to licensee sales, for which the retail sales have higher margins.

## 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 March 31, 2013 was $\$ 2.49$ million. The increase as a percentage of sales from $20.13 \%$ to $22.50 \%$ is mainly due to the increase in rent renewal rates and increased salary costs. To a lesser degree we saw increased repairs and maintenance and legal fees in the period due to timing of expenses, and increased advertising due to new marketing strategies.

## Operating Margin

Operating margin was $0.79 \%$ or $\$ 88$ thousand for the 3 months ended March 31, 2013 and 3.06\% or $\$ 321$ thousand March 31, 2012. The decrease is mainly due to an increase in operating and administrative expenses as discussed above.

## CONDENSED QUARTERLY INFORMATION

| Expressed in thousands of dollars |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 |  |  |  | 2011 |  |  |
|  | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
|  | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 |
| \# stores, end of period | 43 | 42 | 42 | 41 | 40 | 40 | 39 | 36 |
| Total revenue | 11,043 | 13,870 | 15,515 | 14,742 | 10,512 | 13,274 | 15,139 | 14,384 |
| Profit (loss) from continuing operations | (384) | (411) | 307 | 415 | (119) | (539) | 70 | 162 |
| Basic <br> earnings <br> (loss) per <br> share | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 |
| Diluted earnings (loss) per share | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 |

## LIQUIDITY AND CAPITAL RESOURCES AS OF MARCH 31, 2013

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 <br> price \$ | Number of warrants <br> outstanding - <br> March 31, 2013 | Number of warrants <br> exercisable - <br> March 31, 2013 |
| :--- | :---: | :---: | :---: |
|  |  |  |  |
| November 24, 2014 | 0.3675 | $1,000,000$ | $1,000,000$ |
| Outstanding, end of period | $\mathbf{1 , 0 0 0 , 0 0 0}$ | $\mathbf{1 , 0 0 0 , 0 0 0}$ |  |

## Options

The following tables summarize information about options outstanding:

| Expiry Date | Participant | Exercise <br> Price \$ | Number of Options Outstanding March 31, 2013 | Number of Options Exercisable March 31, 2013 |
| :---: | :---: | :---: | :---: | :---: |
| 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 | 300,000 | 300,000 |
|  | Stock Option Plan | 0.39 |  |  |
| October 13, 2014 (Directors) |  | 0.18 to | 150,000 | 150,000 |
|  | Stock Option Plan | 0.22 |  |  |
| Outstanding March 31, 2013 |  |  | 987,137 | 987,137 |

## Convertible Debentures

On March 16, 2009, the Company issued an $\$ 809,140$ unsecured convertible debenture maturing on March 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 March 31, 2013 the Company had a $\$ 6$ million Operating Line and a $\$ 14$ million Acquisition Facility.

As of March 31, 2013, the Company had $\$ 1.4$ million in cash on hand and its Operating Line was drawn at $\$ 665,066$. The $\$ 14$ million Acquisition Facility was drawn at $\$ 5.75$ million.

With total credit of $\$ 20$ million less net utilization of $\$ 5.75$ million and $\$ 675$ thousand, the Company had access to $\$ 13.58$ million under its Operating Line and Acquisition Facility as of March 31, 2013.

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 March 31, 2013, 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 $13 \%$ 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. No bad debts were recorded for the period ending March 31, 2013. 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 May 28, 2013 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 March 31, 2013.

## CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

There are no updates to the Company's critical accounting estimates. For further discussion, refer to the Company's annual MD\&A for the year ended December 31, 2012.

## CHANGES IN ACCOUNTING POLICIES

There were new accounting standards adopted in the period that have been incorporated in the statements. These standards did not have a significant impact on the Company's financial statements. See Note 2 of the Interim Financial Statements for the period ending March 31, 2013 for further discussion.

## 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 $\$ 1,620$ for the year ended March 31, 2013 (March 2012 - \$4,860) 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 March 31, 2013 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; 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 29, 2013, 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 nonrecurring items are calculated in tables under sections "Operating Results - 3 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 Mar 2013 | 3 months ending Mar 2012 |
| :--- | ---: | ---: |
| (Expressed in CDN \$) |  |  |
| Net income | $(383,957)$ | $(119,085)$ |
| Income tax | $(134,904)$ | $(42,935)$ |
| Interest | 311,156 | 307,929 |
| Depreciation | 260,034 | 196,545 |
| Unrealized Gain on Interest Rate Swap | $(10,063)$ | $(66,450)$ |
| Issue Costs of Securities | 40,363 | 40,813 |
| Loss (gain) on disposal of property and <br> equipment | 1,953 | $(2,522)$ |
| Store closure expenses | 3,357 | - |
| Stock Based Compensation | - | $(15,514)$ |
| EBITDA | 87,939 | 298,781 |

Operating margin, operating margin as a percentage of sales, operating margin before nonrecurring 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.

