Consolidated Financial Statements of

ROCKY MOUNTAIN LIQUOR INC

December 31, 2012

TABLE OF CONTENTS

	PAGE
Management’s Responsibility	
Auditors’ Report	
Consolidated Statements of Financial Position	1
Consolidated Statements of Changes in Shareholders’ Equity	2
Consolidated Statements of Comprehensive Income (Loss)	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-28

Management's Responsibility

To the Shareholders of Rocky Mountain Liquor Inc:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 29, 2013

”Peter J. Byrne”
Chief Executive Officer

”Sarah Stelmack”
Chief Financial Officer

Independent Auditor’s Report

To the Shareholders of Rocky Mountain Liquor Inc.:

We have audited the accompanying consolidated financial statements of Rocky Mountain Liquor Inc. and its subsidiary which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of changes in shareholders’ equity, comprehensive income (loss), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or misstatement.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or misstatement. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Liquor Inc. and its subsidiary as at December 31, 2012 and 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

April 29, 2013

Edmonton, AB

Chartered Accountants

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Financial Position

	Dec 31, 2012	Dec 31, 2011
ASSETS		
CURRENT		
Cash and cash equivalents	**1,123,049**	1,000,911
Accounts receivable	**287,273**	300,363
Inventory	**7,014,417**	6,718,528
Prepaid expenses and deposits	**263,985**	238,573
Income taxes recoverable	**132,106**	111,718
	8,820,830	8,370,093
PROPERTY AND EQUIPMENT (Note 6)	**4,037,717**	4,268,258
GOODWILL (Note 7)	**10,828,805**	9,693,841
DEFERRED TAX ASSETS (Note 8)	**60,241**	79,204
	23,747,593	22,411,396
LIABILITIES		
CURRENT		
Bank indebtedness	**-**	39,426
Accounts payable and accrued liabilities	**726,629**	717,532
Interest rate swap liability (Note 4)	**213,359**	324,448
Current portion of long term debt (Note 9)	**205,356**	161,689
Current portion of promissory notes (Note 10)	**200,000**	200,000
Goods and services tax payable	**46,343**	72,327
	1,391,687	1,515,422
LONG TERM DEBT (Note 9)	**5,544,644**	4,339,287
PROMISSORY NOTES (Note 10)	**83,986**	266,545
CONVERTIBLE DEBT (Note 11)	**9,388,065**	9,131,141
	16,408,382	15,252,395
SHAREHOLDERS' EQUITY		
Equity component of convertible debenture (Note 11)	**325,633**	325,633
Share capital (Note 13)	**4,774,481**	4,774,481
Warrants (Note 14)	**210,007**	210,007
Contributed surplus (Note 15)	**537,903**	549,727
Retained earnings	**1,491,187**	1,299,153
	7,339,211	7,159,001
	23,747,593	22,411,396

SUBSEQUENT EVENTS (Note 25)

Approved on behalf of the board:

Signed "Frank Coleman"	***Signed "Robert Normandeau"***
Frank Coleman	**Robert Normandeau**
Chair, Board of Directors	**Chair, Audit Committee**

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Changes in Shareholders' Equity

	Equity component of convertible debenture	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Balance at Dec 31, 2010	252,830	4,774,481	280,009	467,561	1,750,581	7,525,462
Net comprehensive loss	-	-	-	-	(451,428)	(451,428)
Convertible debenture (Note 11)	72,803	-	-	-	-	72,803
Share-based payments	-	-	-	82,166	-	82,166
Deferred income tax adjustment to warrants	-	-	(70,002)	-	-	(70,002)
Balance at Dec 31, 2011	325,633	4,774,481	210,007	549,727	1,299,153	7,159,001
Net comprehensive income	-	-	-	-	192,034	192,034
Share-based payments (Note 15)	-	-	-	(11,824)	-	(11,824)
Balance at Dec 31, 2012	325,633	4,774,481	210,007	537,903	1,491,187	7,339,211

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

	2012	2011
SALES	**54,638,640**	52,817,810
COST OF SALES	**42,179,834**	41,252,361
	12,458,806	11,565,449
OPERATING AND ADMINISTRATIVE EXPENSES	**9,763,549**	8,941,902
INCOME FROM OPERATIONS	**2,695,257**	2,623,547
OTHER EXPENSES (INCOME)		
Finance costs (Note 12)	**1,301,536**	2,172,458
Depreciation	**1,020,432**	935,013
Business development costs	**36,896**	31,893
Loss on disposal of property plant and equipment (Note 6)	**59,563**	5,428
Loss on sale of store (Note 6)	**26,507**	-
Other income	**(8,938)**	(11,107)
Store closure	**14,643**	9,783
Bad debt expense (Note 22)	**470**	66,808
	2,451,109	3,210,276
INCOME (LOSS) BEFORE TAX	**244,148**	(586,729)
INCOME TAXES (Note 8)	**52,114**	(135,301)
NET COMPREHENSIVE INCOME (LOSS)	**192,034**	(451,428)
Basic earnings (loss) per share	**0.00**	(0.01)
Diluted earnings (loss) per share	**0.00**	(0.01)
Weighted average number of shares - basic	**57,797,788**	57,797,788
Weighted average number of shares - diluted	**57,939,385**	57,797,788

ROCKY MOUNTAIN LIQUOR INC

Consolidated Statements of Cash Flows

For the years ended December 31

	2012	2011
OPERATING ACTIVITIES		
Net comprehensive income (loss)	**192,034**	(451,428)
Items not affecting cash		
Unrealized (gain) loss on interest rate swap (Note 4)	**(111,089)**	121,040
Loss on disposal of property and equipment (Note 6)	**59,563**	5,428
Loss on sale of store (Note 6)	**26,507**	-
Net accretive interest (Notes 10 and 11)	**110,728**	387,638
Amortization of convertible debenture costs (Note 11)	**163,637**	117,502
Stock based compensation (Note 16)	**(11,824)**	82,166
Depreciation of property and equipment	**1,020,432**	935,013
Deferred tax expense (recovery)	**18,963**	(165,486)
	1,468,951	1,031,873
Changes in non-cash working capital (Note 20)	**345,566**	(247,099)
Cash flow from operating activities	**1,814,517**	784,774
INVESTING ACTIVITIES		
Purchase of property and equipment	**(538,825)**	(1,575,898)
Business acquisitions net of cash acquired (Note 3)	**(2,163,152)**	(2,066,120)
Cash flow used in investing activities	**(2,701,977)**	(3,642,018)
FINANCING ACTIVITIES		
Repayment of long term debt (Note 9)	**(976)**	(7,866,036)
Proceeds from long term financing (Note 9)	**1,250,000**	-
Repayment of promissory notes (Note 10)	**(200,000)**	(100,000)
Repayment of short term financing	**(39,426)**	(2,200,135)
Proceeds from short term financing	**-**	39,426
Proceeds from issuance of convertible debt (Note 11)	**-**	8,495,821
Cash flow from (used in) financing activities	**1,009,598**	(1,630,924)
INCREASE (DECREASE) IN CASH	**122,138**	(4,488,168)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**1,000,911**	5,489,079
CASH AND CASH EQUIVALENTS - END OF PERIOD	**1,123,049**	1,000,911
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	**1,090,369**	1,510,775
Income taxes paid	**170,000**	138,000

1. NATURE OF OPERATIONS

Rocky Mountain Liquor Inc. (“Rocky Mountain Liquor” or “RML”) is incorporated under the Business Corporations Act (Canada), and is a tier one issuer with its common shares listed on the TSX Venture Exchange (under the initials “RUM”). The Company’s registered corporate office is located at #100, 10520-178 Street, Edmonton, Alberta, T5S 2J1.

Rocky Mountain Liquor is the parent to wholly owned subsidiary, Andersons Liquor Inc. (“Andersons”), acquired through a Reverse Takeover (“RTO”) on Dec 1, 2008.

As at Dec 31, 2012 Andersons operated 42 retail liquor stores in Alberta, selling beer, wine, spirits, ready to drink products, as well as ancillary items such as juice, ice, soft drinks and giftware as well as one convenience store.

These consolidated annual financial statements have been approved for issue by the Board of Directors on Apr 29, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

The consolidated financial statements include the accounts of Rocky Mountain Liquor and its wholly owned subsidiary, Andersons, resulting in the consolidated entity (the “Company”). Inter-company balances and transactions and any unrealized earnings and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Critical accounting judgments, estimates and assumptions

The preparation of these 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 merchandise has been identified as requiring a writedown.

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.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in place at the time of the expected reversal.

Impairment of goodwill

At each reporting date, the Company assesses whether there are any indicators of impairment for all non-financial assets. Goodwill and other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

The determination of cash-generating units was based on management’s judgment and was determined based on type of business operation. If the recoverable amount of the cash-generating unit, calculated using discounted cash flow method, is less than its carrying amount the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The discounted cash flow model is based on calculations and projections from financial budgets prepared by management. The model projected cash flows for a period of 15 years. A discount rate of 5.86%, which is the Company’s weighted average cost of capital was used. Budgeted gross margin was based on past performance. Growth rates were forecasted to be between 1.8% and 2.1% based on industry statistics.

Useful lives of property and equipment

Management has estimated the useful lives of property and equipment as outlined further in this note 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. Fair value of tangible assets is based on market price of similar assets.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. To determine the equity versus liability portion of the convertible debentures issued, management engaged a valuator to estimate the discount rate required for calculation of the net present value of future cash flows which determined the liability component. Detailed information with respect to key assumptions used in determining fair value of financial instruments is discussed in Note 22.

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.

Shares purchased in the employee share purchase plan are based on fair value at time of purchase.

Revenue recognition

Revenue is generated through retail and licensee sales. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods
Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank accounts, common shares held at credit unions, and short term investments with maturity dates of three months or less when purchased.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill acquired is allocated the cash-generating unit expected to benefit from the combination's synergies. Acquisition costs are expensed as incurred.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Repairs and maintenance comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. These costs are expensed as incurred when they are determined not to add life to the asset.

Property and equipment is depreciated over estimated useful lives at the following rates and methods:

Buildings	4%	declining balance method
Computer equipment	30%	declining balance method
Computer software	100%	declining balance method
Furniture and fixtures	20%	declining balance method
Leasehold improvements	lease term	straight line method
Motor vehicles	30%	declining balance method

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the net income in the period the item is derecognized.

In 2012 leasehold improvements are being depreciated over the term of their remaining lease and one renewal period. This is a change in estimate from prior reporting where leaseholds were depreciated over 5 years. This results in a decrease to depreciation expense of $204,512 for the year.

Impairment of long lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Goodwill is allocated to the Company’s cash-generating units identified according to business operations. There is one goodwill cash-generating unit for liquor stores, and one for convenience stores.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest income

Interest income is recognized on an accrual basis.

Income taxes

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Earnings per share

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method whereby all options, warrants and equivalents are assumed if in-the-money, to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Stock based compensation

The Company accounts for all stock-based compensation using the Black-Scholes option-pricing model. Under this method, compensation costs attributable to options granted are measured at fair value at the date of grant. Any consideration received upon the exercise of a stock option, along with the amount previously recorded as contributed surplus, is credited to share capital. The expense for stock options is recognized over the vesting period of the stock-based award. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement. The number of awards expected to vest is reviewed at least annually with any adjustments being recognized in the period they are determined. For amounts that have been recognized related to options not yet vested that are subsequently forfeited, the amounts recognized as expense and equity are reversed. The Company’s stock-based compensation plan is described in Note 16.

Borrowing costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the net income in the period in which they are incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are classified into one of two categories:

- fair value through profit or loss ("FVTPL");
- loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

FVTPL financial assets
Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

Cash and cash equivalents and interest rate swaps are classified as FVTPL and are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Loans and receivables
Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at their fair value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method
The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Derecognition of financial assets
A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities
Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. The Company has classified trade and other accounts payable, short-term financial liabilities, convertible debentures and long-term financial liabilities as other financial liabilities.

Derecognition of financial liabilities
The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Accounting standards issued but not effective

New standards have been issued but are not yet effective for the financial year ending Dec 31, 2012, and accordingly, have not been applied in preparing these consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 does not believe this will have a significant impact on disclosure.

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. This will not change the requirement for the Company to consolidate its wholly owned subsidiary.

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. There will be an increase in disclosure, but no financial impact for the Company.

New accounting standards adopted in the year

Presentation of Financial Instruments

The IASB issued an amendment to IAS 1, “*Presentation of Financial Statements*” (“IAS 1 amendment”), requiring companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (“OCI”) that may be reclassified to the profit or loss section of the income statement. The Company applied the amendment at the beginning of its 2012 financial year and it had no significant impact on the Company’s disclosures.

Financial Instruments – Disclosures

The IASB issued an amendment to IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7 amendment”), requiring incremental disclosures regarding transfers of financial assets. The Company applied the amendment at the beginning of its 2012 financial year and it had no significant impact on the Company’s disclosures.

Deferred Taxes – Recovery of Underlying Assets

The IASB has issued an amendment to IAS 12, “Income Taxes” (“IAS 12 amendment”), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The Company applied the amendment at the beginning of its 2012 financial year and it had no significant impact on the Company’s disclosures.

3. BUSINESS ACQUISITIONS

The Company acquired four liquor stores for the year ending Dec 31, 2012 (2011 – four liquor stores and one convenience store). The results of the asset acquisitions are included in the results of the Company from the acquisition date for comparable periods.

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3. BUSINESS ACQUISITIONS (continued)

Goodwill arose in the acquisitions as the consideration paid for the companies effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those companies. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

For the year ended Dec 31, 2012 $851,224 (2011 - $1,128,845) of acquired goodwill is deductible for tax purposes.

Acquisition costs of $21,600 for the year ending Dec 31, 2012, (2011 - $56,161) have been excluded from the consideration transferred as they relate to legal and acquisition costs, and have been recognized as an expense in the period in the "operating and administrative expenses" and "business development costs" lines in the statement of comprehensive income.

The purchase price was allocated to the assets acquired as follows:

		2012		2011
Cash & cash equivalents	**$**	**2,900**	$	1,830
Inventories		**691,052**		427,949
Property and equipment		**337,136**		433,044
Goodwill		**1,134,964**		1,465,275
Fair value of net assets acquired	**$**	**2,166,052**	$	2,328,098
Total cash consideration paid	**$**	**2,166,052**	$	2,061,553
Promissory note issued (Note 10)		**-**		266,545
	$	**2,166,052**	$	2,328,098

4. INTEREST RATE SWAP

Mark to market value Dec 31, 2010		(203,408)
Unrealized loss		(121,040)
Mark to market value Dec 31, 2011	$	(324,448)
Unrealized gain		111,089
Mark to market value Dec 31, 2012	**$**	**(213,359)**

The Company entered into a five year Interest Rate Swap Agreement on Feb 12, 2009 expiring Feb 11, 2014 with a Canadian chartered bank ("SWAP Counterparty") to mitigate the interest rate risk associated with the bank indebtedness and long term debt. The notional amount of the SWAP was equal to $5,500,000 of the outstanding principal balance on the bank indebtedness and long term debt. On April 13, 2011 the Company cancelled this SWAP which resulted in a $14,700 gain.

The Company entered into a five year Interest Rate Swap Agreement on Apr 6, 2010 expiring Apr 5, 2015 with a Canadian chartered bank ("SWAP Counterparty") to mitigate the interest rate risk associated with the bank indebtedness and long term debt. The notional amount of the SWAP is equal to $4,500,000 of the outstanding principal balance on the bank indebtedness and long term debt.

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4. INTEREST RATE SWAP (continued)

The Company is obligated to pay the Swap Counterparty an amount based upon a 3.35% interest rate plus spread. The Swap Counterparty is obligated to pay the floating interest rate. The Company will continue to pay the credit spread over Bankers Acceptances on its loans as set by the lending institution.

Fair value of the SWAP was determined using estimated future discounted cash flows using a comparable current market rate of interest. The change in fair value has been accounted for on the consolidated Statement of Comprehensive Income (Loss), on the Statement of Financial Position, and in Note 12.

5. RELATED PARTY TRANSACTIONS

Transactions with Related Parties

During the year the Company paid rents of $19,440 (2011 - $19,440), in respect of a retail liquor store, to Byrne Alberta Ltd, a privately held company in which Peter J. Byrne, CEO of RML is a significant shareholder. The rent is at market value.

Key Management Personnel Compensation

The remuneration of Directors and other members of key management personnel during the year is as follows:

	2012	2011
Wages and salaries	**$ 520,481**	$ 567,007
Share based payments	**14,914**	83,397
Total	**$ 535,395**	$ 650,404

There is no other short-term, long-term, termination or post-retirement benefits extended to any directors and other members of key management personnel of the Company.

6. PROPERTY AND EQUIPMENT

	2012	2012	**2012**
		Accumulated	**Net Book**
	Cost	Amortization	**Value**
Building	$ 285,000	94,799	**$ 190,201**
Computer equipment	488,842	317,365	**171,477**
Computer software	413,059	361,793	**51,266**
Furniture and fixtures	4,048,796	2,174,941	**1,873,855**
Leasehold improvements	2,577,193	956,999	**1,620,194**
Motor vehicles	396,084	265,360	**130,724**
	$ 8,208,974	$ 4,171,257	**$ 4,037,717**

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6. PROPERTY AND EQUIPMENT (continued)

	Dec 31, 2011 Opening NBV	Additions	Disposal	Transfers	Amortization	**Dec 31, 2012 Closing NBV**
Building	$ 198,126	-	-	-	(7,925)	**$ 190,201**
Computer equipment	160,419	65,055	(798)	-	(53,199)	**171,477**
Computer software	212,798	84,439	(646)	-	(245,325)	**51,266**
Furniture and fixtures	2,116,742	230,160	(56,325)	39,449	(456,171)	**1,873,855**
Leasehold improvements	1,413,909	479,120	(28,301)	(39,449)	(205,085)	**1,620,194**
Motor vehicles	166,264	17,187	-	-	(52,727)	**130,724**
	$ 4,268,258	$ 875,961	$ (86,070)	$ -	$ (1,020,432)	**$ 4,037,717**

	2011 Cost	2011 Accumulated Amortization	2011 Net Book Value
Building	$ 285,000	86,874	$ 198,126
Computer equipment	427,116	266,697	160,419
Computer software	343,987	131,189	212,798
Furniture and fixtures	3,967,703	1,850,961	2,116,742
Leasehold improvements	2,232,672	818,763	1,413,909
Motor vehicles	381,556	215,292	166,264
	$ 7,638,034	$ 3,369,776	$ 4,268,258

	Dec 31, 2010 Opening NBV	Additions	Disposal	Transfers	Amortization	Dec 31, 2011 Closing NBV
Building	$ 206,381	-	-	-	(8,255)	$ 198,126
Computer equipment	152,387	61,654	-	-	(53,622)	160,419
Computer software	33,934	233,504	-	-	(54,640)	212,798
Furniture and fixtures	1,776,269	771,941	(3,456)	-	(428,012)	2,116,742
Leasehold improvements	861,104	885,691	(1,972)	-	(330,914)	1,413,909
Motor vehicles	169,682	56,152	-	-	(59,570)	166,264
	$ 3,199,757	$ 2,008,942	$ (5,428)	$ -	$ (935,013)	$ 4,268,258

A loss of $59,563 (2011 – $5,428) was recognized in the year upon disposal of property and equipment as a result of the write off of their leaseholds due to the closing of a store, as well as greater than anticipated wear and tear on some assets. A loss upon sale of a store was recognized in the amount of $26,507 (2011 - $nil).

7. GOODWILL

Balance Jan 1, 2011	$ 8,228,566
Goodwill acquired	1,465,275
Balance Dec 31, 2011	9,693,841
Goodwill acquired	1,134,964
Balance Dec 31, 2012	**$ 10,828,805**

Goodwill is comprised of the benefit of expected synergies, revenue growth, future market development and the assembled workforce of each of those stores. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. An impairment review was performed at Dec 31, 2012. No indications of impairment existed at that date.

8. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 25% (2011 – 26.5%) to the income for the year and is reconciled as follows:

		2012		2011
(Loss) Income before income taxes	**$**	**244,148**	$	(586,729)
Income tax (recovery) expense at the combined basic federal and provincial tax rate:	**$**	**61,038**	$	(155,483)
Increase (decrease) resulting from:				
Non-deductible expenses (non-taxable income)		**(4,180)**		22,702
Effect of rate change and other		**-**		(2,520)
Effective tax expense	**$**	**56,858**	$	(135,301)
Current income tax expense		**33,151**		30,185
Deferred tax expense (recovery)		**18,963**		(165,486)
	$	**52,114**	$	(135,301)

The following are the significant deferred tax balances and movements during the current and comparative year.

	Dec 2011	Changes through net income	**Dec 2012**
Deferred tax liabilities			
Goodwill	(173,907)	(103,436)	**(277,342)**
Convertible debentures	(227,864)	68,591	**(159,273)**
	(401,771)	(34,845)	**(436,616)**
Deferred tax assets			
Financing costs	246,698	(77,761)	**168,937**
Non-capital losses	10,037	35,096	**45,133**
Property and equipment	143,128	86,319	**229,447**
Interest rate swap	81,112	(27,772)	**53,340**
	480,975	15,882	**496,857**
Net deferred tax position	79,204	(18,963)	**60,241**

As at Dec 31, 2012, the Company has net deferred tax assets of $60,241 (2011 - $79,204).

9. BANK INDEBTEDNESS AND LONG TERM DEBT

Bank Indebtedness

Through its credit agreement with TD Canada Trust, the Company has an available $6,000,000 swingline facility due upon demand, bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. Secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. It was not drawn on at Dec 31, 2012 (2011 - $39,426).

The Company has an available overdraft limit of $50,000 with Beaumont Credit Union which bears interest at prime plus 1%, per annum and is secured by a guarantee and postponement from Peter and Joan Byrne. It was not drawn at Dec 31, 2012 (2011 – nil).

Long Term Debt

	2012	2011
TD Canada Trust loan bearing interest at prime plus 1.50% or bankers acceptances plus 3.00% per annum, interest only payment due monthly. The loan matures Jul 8, 2013 and is secured by a general security agreement representing a first charge on all assets, with bank act security representing a first charge on inventory. If this loan is not extended before the maturity date, the outstanding balance will be due over the ensuing two year period by quarterly principal payments in the amount of 3.57% of the outstanding amount with the balance payable on Jul 8, 2015.	**$ 5,750,000**	$ 4,500,000
Beaumont Credit Union loan bearing interest at prime plus 1.50% per annum, repayable in monthly blended payments of $976. The loan was paid in full, Jan 1, 2012.	**-**	976
	5,750,000	4,500,976
Amounts payable within one year	**(205,356)**	(161,689)
	$ 5,544,644	$ 4,339,287

Principal repayment terms are approximately:

2013	$ 205,356
2014	821,428
2015	4,723,216
	$ 5,750,000

10. PROMISSORY NOTES

As a result of store acquisitions in 2010 and 2011, two unsecured non-interest bearing promissory notes for $300,000 each were issued in lieu of cash payment. The notes are due in $100,000 annual payments on Sep 1 and Feb 9 for each note, maturing Sep 1, 2013 and Feb 9, 2014 respectively. The notes are initially recorded on the balance sheet at the present value of the required installment payments discounted at a rate approximating the interest rate that would have been applicable at the time the note was issued, $nil (2011 - $266,545). The notes are subsequently accreted to the principal amount as additional interest over the term of the note. Net accretive interest is $17,441, (2011 – $6,397).

11. CONVERTIBLE DEBENTURES

In 2009 the Company issued an $809,140 unsecured convertible debenture, ("Debenture A") due on Mar 16, 2014. Debenture A is interest bearing at 8.25% per annum, and the Company has the option to pay interest monthly at 0.6438% per month. Debenture A is convertible to common shares of the Company at a conversion price of $0.315 per common share.

Debenture A was initially recorded on the balance sheet as a debt of $556,108, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Debenture A will be accreted to the principal amount as additional interest over the term of the loan. The difference of $253,032 between the face amount and the estimated fair value of the debt component, less related issue costs of $202, less adjustment for future income taxes is reflected as the equity component of the Debenture A.

Interest expense for Debenture A is calculated on the face value of the convertible debentures. Notional accretive interest expense is reflected at Dec 31, 2012 in the amount of $120,967 (2011 - $112,144), which represents the accretive interest for the year.

The carrying value of Debenture A is being increased such that the liability at maturity will be equal to the face value of $809,140.

Debt Component

Dec 31, 2010	$	626,544
Accretive interest		112,144
Coupon interest *		(62,511)
Dec 31, 2011	$	676,177
Accretive interest		120,967
Coupon interest *		(62,511)
Dec 31, 2012	$	734,633

* Coupon interest is the cash interest paid to the debenture holder.

Equity Component

Balance Dec 31, 2010	$	252,830
Deferred income tax		(63,208)
Balance Dec 31, 2011 and 2012	$	189,622

In 2011 the Company issued a $9,200,000 unsecured convertible debenture ("Debenture B") due on Apr 30, 2016. Debenture B is interest bearing at 7.75% payable semi-annually. Debenture B is convertible to common shares of the Company at a conversion price of $0.500 per common share.

Debenture B was initially recorded on the balance sheet as a debt of $9,004,684, calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible subordinated debt at the time the loan was issued. Debenture issue costs relating to the debt portion of the debenture of $690,211 are being amortized over the term of the debenture. Debenture B will be accreted to the principal amount as additional interest over the term of the loan. The difference of $195,316 between the face amount and the estimated fair value of the debt component, less related issue costs of $13,968, less adjustment for future income taxes is reflected as the equity component of Debenture B.

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11. CONVERTIBLE DEBENTURES (continued)

The carrying value of debenture B is being increased such that the liability at maturity will be equal to the face value of $9,200,000.

Interest expense for Debenture B is calculated on the face value. Notional accretive interest expense is reflected at Dec 31, 2012 in the amount of $747,831 (2011 - $518,128), which represents the accretive interest from Dec 31, 2011.

Debt Component

Dec 31, 2010	$	-
Issued Apr 13, 2011	$	9,004,684
Deferred issuance costs		(690,211)
Accretive interest		518,128
Coupon interest *		(495,139)
Amortization of issue costs		117,502
Dec 31, 2011	$	8,454,964
Accretive interest		747,831
Coupon interest *		(713,000)
Amortization of issue costs		163,637
Dec 31, 2012	$	8,653,432

* Coupon interest is the cash interest paid to the debenture holder.

Equity Component

Balance Dec 31, 2010	$	-
Issued Apr 13, 2011	$	195,316
Issue costs		(13,968)
Deferred income tax		(45,337)
Balance Dec 31, 2011 and 2012	$	136,011

12. FINANCE COSTS

		2012		2011
Interest expense	**$**	**1,248,988**	$	1,436,835
Change in fair value of interest rate swap		**(111,089)**		121,040
Convertible debenture issue costs (Note 11)		**163,637**		117,502
Early payment penalty on sub-debt		**-**		487,769
Roynat sub-debt finance fee		**-**		9,312
	$	**1,301,536**	$	2,172,458

13. SHARE CAPITAL

Authorized - Unlimited common shares

	Number		Amount
Balance at Dec 31, 2011 and Dec 31, 2012	57,797,788	$	4,774,481

14. WARRANTS

	# of warrants	Exercise price		Estimated fair value of warrants	
Outstanding Dec 31, 2010	1,000,000	$	0.3765	$	280,009
Deferred income tax adjustment					(70,002)
Outstanding Dec 31, 2011 and 2012	1,000,000	$	0.3765	$	210,007

The 1,000,000 warrants outstanding at Dec 31, 2012 are the warrants issued to Roynat Capital as a result of a financing agreement. The warrants are convertible to common shares of the Company at a conversion price of $0.3765 per common share and expire Nov 24, 2014.

The weighted-average fair value of the 1,000,000 warrants granted in 2010 has been estimated at $0.3088 per warrant using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used for the warrants granted:

Risk-free interest rate	1.25%
Estimated volatility	137.8%
Expected life	4 years
Expected dividend yield	NIL

15. CONTRIBUTED SURPLUS

The table below summarizes the changes in contributed surplus:

		Amount
Balance at Dec 31, 2010	$	467,561
Stock-based compensation expense (Note 16)		82,166
Balance at Dec 31, 2011	$	549,727
Stock-based compensation recovery (Note 16)		(11,824)
Balance at Dec 31, 2012	$	537,903

16. STOCK OPTION PLANS

(a) Stock option plan (“Option Plan”)

The maximum number of common shares that may be reserved for issuance under the Option Plan is 2,500,000 shares.

The exercise price of each option is determined on the basis of the market price at the time the option is granted. If the option has a discount to market price as an incentive for early redemption the exercise price may not be less than the discounted market price as defined by the policies of the TSX Venture Exchange (“TSXV”). For options that have no early redemption incentives, the exercise price may not be less than the closing price of a Rocky Mountain Liquor common share on the TSXV on the last trading day before the day the option is granted. The shares purchased on the exercise of an option must be paid for in full at the time of exercise. The Company operates equity-settled compensation plans. When the options vest in installments over the vesting period, each installment is accounted for as a separate arrangement.

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16. STOCK OPTION PLANS (continued)

Pre-RTO options

As at Dec 31, 2008, an aggregate of 1,250,000 options were issued under the Option Plan, representing 10% of the outstanding common shares at Initial Public Offering ("IPO"), or approximately 2.5% of the current issued and outstanding shares. Options may only be granted to directors, officers, employees, insiders and other specified service providers, subject to the discretion of the Board of Directors. All of these options were vested as a result of the qualifying transaction, and as such the fair value of these options was not recognized as contributed surplus. These options expire Apr 15, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2011 and Dec 31, 2012	357,137	$ 0.200	$ 31,071

Executive/Management Options

An aggregate of 630,000 incentive options were issued under the Option Plan, representing 1.2% of the outstanding common shares, with 180,000 outstanding at Dec 31, 2012. These options expire Jun 2, 2013.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2010	630,000	$ 0.400	$ 194,553
Forfeited Jul 15, 2011	(300,000)	0.395	(91,230)
Outstanding Dec 31, 2011	330,000	$ 0.405	$ 102,783
Expired May 15, 2012	(150,000)	0.290	(30,225)
Outstanding Dec 31, 2012	180,000	$ 0.500	$ 72,558

All options outstanding have vested as of Dec 31, 2012. Stock-based compensation expense was reversed for the year ended Dec 31, 2012 in the amount of $21,604 as a result of forfeited options from 2011 (2011 - $37,028).

Directors Options

750,000 options were issued to directors under the Option Plan, representing 1.3% of the outstanding common shares, with 450,000 outstanding at Dec 31, 2012. 300,000 options expire Aug 24, 2013 and 150,000 options expire Oct 12, 2014.

	# of options	Exercise price	Estimated fair value of options
Outstanding Dec 31, 2010*	600,000	$ 0.310	$ 163,158
Granted Oct 13, 2011**	150,000	0.200	28,980
Outstanding Dec 31, 2011	750,000	$ 0.288	$ 192,138
Expired June 29, 2012	(300,000)	0.320	(67,908)
Outstanding Dec 31, 2012	450,000	$ 0.296	$ 124,230

* 300,000 of these options have an exercise price of $0.30 in year 1, $0.35 in year 2, and $0.39 in year 3.
** The options have an exercise price of $0.18 in year 1, $0.19 in year 2, and $0.22 in year 3.

All options granted are vested as at Dec 31, 2012.

Stock-based compensation expense of $9,780 was recognized for the year ended Dec 31, 2012 (2011 - $45,138). Unrecognized compensation expense relating to unvested items is $nil at Dec 31, 2012 (2011 – $8,492).

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16. STOCK OPTION PLANS (continued)

The fair value of the 150,000 options granted Oct 13, 2011 has been estimated at $0.1932 per option using the Black-Scholes option-pricing model. Estimated volatility is calculated using historical prices.

The following weighted-average assumptions were used:

Risk-free interest rate	1.00%
Estimated volatility	174.4%
Expected life	3 years
Expected dividend yield	NIL

SUMMARY

A summary of the status of the Company's stock options as of Dec 31, 2012 is as follows:

	Number of stock options		Weighted-average exercise price
Outstanding, Dec 31, 2010	1,587,137	$	0.321
Forfeited	(300,000)		0.395
Granted	150,000		0.200
Outstanding, Dec 31, 2011	1,437,137	$	0.319
Expired	(450,000)		0.310
Outstanding, Dec 31, 2012	987,137	$	0.299

Of the options outstanding Dec 31, 2012, 987,137 were vested (2011 – 1,399,637).

Additional information about the Company's share options outstanding as at Dec 31, 2012 is as follows:

	Number of Options	Range of Weighted Average Exercise Price	Range of Exercise Price	Range of Weighted Average Contractual Life Remaining
Pre-RTO Options	357,137	$0.200	$0.200	0.29
Executive/Management Options	180,000	$0.500	$0.500	0.42
Directors Options	450,000	$0.197 - $0.347	$0.180 - $0.390	1.03
Total	987,137			

17. EMPLOYEE BENEFITS

In accordance with the terms of the Employee Share Savings Plan established Jan 1, 2011, approved by shareholders at a previous annual general meeting, employees with more than six months service with the Company are able to have the Company match one half of an employee's purchase of the Company's shares, up to a maximum of 10% of the employee's annual income. Shares are purchased on the Toronto Stock Exchange at market price. Shares purchased by the Company are restricted from being sold for one year from purchase. These shares are valued at fair value on date of purchase. No compensation expense in excess of Company cash contributions is recognized under this plan. $22,525 was paid by the Company to the plan in 2012 (2011 - $16,122). Expected forfeiture rate is 10%.

18. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic earnings per common share for the year ending Dec 31, 2012 was based on consolidated net comprehensive income of $192,034 (net loss 2011 – $451,428) and a weighted average number of shares outstanding of 57,797,788 (2011 – 57,797,788).

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share for the year ending Dec 31, 2012 was based on net comprehensive income of $192,034 (net loss 2011 – $451,428) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 57,939,385 (2011 – 57,797,788).

19. COMMITMENTS

The Company occupies various leased premises subject to minimum rent payments excluding the Company's proportion of occupancy costs. Lease commitments are based on the current lease term.

2013	2,090,733
2014	1,822,463
2015	1,788,323
2016	1,692,873
2017	1,564,243
	$ 8,958,635

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2012	2011
Cash provided (used in) by		
Accounts receivable	**$ 13,090**	$ 88,451
Inventory	**395,163**	(489,435)
Prepaid expense and deposits	**(25,412)**	16,087
Income tax recoverable	**(20,388)**	15,359
Accounts payable and accrued liabilities	**9,097**	123,976
Goods and services tax payable	**(25,984)**	(1,537)
	$ 345,566	$ (247,099)

21. CAPITAL

The Company's objectives when managing capital are:

- To ensure the Company has capital to support its growth strategy, and operations
- To safeguard the Company's ability to continue as a going concern
- To ensure compliance with all covenants
- To maintain a strong capital base so as to maintain investor, creditor and market confidence

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21. CAPITAL (continued)

The Company considers capital to include shareholders' equity, short-term, long-term and convertible debt and bank indebtedness offset by cash and cash equivalents.

		2012	2011
	Convertible debt	$ 9,388,065	$ 9,131,141
	Long-term debt	5,628,630	4,605,832
	Short-term debt	405,356	361,689
	Bank indebtedness	-	39,426
	Cash and cash equivalents	(1,123,049)	(1,000,911)
Net debt		$ 14,299,002	$ 13,137,177
	Shareholders equity	7,331,778	7,159,001
Total capital		$ 21,630,780	$ 20,296,178

The Company's capital structure is developed to focus on its growth strategy. Management monitors the adequacy of capital and will adjust the structure accordingly by accessing credit facilities or issuing debt instruments. The Company meets its objectives for managing capital through strategic long-term planning and the annual budgeting process.

The Company is required to comply with covenants relating to its credit facilities and long term debt. These covenants require the Company to maintain certain ratios of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), and fixed coverage charge. There were no changes in the Company's objectives, policies or processes for managing capital from the prior fiscal period. As at Dec 31, 2012 the Company is in compliance with all covenants.

22. FINANCIAL INSTRUMENTS

As at Dec 31, 2012 and Dec 31, 2011 the classification of the Company's financial instruments as well as their carrying amounts and fair values, are shown in the table below.

	Dec 31, 2012		Dec 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fair value through profit or loss				
Cash and cash equivalents	$ 1,123,049	1,123,049	$ 1,000,911	$ 1,000,911
Interest rate swap	213,359	213,359	324,448	324,448
Loans and receivables				
Accounts receivable	287,273	287,273	300,363	300,363
Other financial liabilities				
Bank indebtedness	-	-	39,426	39,426
Short term debt	205,356	205,356	161,689	161,689
Promissory notes	283,986	283,986	466,545	466,545
Accounts payable and accrued liabilities	726,629	726,629	717,532	717,532
Long term debt	5,544,644	5,544,644	4,339,287	4,339,287
Convertible Debenture	9,388,065	9,388,065	9,131,141	9,131,141

(continues)

22. FINANCIAL INSTRUMENTS (continued)

For cash and cash equivalents, accounts receivable, due from related parties, bank indebtedness, short-term debt, accounts payable and accrued liabilities and promissory note 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 carrying value of long-term debt approximates the fair value as the interest rate is at a variable market rate, or fixed rates approximate current market conditions.

The convertible debenture has a fair value equivalent to the carrying value, as the discount rate remains unchanged.

Fair value measurements

For financial instruments recognized in the balance sheet at fair value, the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Company's financial instruments recognized in the consolidated balance sheet at fair value:

	Dec 31, 2012	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	$ 1,123,049	$ 1,123,049		
Interest rate swap liability	$ 213,359		$ 213,359	
	Dec 31, 2011	Level 1	Level 2	Level 3
Fair value through profit or loss				
Cash and cash equivalents	$ 1,000,911	$ 1,000,911		
Interest rate swap liability	$ 324,448		$ 324,448	

Risk Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk, and market risk. The significant risks for the Company's financial instruments are discussed below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages its credit risk for its cash and cash equivalents by maintaining bank accounts with Canadian banks.

(continues)

22. FINANCIAL INSTRUMENTS (continued)

The Company in its normal course of business is exposed to credit risk from its customers. The Company manages the risk associated with accounts receivables by credit management policies. All accounts receivable are due from organizations in Alberta's hospitality industry.

Amounts are considered past due when payment has not been received in accordance with a customer agreement, which is typically 60 days. Amounts are considered to be impaired when the Company has exhausted all collection efforts. Maximum exposure to credit risk is $287,273 (2011 - $300,363). $21,675 ($2011 - $51,054) are over 60 days, but not considered impaired.

For the period ending Dec 31, 2012, $470 (2011 – $66,808) in bad debts was recorded.

At Dec 31, 2012 there are no financial assets that the Company deems to be impaired.

Liquidity Risk

The Company's liabilities have maturities which are summarized below:

	Maturity Date	Current	Non-current
Accounts payable and accrued liabilities		$ 726,629	
TD Canada Trust loan (Note 9)	Jul 8, 2012	205,356	5,544,644
Promissory note (Note 10)	Sep 1, 2012	100,000	-
Promissory note (Note 10)	Feb 9, 2014	100,000	83,986
8.25% debenture (Note 11)	Mar 16, 2014	-	734,633
7.75% debenture (Note 11)	Apr 30, 2016	-	8,653,432

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities.

To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. The Company also monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facilities. For purposes of calculating our covenant, rent expense was $1,876,867 (2011 – $1,655,561) for the year ending Dec 31, 2012. These are operating leases. The Company does not have any financing leases.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company is comprised of interest rate risk. The Company does not have any significant currency risk, or other price risk.

Interest Rate Risk

The Company is subject to interest rate risk as its bank indebtedness and long term debt bear interest rates that vary in accordance with prime borrowing rates. Assuming outstanding bank indebtedness and long-term debt balance of $5,750,000 the net debt position after deducting the $4,500,000 notional amount of the interest rate swap is $1,250,000. Therefore a one percent change in interest rates would have an immaterial effect on consolidated net income. The Company manages its interest rate risk through credit facility negotiations and interest rate swaps.

23. ECONOMIC DEPENDENCE

The Company is required to purchase all alcohol-based products from the Alberta Gaming and Liquor Commission ("AGLC"). As the majority of the Company's income is derived from the sale of alcohol based products, its ability to continue operations is dependent upon the relationship with and the sustainability of AGLC. The alcohol-based products are distributed through Connect Logistics Services Inc. and Brewers Distributor Ltd. Any significant disruption in the supply chain for either of these businesses could result in a material adverse effect on the operations of the Company.

24. SEASONAL NATURE OF THE BUSINESS

The Company's results for any quarter are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Company historically experiences a higher level of sales in the third and fourth quarters, while the first and second quarters experience lower sales due to shopping patterns. Occupancy related expenses; certain general and administrative expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

25. SUBSEQUENT EVENTS

Subsequent to Dec 31, 2012 the Company closed one store and purchased two stores in Central Alberta.