LIQUOR STORES INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Year Ended December 31, 2005

As of February 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes ("Financial Statements") of Liquor Stores Income Fund (the "Fund") for the year ended December 31, 2005. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to the notes to the Financial Statements of the Fund unless otherwise stated.

Throughout this MD&A references are made to "EBITDA","distributable cash", "earnings from operations", and other "Non-GAAP Measures". A description of these measures and their limitations are discussed below under "Non-GAAP Measures".

This MD&A is dated February 17, 2006.

OVERVIEW OF THE FUND

Issuance of Fund Units and Development of the Business

The Fund is an unincorporated open ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated August 10, 2004. The Units of the Fund trade on the Toronto Stock Exchange under the symbol LIQ.UN.

The Fund commenced business operations on September 28, 2004, when it completed an initial public offering (the "IPO") of 4,300,000 Fund Units, at a price of $10 per unit. Net proceeds of the issue after costs were $37,814,172.

The Fund used the proceeds from the IPO to acquire a 50.6% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP"). In turn, Liquor Stores LP used the proceeds, its credit facilities as well as Subordinated and Exchangeable LP Units to acquire the net assets of The Liquor Depot Corporation ("Liquor Depot") and Liquor World Group Inc. ("Liquor World") and other wholly owned subsidiaries or companies that were under common control (collectively, the "Vendors"). The attributes of the Subordinated and Exchangeable LP Units are described in note 15 to the financial statements.

On March 2, 2005, the Fund completed a private placement of 1,830,000 Fund Units at $16.40 per unit for proceeds, after the cost of the issue, of $28,679,064. The proceeds were used to increase the Fund's interest in Liquor Stores LP to 59.34%. Liquor Stores LP used the funds to repay bank indebtedness, acquire 22 retail liquor stores, open 3 new stores and for general corporate purposes. The remaining funds are available for future acquisitions.

The following table summarizes the costs for acquisitions and development of stores since inception:

	Initial Acquisition September 28, 2004	Acquisitions and New Stores Fiscal 2005	Since Inception
Number of Stores	50	25	75
Property & Equipment	$12,319,558	$ 6,328,445	$ 18,648,003
Goodwill	66,943,639	15,778,536	82,722,175
Intangible assets	429,000	57,569	486,569
Other assets	121,975	-	121,975
Net Working capital	17,631,534	6,758,823	24,390,357
	$97,445,706	$28,923,373	$126,369,079

In addition to expenditures related to new or acquired stores in 2005, the Fund spent $656,266 on maintenance capital expenditures.

The geographic location of the Fund's liquor stores at December 31, 2005 is provided in the following table:

	Alberta			British Columbia		
Number of Stores	Edmonton	Calgary	Other	Lower Mainland	Other	Total
Initial acquisition	30	13	6	1		50
2005 Acquired or Developed	7	7	7	2	2	25
Total	37	20	13	3	2	75

References to Edmonton and Calgary are to stores located in or near those urban centres.
Other communities served in Alberta include Red Deer, Lethbridge, Fort McMurray, Slave Lake & Banff.
In British Columbia other communities served include Victoria and Kamloops.

Business of the Fund

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. With 70 liquor stores operating in Alberta, where there are approximately 1,050 liquor stores, the Fund is the largest liquor store operator by number of stores. It is management's belief that in Alberta the Fund is the second largest liquor store operator by revenue.

The Fund also operates five stores in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of private and government operated retail outlets.

Basis of Management's Discussion and Analysis

The Fund commenced operation on September 28, 2004 and completed its first full fiscal year on December 31, 2005. To provide meaningful information, the MD&A compares the Fund's 2005 operating results to the results of the Fund for the fourth quarter of 2004 combined with the results of the Vendors for the first three quarters of 2004. The Vendors' financial information is unaudited and has been adjusted to eliminate certain discretionary expenses incurred by the Vendors prior to September 28, 2004 when they were privately held entities.

Distributable Cash and Cash Distributions

The Fund's policy is to distribute annually to Unitholders available cash from operations after cash required for maintenance capital expenditures, working capital reserve, and other reserves considered advisable by the Trustees of the Fund. The policy allows the Fund to make stable monthly distributions to its Unitholders based on its estimate of distributable cash for the year. The Fund pays cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the previous month.

The Fund reviews its historic and expected results on a regular basis. This review includes consideration of economic conditions, including labour market trends, and the competitive environment. Based on this review, cash distributions have been made as follows:

Payment Dates	Monthly	Annualized
November 15, 2004 to May 16, 2005	$0.08333	$1.000
June 16, 2005 to January 16, 2006	$0.08958	$1.075
Commencing February 15, 2006	$0.10000	$1.200

Distributions declared for the year ended December 31, 2005 were $10,539,971 or $1.05 per unit. On a weighted average basis, distributable cash per unit was $1.14 resulting in a 92.5% payout ratio. Since inception the Fund has paid out 87.0% of its distributable cash and the amount by which distributable cash since inception exceeds distributions since inception is $1,905,151. This excess is available for the Fund's future needs.

Of the distributions paid in 2005 approximately 30% are tax deferred to Unitholders. For 2006, the tax deferred portion of distributions is expected to be in the range of 25% to 30%.

Distributable cash per unit (Fund Units, Exchangeable and Subordinated LP Units)

The following table summarizes the distributable cash of the Fund for the year and quarter ended December 31, 2005 and the quarter ended December 31, 2004. The Fund views distributable cash as an operating performance measure. The Fund's purchases of property and equipment required to maintain its existing stores are minimal and the Fund distributes a significant portion of its earnings on an annual basis, once adjusted for non-cash items. Therefore, the Fund uses net earnings as the starting point for the calculation of distributable cash.

	Jan 1, 2005 to Dec 31, 2005	Oct 1, 2005 to Dec 31, 2005	Sept 28, 2004 to Dec. 31, 2004
Net earnings for the period	$6,097,948	$2,201,738	$1,495,705
Add: Interest expense	858,970	338,024	257,538
Add: Amortization of property & equipment	1,349,357	466,063	249,728
Add: Amortization of intangible assets	85,800	21,450	22,534
Add: Amortization of pre-opening costs	82,566	37,213	-
Add: Future income taxes	(20,000)	(43,100)	6,000
EBITDA	8,454,641	3,021,388	2,031,505
Add: Non-controlling interest	4,213,705	1,474,022	1,460,921
Add: Proceeds on disposal of property and equipment	-	-	1,350
Add: Non-cash charge on a store relocation	267,400	267,400	-
Less: Interest paid	(882,318)	(239,155)	(135,321)
Less: Purchase of non-growth property and equipment	(656,266)	(27,461)	(115,786)
Distributable cash	$11,397,162	$4,496,194	$3,242,669
Weighted average Units outstanding *	10,024,165	10,330,000	8,500,000
Distributable cash per Unit (weighted average)	$1.14	$0.44	$0.38
Distributions declared per unit	$1.05	$0.27	$0.26
Basic earnings per Unit	$1.04	$0.36	$0.35
Diluted earnings per unit	$1.03	$0.36	$0.35

(*) Weighted average number of units x number of days outstanding / number of days in the period.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment used to determine distributable cash:

	Jan 1, 2005 to Dec 31, 2005	Oct 1, 2005 to Dec 31, 2005	Sept 28, 2004 to Dec. 31, 2004
Purchase of property and equipment from the Statement of Cash Flows	$2,618,341	$910,398	$115,786
Less: Amounts relating to developed and acquired stores	(1,962,075)	(882,937)	-
Purchase of non-growth property and equipment	$656,266	$27,461	$115,786

Amounts relating to the development and acquisition of stores are considered growth expenditures. Growth expenditures are not included in the calculation of distributable cash.

In the fourth quarter of 2005 a review of non-growth capital expenditures for the year was conducted. Non-recurring purchases of $455,200 previously identified as non-growth items in the first three quarters of the year were reclassified to growth expenditures. Included in this amount were $209,272 for store equipment, $150,595 to implement a new head office computer system, and $90,872 for vehicles.

Repairs and maintenance expensed in store operations for the year and quarter ended December 31, 2005 were $215,046 and $55,589, respectively.

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of December 31, 2005:

	Units
Fund Units (see note 14 to the financial statements)	6,179,683
Liquor Stores LP Exchangeable LP Units (see note 15 to the financial statements)	2,025,317
Liquor Stores LP Subordinated LP Units (see note 15 to the financial statements)	2,125,000
	10,330,000

The Liquor Stores Subordinated and Exchangeable LP Units represent a non-controlling interest in the Fund.

In 2005, 49,683 Liquor Stores LP Exchangeable LP Units were exchanged for Fund Units resulting in an increase in Unitholders' Equity of $496,830.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

Operating Results

The following table summarizes the operating results for the year and quarter ended December 31, 2005 with comparative figures for 2004. The basis of presentation for the Vendors / Fund information is described under the heading "Basis of Management's Discussion and Analysis" above.

	Fund 12 Months 2005	Vendors - 9 Months Fund – 3 Months 2004 (Unaudited)	Fund 4th Quarter 2005 (Unaudited)	Fund 4th Quarter 2004 (Unaudited)
Sales	$157,443,781	$120,043,234	$50,685,505	$34,736,150
Gross Margin	35,329,193	25,649,870	11,596,254	7,814,388
Margin Rate	22.4%	21.4%	22.9%	22.5%
Administrative, operating, and store acquisition and development expenses	22,393,447	16,589,863	6,833,444	4,343,900
Earnings from operations, as defined*	$12,935,746	$9,060,007	$4,762,810	$3,470,488
Percent of Sales	8.2%	7.5%	9.4%	10.0%

*Earnings from operations have been calculated as described under "Non-GAAP Measures".

Correction of Previous Period Statistical and Comparative Information

Correction of Same Store Sales for the 3 Quarters Ended September 30, 2005 and September 30 2004 (Pre IPO)

In its management's discussion and analysis for the third quarter of 2005, the Fund presented year to date same store sales information of $80.9 million for the nine months ended September 30, 2005 as compared to $83.6 million for the Vendors for the same period in 2004, representing a decrease in same store sales of 3.2%. Same store sales should have been presented as $82.0 million for the nine months ended September 30, 2005 as compared to $84.1 million for the Vendors for the nine months ended September 30, 2004, representing a decrease of 2.5%.

Correction of Earnings from Operations for the Nine Months Ended September 30, 2004 (Pre IPO)

The Fund also compared its year to date earnings of $3.5 million for the nine months ended September 30, 2005 to $1.6 million in earnings for the Vendors for the same period in 2004, representing an increase of 118.5%. The Vendors' year to date earnings for the nine months ended September 30, 2004 should have been reported as $2.3 million, resulting in an increase of 52%.

These corrections do not affect the Fund's financial statements for the nine months ended September 30, 2005 or any prior period or for the year ended December 31, 2005. The Fund completed its initial public offering on September 28, 2004.

Sales

Same store sales are measures in the evaluation of operating performance. The following summarizes same store sales by quarter for 2005 and 2004.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Number of stores	45	45	47	49	
2005	$23,141,047	$28,356,854	$30,467,021	$35,278,107	$117,243,029
% Change 2004 to 2005	(2.6)%	(4.4)%	(0.1)%	1.4%	(1.4)%
2004	$23,745,699	$29,660,152	$30,662,274	$34,790,484	$118,858,609

For the year, sales were $157.4 million compared to $120.0 million in 2004 for an increase of $37.4 million. When stores are acquired, their practices related to discounting and credit sales are reviewed and adjusted to the Fund's more disciplined standards. These actions and, to a lesser extent, increased competition caused same store sales for the year to decrease to $117.2 million for 2005 compared to $118.9 in 2004 reflecting a decrease of $1.7 million or 1.4%. However, sales for the fourth quarter were $50.7 million compared to $34.7 million in the fourth quarter of 2004 reflecting an increase of $16.0 million. Same store sales increased by $0.5 million or 1.4% from $34.8 million in 2004 to $35.3 million in 2005.

Gross Margin

Gross margin for 2005 was $35.3 million compared to $25.6 million in 2004. While most of the $9.7 million increase was due to the 31.2% sales increase, the Fund also achieved a 1.0% gross margin rate improvement from 21.4% to 22.4%. Factors that contributed to the increase in gross margin included a more stringent credit and discount policy, elimination of a third party affinity program in most stores, the harmonization of retail pricing and the purchase of inventory when limited time offers are in effect.

For the fourth quarter of 2005, gross margin was $11.6 million compared to $7.8 million in 2004. The gross margin increase of $3.8 million was driven by a 45.9% increase in sales and an increase in gross margin rate of 0.4% compared to the fourth quarter of 2004.

Combined Administrative, Operating and Acquisition and Store Development Expense

("Operating Expenses")

Operating expenses for 2005 of $22.4 million compare to $16.6 million in 2004. The increase in operating expenses was due primarily to the increase in the number of stores being operated from 50 at the end of 2004 to 75 at the end of 2005. Head office costs also increased relative to 2004 as staff was added at head office to enhance operations and to support the Fund's acquisition activities.

Fourth quarter operating expenses increased to $6.8 million in 2005 from $4.3 million in 2004. For the entire fourth quarter of 2005, 68 stores were in operation compared to 50 stores in the fourth quarter of 2004 and an additional 7 stores became operational during the fourth quarter of 2005. The addition of staff to accommodate growth as well as increased consulting services contributed to increased head office expenses in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Earnings from Operations (as defined)

Earnings from operations (as defined under Non-GAAP Measures) increased to $12.9 million in 2005 from $9.1 million in 2004 for an increase of $3.8 million.

For the fourth quarter of 2005, earnings from operations increased to $4.8 million from $3.5 million in the same quarter in 2004 reflecting a $1.3 million increase.

For both the year and the fourth quarter the increase in earnings from operations resulted from higher gross margin, the addition of new stores, and the synergies from the combination of Liquor World and Liquor Depot.

Earnings from operations as a percentage of sales increased to 8.2% for the year ended December 31, 2005 from 7.5% for the year ended December 31, 2004. However, there was a decrease to 9.4% for the fourth quarter of 2005 from 10.0% in the fourth quarter of 2004 resulting from consulting fees related to special projects and recruitment as well as the increase in head office staff.

Net Earnings

Net earnings for 2005, after the deduction of non-controlling interest and as determined in accordance with GAAP, were $6.1 million. The Fund commenced operations on September 28, 2004. Net earnings for the 95 days ended December 31, 2004 were $1.5 million.

Condensed Annual and Quarterly Information

	Dec 31, 2005 (4th Quarter)	**Sept 30, 2005** (3rd Quarter)	**June 30, 2005** (2nd Quarter)	**Mar. 31, 2005** (1st quarter)	**Dec. 31, 2005** (year)	**Dec. 31, 2004** (includes results of operations from Sept 28, 2004)
Balance Sheet						
Cash and cash equivalents	$2,047,400	$171,892	$265,785	$10,198,704	$2,047,400	$178,672
Total assets	140,806,211	127,114,352	118,425,028	126,039,848	140,806,211	102,080,855
Bank indebtedness	15,492,652	8,993,000	0	7,444,907	15,492,652	11,397,240
Total current liabilities	20,426,910	11,627,892	2,996,258	10,669,395	20,426,910	14,106,849
Long-term debt	11,352,466	7,358,800	7,500,000	7,481,439	11,352,466	7,397,917
Unitholders' equity	67,326,605	66,647,957	66,166,596	66,147,285	67,326,605	38,199,609
Non-controlling interest	41,700,230	41,470,603	41,762,174	41,741,729	41,700,230	42,376,840
Statement of Earnings						
Sales	$50,685,505	$41,434,078	$38,505,474	$26,818,724	$157,443,781	$35,542,909
Gross Margin	11,596,253	9,265,911	8,546,715	5,920,314	35,329,193	7,971,151
Earnings before non-controlling interest	3,675,760	2,965,875	2,759,826	910,192	10,311,653	2,956,626
Net earnings for the period	2,201,738	1,763,798	1,637,049	495,363	6,097,948	1,495,705
Basic earnings per unit	$0.38	$0.29	$0.27	$0.10	$1.04	$0.35
Diluted earnings per unit	$0.37	$0.29	$0.27	$0.10	$1.03	$0.35
Distributable cash per Unit	$0.44	$0.29	$0.26	$0.14	$1.14	$0.38

The annual and quarterly trends primarily reflect the growth in the Fund's business that has been achieved through acquisitions and new store openings. In addition to the impact of this growth on the Fund's results, the liquor retailing industry is subject to some seasonal trends. Store sales occur, approximately 20%, 25%, 25% and 30% in the first, second, third, and fourth quarters, respectively. Historically, earnings and EBITDA strengthen as the year progresses

In 2005, 25 stores were acquired or developed. There were thirteen acquisitions in March, one in July, three in October, four in November and one in December. Two new locations were opened in May in British Columbia and one in December in Alberta.

LIQUIDITY AND CAPITAL RESOURCES

Distributable Cash and Cash Distributions

The Fund's policy is to make stable monthly distributions to its Unitholders based on its estimate of distributable cash for the year.

On May 16, 2005, the Fund increased its monthly distribution by $0.00625 per unit from $0.08333 to $0.08958 (from $1.00 to $1.075 annually) commencing with the distribution that was paid to unitholders of record on May 31, 2005.

On January 9, 2006 a further increase in monthly distributions was announced. Commencing with the February 16, 2006 distributions were increased by $0.01042 per unit from $0.08958 to $0.10 (from $1.075 to $1.20 annually).

Credit Facilities

The Fund has a $24 million demand operating loan that can be increased to $30 million to accommodate seasonal inventory highs, a $12.5 million committed non-revolving capital loan and a $10 million committed non-revolving acquisition loan with a Canadian chartered bank. The $10 million committed non-revolving acquisition loan was not utilized as of December 31, 2005.

As of December 31, 2005, total indebtedness under all credit facilities was $26.8 million compared to $18.8 million as of December 31, 2004. Indebtedness is directly related to the inventory levels for the operation of 25 additional stores.

Capital Expenditures

During 2005, the Fund purchased the assets of 22 retail liquor stores (note 5 to the Financial Statements) with cash from existing credit facilities and the proceeds from the issuance of Fund Units (note 4 to the Financial Statements). In addition, two new stores, Liquor Depot Kamloops and Liquor Depot Richmond, opened in British Columbia on May 6, 2005 and one new store, Grapes and Grains South, opened in Alberta on December 12, 2005.

The Fund will continue to pursue acquisition opportunities and to open new stores in 2006. In addition the replacement of in-store information systems is anticipated for 2006. The improvements in marketing and administrative processes related to this replacement are intended to reduce overheads and enhance the management of retail operations. The preliminary estimate of the cost to replace in-store systems is $1.5 million. This cost will be treated as growth capital when incurred.

Interest Rate Risk and Sensitivity

The Fund's bank indebtedness and long-term debt (note 11 to the Financial Statements) bear interest at floating rates based on the bank's prime rate or at short term banker's acceptance rates, thus exposing the Fund to some interest rate fluctuations. As of December 31, 2005, the Fund had total credit facilities of $46.5 million of which $25.0 million was utilized at December 31, 2005. Proceeds from the March 2, 2005 issue of Fund Units were used for acquisitions, the development of new stores as well as to temporarily reduce inventory debt.

Based on the average debt outstanding during 2005, a 1.0% increase in interest rates would have reduced distributable cash by $261,000.

Contractual Obligations

The table below sets forth, as of December 31, 2005, the contractual obligations of the Fund, due in the years indicated, which relate to various premises operating leases and the $11,352,466, non-revolving loan that is repayable in April of 2007.

	2006	2007	2008	2009	2010 and thereafter
Operating Leases	$5,223,950	$4,902,253	$4,590,708	$3,584,509	$10,365,964
Long Term Debt		11,352,466			
Total	$5,223,950	$16,254,719	$4,590,708	$3,584,509	$10,365.964

OFF BALANCE SHEET ARRANGEMENTS

The Fund has not entered into any off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level. The impairment test is done annually unless circumstances arise that would potentially impair the carrying value of goodwill. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimate fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

Amortization Policies and Useful Lives

The Fund amortizes property, equipment and intangible assets over the estimated useful service lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Fund takes into account industry trends and Fund-specific factors, including changing technologies and expectation for the in-service period of these assets. The Fund assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Fund determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

Purchase Price Allocations

During 2005, the Fund completed the acquisition of 22 retail liquor store businesses. The allocations of the purchases price for these transactions involved determining the fair values assigned to the tangible and intangible assets acquired. The Fund uses independent valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are allocated based on a calculation of fair values by management. A discounted cash flow analysis was prepared to determine these fair values. Goodwill is calculated based on the purchase price less the fair value of the tangible and intangible assets stated above.

CHANGES IN ACCOUNTING POLICIES

Management is not aware of any recent accounting pronouncements or developments that will affect the Fund's financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the financial statements of the Fund as they become available.

FINANCIAL INSTRUMENTS

Due to the nature of its business, the Fund does not engage in activities or hold assets that would require the Fund to acquire financial instruments for hedging or speculative purposes. The financial instruments that are held by the Fund consist of accounts receivable, bank indebtedness, advances to equity investment, accounts payable and accrued liabilities, distributions payable and long-term debt. The financial instruments are held in the normal course of operations and as a result no significant accounting policies need to be adopted or assumptions made in reporting the Fund's financial instruments.

TRANSACTIONS WITH RELATED PARTIES

The Fund has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the quarter and twelve months ended December 31, 2005, the Fund incurred professional fees of $139,183 and $257,197 respectively to a law firm where one of the partners is a director of a subsidiary of the Fund. The Fund also leases a warehouse from a company controlled by a director of a subsidiary and one retail location is leased from a company of which two directors of a subsidiary are shareholders. Total lease payments under these agreements were $81,193. During the quarter and year ended December 31, 2005, the Fund paid fees and expenses to a company controlled by the President of Liquor Stores GP Inc.(the "GP"), relating to supervision of the construction of developed stores, in the amount $52,997 and $83,647, respectively. Included in accounts payable and accrued liabilities is $94,848 relating to these transactions (see note 12 to the Financial Statements).

OUTLOOK

For 2006 and beyond the Fund will continue to follow the same acquisition and store development strategy that lead to an increase in the number of stores from 50 to 75 in 2005.

Management believes there will continue to be a consolidation trend in the industry and that the Fund is well positioned to benefit from this. Currently the Fund has commitments for the development and opening of 8 new stores in 2006 and several more that are pending. Acquisition opportunities are being actively pursued although none can be currently announced.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the period covered by this report, the GP's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of, and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings are effective to ensure that material information relating to the Fund is made known to management on a timely basis and is included in this report.

ADDITIONAL INFORMATION

Additional information relating to the Fund, including the Fund's Annual Information Form and other public filings is available on SEDAR (www.sedar.com) and on the Fund's website at www.liquorstoresincomefund.com.

RISK FACTORS

The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: risks relating to government regulation; competition; Liquor Stores LP's ability to locate and secure acceptable store sites and to adapt to changing market conditions; risks relating to future acquisitions and development of new stores; dependence on key personnel; supply interruption; reliance on information and control systems; absence of an operating history as a public company; dependence on capital markets to fund Liquor Stores LP's growth strategy beyond its available credit facilities; dependence of the Fund on Liquor Stores LP; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores LP; restrictions on the potential growth of Liquor Stores LP as a consequence of the payment by Liquor Stores LP of substantially all of its operating cash flow; income tax related risks including the risk of changes in the tax treatment of income trusts; and the Vendors' right to approve certain material transactions. For a discussion of these risks and other risks associated with an investment in Fund Units, see "Risk Factors" detailed the Fund's Annual Information Form, which is available at www.sedar.com.

On September 9, 2005, the federal Finance Department issued a consultation paper related to the taxation and economic efficiency of income trusts. On November 29, 2005 an announcement was made that rather than changing taxation related to income trusts, the dividend tax credit for investors in public companies would be increased.

NON-GAAP MEASURES

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization and references to ''distributable cash'' are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund. Management believes that, in addition to income or loss, EBITDA and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes are useful supplemental measures of performance. Specifically, management believes that EBITDA is the appropriate measure from which to make adjustments to determine the distributable cash of the Fund. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by prospective investors is the cash distributed by the Fund relative to the price of the Fund Units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund.

EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that EBITDA and distributable cash should not replace net income or loss (as determined in accordance with GAAP) as an indicator of the Fund's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund's methods of calculating EBITDA and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and distributable cash may not be comparable to similar measures presented by other issuers.

Earnings from operations for purposes of disclosure under "Operating Results" have been calculated as follows. In the case of the Fund, earnings from operations have been derived by adding interest expense, income tax expense, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest to net earnings for the period. In the case of the Vendors, earnings from operations have been derived by adding amortization expense, charitable donations, management salaries to directors, officers and shareholders, interest expense, income tax expense and non-controlling interest to the net income for the period and subtracting from the resulting total income taxes recovered and income arising from subsidiaries accounted for on an equity basis.

Earnings from operations as so calculated is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Investors are cautioned that earnings from operations as so calculated should not replace net income or loss (as determined in accordance with GAAP) as an indicator of the Fund's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund's method of calculating earnings from operations as so calculated may differ from the methods used by other issuers. Therefore, the Fund's earnings from operations as so calculated may not be comparable to similar measures presented by other issuers.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains forward-looking statements. 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, cash distributions, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Fund or Liquor Stores LP. You can identify many of these statements by looking for words such as ''believes'', ''expects'', ''will'', ''intends'', ''projects'', ''anticipates'', ''estimates'', ''continues'' or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management's discussion and analysis. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under 'Risk Factors".

The information contained in this management's discussion and analysis, including the information set forth under ''Risk Factors'', identifies additional factors that could affect the operating results and performance of the Fund and Liquor Stores LP.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this management's discussion and analysis is made as of the date of this management's discussion and analysis and the Fund assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities law.