Liquor Stores Income Fund

Consolidated Financial Statements

December 31, 2009 and 2008
(expressed in thousands of Canadian dollars)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
TD Tower
10088 102 Avenue NW, Suite 1501
Edmonton, Alberta
Canada T5J 3N5
Telephone +1 780 441 6700
Facsimile +1 780 441 6776

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Auditors' Report

To the Unitholders of
Liquor Stores Income Fund

We have audited the consolidated balance sheets of **Liquor Stores Income Fund** as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Liquor Stores Income Fund

Consolidated Balance Sheets
As at December 31, 2009 and 2008
(**expressed in thousands of Canadian dollars)**

	2009	2008 (restated) (note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 5,288	$ 3,530
Accounts receivable	1,846	1,928
Inventory (at cost)	122,571	114,072
Prepaid expenses and deposits (note 5)	2,031	1,932
	131,736	121,462
Deposits on future acquisitions (note 5)	-	10
Note receivable	-	310
Property and equipment (note 7)	47,013	46,743
Intangible assets (note 8)	47,963	48,198
Goodwill (note 9)	283,097	271,533
	$ 509,809	$ 488,256
Liabilities		
Current liabilities		
Bank indebtedness (note 10 (a))	$ 41,094	$ 31,172
Accounts payable and accrued liabilities	24,554	21,033
Distributions payable to unitholders (note 11)	2,493	2,478
Distributions payable to non-controlling interest (note 11)	547	557
Current portion of long-term debt (note 10 (b))	-	28,000
	68,688	83,240
Long-term debt (note 10 (b))	100,126	51,742
Future income tax liability (note 12)	9,254	10,616
Non-controlling interest (note 13)	45,576	48,013
	223,644	193,611
Unitholders' Equity		
Fund Units (note 16)	311,044	309,638
Equity component of convertible debentures	4,970	4,970
Contributed surplus	857	1,156
Accumulated other comprehensive income	(2,025)	1,404
Cumulative undistributed earnings (excess distributions)	(28,681)	(22,523)
	286,165	294,645
	$ 509,809	$ 488,256

Liquor Stores Income Fund

Consolidated Statements of Earnings and Comprehensive Income
For the years ended December 31, 2009 and 2008
(**expressed in thousands of Canadian dollars, except for per unit amounts**)

Consolidated Statements of Earnings	**2009**	**2008 (restated) (note 3)**
Sales	$ 541,049	$ 482,915
Cost of sales	404,550	361,630
Gross margin	136,499	121,285
Operating and administrative expense	91,253	81,353
Operating earnings before amortization, interest and other	45,246	39,932
Amortization		
Property and equipment	6,271	6,269
Intangible assets	2,891	3,219
	9,162	9,488
	36,084	30,444
Interest expense and other		
Bank indebtedness	1,508	931
Long-term debt	1,113	859
Convertible debentures	5,252	5,088
Loss (gain) on foreign exchange	746	(3,247)
Gain on sale of investment (note 6)	(179)	-
Goodwill adjustment for store closures	-	624
	8,440	4,255
Earnings before income tax and non-controlling interest	27,644	26,189
Future income tax (recovery) expense	(1,404)	2,194
Earnings before non-controlling interest	29,048	23,995
Non-controlling interest (note 13)	5,319	5,139
Net earnings for the year	$ 23,729	$ 18,856
Earnings per Unit (note 18)		
Basic	$ 1.29	$ 1.03
Diluted	$ 1.27	$ 1.03

Consolidated Statements of Comprehensive Income		
Net earnings for the year	$ 23,729	$ 18,856
Other comprehensive (loss) gain		
Net (loss) gain on translation of self-sustaining foreign operations	(3,429)	1,404
Comprehensive income for the year	$ 20,300	$ 20,260

Liquor Stores Income Fund

Consolidated Statements of Changes in Unitholders' Equity
For the years ended December 31, 2009 and 2008
(**expressed in thousands of Canadian dollars**)

	Fund Units	**Equity component of convertible debentures**	**Contributed surplus**	**Accumulated other comprehensive income**	**Cumulative undistributed earnings (excess distributions)**	**Total Unitholders' equity**
Balance – December 31, 2007	$ 308,087	$ 4,340	$ 558	$ -	$ (11,307)	$ 301,678
Change in accounting policy (note 3b)	607	-	-	-	95	702
Balance – December 31, 2007 Restated	$ 308,694	$ 4,340	$ 558	$ -	$ (11,212)	$ 302,380
Units issued for exchangeable units	707	-	-	-	-	707
Treasury units issued	1,060	-	-	-	-	1,060
Vested long-term incentive plan units	326	-	(341)	-	-	(15)
Cash distributions on vested units	(12)	-	-	-	-	(12)
Treasury units	(1,045)	-	-	-	-	(1,045)
Exercise of over-allotment option	-	630	-	-	-	630
Unit-based compensation expense	-	-	939	-	-	939
Foreign currency translation adjustment	-	-	-	1,404	-	1,404
Net earnings for the year	-	-	-	-	19,259	19,259
Distributions declared	-	-	-	-	(29,717)	(29,717)
Balance – December 31, 2008	$ 309,730	$ 4,970	$ 1,156	$ 1,404	$ (21,670)	$ 295,590
Change in accounting policy (note 3a)	(92)	-	-	-	(853)	(945)
Balance – December 31, 2008 Restated	$ 309,638	$ 4,970	$ 1,156	$ 1,404	$ (22,523)	$ 294,645
Units issued for exchangeable units	722	-	-	-	-	722
Vested long-term incentive plan units	674	-	(674)	-	-	-
Forfeited long-term incentive plan units	68	-	-	-	-	68
Cash distributions on vested units	(58)	-	-	-	-	(58)
Unit-based compensation expense	-	-	375	-	-	375
Foreign currency translation adjustment	-	-	-	(3,429)	-	(3,429)
Net earnings for the year	-	-	-	-	23,729	23,729
Distributions declared	-	-	-	-	(29,887)	(29,887)
Balance – December 31, 2009	$ 311,044	$ 4,970	$ 857	$ (2,025)	$ (28,681)	$ 286,165

Liquor Stores Income Fund

Consolidated Statements of Cash Flows
For the years ended December 31, 2009 and 2008
(**expressed in thousands of Canadian dollars**)

	2009	2008 (restated) (note 3)
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 23,729	$ 18,856
Items not affecting cash		
Amortization	9,162	9,488
Amortization of inventory fair value adjustment	676	399
Amortization of financing charges	216	-
Goodwill adjustment for store closures	-	624
Non-cash interest on convertible debentures	1,330	1,173
Future income tax (recovery) expense	(1,404)	2,194
Unrealized gain on foreign currency	530	-
Gain on sale of investment (note 6)	(179)	-
Non-controlling interest	5,319	5,139
Unit-based compensation (note 19 (a))	375	894
Loss on sale of forfeited incentive plan units	30	-
	39,784	38,767
Net change in non-cash working capital items (note 21)	5,849	(3,020)
	45,633	35,747
Financing activities		
Increase in bank indebtedness	9,575	31,172
Proceeds of long-term debt	18,720	7,185
Repayment of long-term debt	-	(2,000)
Distributions paid to unitholders (note 11)	(29,872)	(29,709)
Distributions paid to non-controlling interest (note 11)	(6,593)	(7,234)
Dividends paid to non-controlling interest by subsidiaries (note 13)	(425)	(392)
Net distributions and proceeds on long-term incentive plan units	(20)	(12)
	(8,615)	(990)
Investing activities		
Business acquisitions (note 4)	(31,162)	(43,760)
Proceeds from sale of investments (note 6)	966	-
Net deposits on future acquisitions	10	50
Note receivable (note 6)	234	(310)
Purchase of property and equipment	(5,429)	(6,320)
Purchase of intangible assets	(4)	-
	(35,385)	(50,340)
Foreign exchange gain (loss) on cash held in foreign currency	125	(385)
Increase (decrease) in cash and cash equivalents	1,758	(15,968)
Cash and cash equivalents balance, beginning of year	3,530	19,498
Cash and cash equivalents balance, end of year	$ 5,288	$ 3,530

1 Nature of operations and organization

Liquor Stores Income Fund (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.

As at December 31, 2009, the Fund operated 236 retail liquor stores, of which 173 (2008 – 168) were in Alberta, 35 (2008 - 35) were in British Columbia, 20 (2008 – 19) were in Alaska and eight (2008 – nil) were in Kentucky. Of the stores operated, 205 (2008 – 196) were acquired by the Fund and 31 (2008 - 26) were developed by the Fund.

2 Significant accounting policies and basis of presentation

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, goodwill is assessed for impairment based on estimates of fair value and amortization of property and equipment is based on their estimated useful lives. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

(a) Basis of presentation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries Liquor Stores Operating Trust, Liquor Barn Operating Trust, Liquor Barn GP Inc. and controlling interests in Liquor Stores Limited Partnership, Liquor Barn Limited Partnership, Liquor Stores GP Inc., and several operating subsidiaries thereof, its 50% owned subsidiary Vines of Riverbend Limited Partnership ("Vines"), its 80% owned subsidiary Corinthia Liquor Store Limited Partnership and its 50% owned subsidiary Crossroads Liquor Depot. All inter-entity balances and transactions have been eliminated on consolidation.

(b) Revenue recognition

Revenue is generated from sales to customers through retail stores and licensee sales to commercial customers. Revenue from retail sales is recognized at the point of sale and from commercial sales at the time of shipment.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

(d) Inventory

Inventory, consisting primarily of liquor for resale, is valued at the lower of cost, determined on a weighted average basis, and net realizable value.

(e) Property and equipment

Property and equipment is recorded at cost, which is amortized over the estimated useful lives of assets on a straight-line basis at annual rates disclosed in note 7. The Fund will test its property and equipment for impairment when events and circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value.

(f) Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is assessed for impairment at least annually or when events and circumstances indicate the carrying value may not be recoverable. The Fund uses the two step impairment test as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook to determine if there is impairment in the carrying value of goodwill.

(g) Intangible assets

Intangible assets, consisting of acquired customer relationships, retail liquor licenses and business permits, tradenames and property leases acquired at less than market rates, are recorded at cost.

The amount attributed to customer relationships is amortized over five years and the amount attributed to property leases is amortized over the remaining terms of the leases ranging from one to 12 years.

Certain retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. Other retail liquor licenses are amortized based on license expiry terms ranging from 5 to 25 years. Tradenames have an indefinite life and are not amortized.

The Fund will assess the carrying value of limited life intangible assets for impairment when events or circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount of the assets is no longer recoverable and exceeds their fair value. The Fund will assess the carrying value of indefinite life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable. The amortization method and estimated useful life of amortizing intangible assets are reviewed on an annual basis.

(h) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantive enactment.

(i) Unit-based compensation

The Fund's unit-based compensation plans consist of a Long Term Incentive Plan and a 2007 Incentive Plan for the benefit of certain employees and a Deferred Share Unit Plan for the benefit of Fund directors as further described in note 19. The Fund accounts for unit-based compensation using the fair value method, in which the fair value of compensation is measured at the grant date and recognized over the service period.

(j) Financial instruments

The Fund has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which is measured initially at fair value, and subsequently at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, distributions payable to unitholders and non-controlling interest and long-term debt are classified as other financial liabilities which are measured initially at fair value, and subsequently at amortized cost.

Transaction costs related to the issuance of financial liabilities are capitalized on initial recognition and are recognized in income using the effective interest method.

(k) Convertible debentures

The Fund's convertible debentures have been classified as debt with a portion of the proceeds representing the value of the conversion option bifurcated to equity. The debt balance accretes over time to the amount owing on maturity. Upon conversion, portions of debt and equity are transferred into Fund Units.

(l) Translation of foreign currencies

The Fund has foreign subsidiaries in the United States that are considered to be self-sustaining. Assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

Accounting standards issued but not yet effective

Business combinations, consolidated financial statements, and non-controlling interests

Business combinations

The CICA issued Handbook Section 1582, *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and International Financial Reporting Standards ("IFRS"). The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of this standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

Consolidated Financial Statements and Non-controlling Interests

The CICA issued Handbook Sections 1601, *Consolidated Financial Statements* and 1602, *Non-controlling Interests*, which together replace the former consolidated financial statements standard. Under the revised standards, non-controlling interests will be classified as a component of equity, and earnings and comprehensive income will be attributed to both the parent and non-controlling interest. The adoption of these standards is not expected to have a material impact to the Fund's consolidated financial statements. The revised standards are effective January 1, 2011; however early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

3 Changes in accounting policies

(a) Section 3064 – Goodwill and intangible assets

Effective January 1, 2009, the Fund has adopted CICA Handbook section 3064 – Goodwill and intangible assets, which resulted in a retrospective change in the Fund's accounting policy for pre-operating costs. Concurrent with the adoption of this standard, EIC 27 – Revenues and Expenditures during the pre-operating period, has been withdrawn.

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. Section 3064 – Goodwill and intangible assets states that pre-opening costs are to be expensed as incurred and no longer capitalized as an asset. Prior to the adoption of this standard, the Fund deferred expenditures incurred during the pre-operating period and amortized the costs over the 24 month period following the commencement of operations. Section 3064 requires the Fund to retrospectively restate prior periods.

The impact of retrospectively adopting Section 3064 is as follows:

(expressed in thousands of Canadian dollars)		**2008 (restated)**		**2008 (as originally presented)**
Balance sheet				
Pre-opening costs	$	-	$	1,297
Non-controlling interest		48,013		48,279
Fund Units		309,638		309,730

The impact on reported earnings is as follows:

(expressed in thousands of Canadian dollars)		**2008**
Decrease in pre-opening cost amortization	$	735
Pre-opening costs expensed during the period		(1,227)
Decrease in non-controlling interest		89
Decrease in net earnings	$	(403)
Decrease in basic and diluted earnings per unit	$	(0.02)

The cumulative impact of the changes to December 31, 2008 is a decrease of $852,533 to unitholders' equity.

(b) Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through

On August 28, 2008, the Fund adopted CICA Emerging Issues Committee Abstract #171 ("EIC-171") Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion. The Fund has retrospectively applied EIC-171 with restatement of prior periods as required by the standard's transitional provisions.

The cumulative impact of the changes to December 31, 2007 is an increase of $94,834 to unitholders' equity.

4 Business acquisitions

The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

(a) 2009 Acquisitions

On September 24, 2009, the Fund acquired one retail liquor store in Canada and on October 22, 2009 the Fund acquired eight retail liquor stores in Kentucky. The operating results of the stores are included in the results of the Fund from each store's date of acquisition.

Adjustments to goodwill of $177,852 were made for prior year acquisitions and relate to contingent payments, transaction costs and the finalization of third party valuations. Of the goodwill acquired for retail liquor store acquisitions during the year ended December 31, 2009, $13,026,552 is expected to be deductible for tax purposes.

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

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Kentucky	Other acquisitions	Total
Net assets acquired:			
Working capital (including $44 cash)	$ 12,271	$ 215	$ 12,486
Property and equipment	1,439	177	1,616
Intangible assets	4,092	-	4,092
Goodwill	12,330	697	13,027
	30,132	1,089	31,221
Consideration:			
Cash	30,132	1,089	31,221
Cash paid consists of the following:			
Total cash consideration	30,132	1,089	31,221
Less:			
Amounts payable at December 31, 2009	(15)	-	(15)
Cash acquired	(44)	-	(44)
	$ 30,073	$ 1,089	$ 31,162

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	Total
Finite life intangible assets:	
Leases	$ 809
Indefinite life intangible assets:	
Retail liquor licenses	2,909
Tradename	374
	$ 4,092

(b) 2008 Acquisitions

On November 5, 2008, the Fund completed the acquisition of 19 retail liquor stores and one liquor license in Anchorage, Alaska. The operating results of the 19 stores are included in the results of the Fund from November 5, 2008.

In 2008, the Fund also acquired five retail liquor stores in Canada, one liquor license and made a final instalment payment of $750,000 for a 2007 liquor license purchase.

During the year ended December 31, 2008, adjustments were made to goodwill and intangible assets of $116,450 and $256,788 respectively, related to transaction costs, contingent payments and the finalization of third party valuations for prior year acquisitions. Of the goodwill acquired for retail liquor store acquisitions during the year ended December 31, 2008, $12,028,424 is expected to be deductible for tax purposes.

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

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Alaska	Other acquisitions	Total
Net assets acquired:			
Working capital	$ 14,042	$ 1,001	$ 15,043
Property and equipment	3,150	1,451	4,601
Intangible assets	9,354	3,828	13,182
Goodwill	10,968	1,060	12,028
	37,514	7,340	44,854
Consideration:			
Cash deposit paid in prior year	-	587	587
Cash consideration during year	37,514	6,753	44,267
	37,514	7,340	44,854
Cash paid consists of the following:			
Total cash consideration	37,514	6,753	44,267
Less:			
Amounts payable at December 31, 2008	(470)	(37)	(507)
	$ 37,044	$ 6,716	$ 43,760

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Alaska	Other acquisitions	Total
Finite life intangible assets:			
Retail liquor license	$ -	$ 359	$ 359
Customer relationships	-	110	110
Leases	20	314	334
	20	783	803
Indefinite life intangible assets:			
Retail liquor licenses	8,657	3,045	11,702
Tradename	677	-	677
	9,334	3,045	12,379
	$ 9,354	$ 3,828	$ 13,182

(c) Contingent consideration

For two agreements entered into in 2005 for the purchase of certain retail liquor stores, the Fund may be required to make the following contingent payments: i) $100,000 each year for the next two years from December 31, 2009 provided that certain sales thresholds are achieved; and ii) 1% of gross sales of certain stores payable quarterly for the next year to a cumulative maximum of $450,000.

For an agreement entered into in 2007 for the purchase of a retail liquor store, the Fund may be required to make a contingent payment of $65,000, if certain sales thresholds are achieved.

Given the uncertainty with respect to the amount and timing of such payments, no amounts were recorded with respect to this contingent consideration at the time of the respective acquisitions. The Fund will recognize additional consideration payable and goodwill when the outcome of these contingencies becomes determinable.

5 Deposits on future acquisitions

Deposits represent refundable and non-refundable amounts paid for the acquisition of retail liquor stores where the purchase transaction is incomplete at the balance sheet date. Deposits for the acquisition of inventory and working capital are included in prepaid expenses and deposits.

Current year activity is as follows:

(expressed in thousands of Canadian dollars)		Non-current Deposits		Current Deposits
Balance – December 31, 2007	$	647	$	160
Deposits tendered		3,274		416
Acquisitions completed		(3,701)		(250)
Holdbacks released and refunds received		(210)		(103)
Balance – December 31, 2008	$	10	$	223
Deposits tendered		1,165		12
Acquisitions completed		(1,165)		-
Holdback released and refunds received		(10)		(1)
Balance – December 31, 2009	$	-	$	234

6 Sale of investment

During the year ended December 31, 2009, the Fund sold its 80% interest in one store and received proceeds of $965,983 for the sale. In connection with this transaction, the Fund also sold its note receivable for proceeds of $234,000. The net gain on the sale was $179,493.

7 Property and Equipment

(expressed in thousands of Canadian dollars) **2009**

	Rate %	**Cost**	**Accumulated amortization**	**Net book value**
Leasehold improvements	8	$ 44,408	$ 13,460	$ 30,948
Operating equipment	10	5,666	1,588	4,078
Office equipment and fixtures	10	2,913	958	1,955
Computer equipment	20	8,949	3,391	5,558
Automotive	20	724	459	265
Signage	10	2,883	805	2,078
Shelving and racking	10	2,765	996	1,769
Building	4	387	25	362
		$ 68,695	$ 21,682	$ 47,013

(expressed in thousands of Canadian dollars) **2008**

	Rate %	**Cost**	**Accumulated amortization**	**Net book value**
Leasehold improvements	7 - 8	$ 43,388	$ 10,152	$ 33,236
Operating equipment	10	4,668	1,091	3,577
Office equipment and fixtures	10	2,470	676	1,794
Computer equipment	20	5,612	2,067	3,545
Automotive	20	689	329	360
Signage	10	2,575	537	2,038
Shelving and racking	10	2,554	739	1,815
Building	4	387	9	378
		$ 62,343	$ 15,600	$ 46,743

8 Intangible Assets

(expressed in thousands of Canadian dollars)			2009
	Cost	Accumulated amortization	Net book value
Finite life			
Customer relationships	$ 1,505	$ 899	$ 606
Retail liquor licenses	26,698	3,342	23,356
Leases	6,716	3,781	2,935
Indefinite life			
Retail liquor licenses	19,530	-	19,530
Tradenames	1,536	-	1,536
	$ 55,985	$ 8,022	$ 47,963

(expressed in thousands of Canadian dollars)			2008
	Cost	Accumulated amortization	Net book value
Finite life			
Customer relationships	$ 1,615	$ 591	$ 1,024
Retail liquor licenses	26,920	2,064	24,856
Leases	5,899	2,571	3,328
Indefinite life			
Retail liquor licenses	17,830	-	17,830
Tradenames	1,160	-	1,160
	$ 53,424	$ 5,226	$ 48,198

9 Goodwill

(expressed in thousands of Canadian dollars)	2009	2008
Balance – beginning of year	$ 271,533	$ 259,638
Retail Liquor Store acquisitions (note 4)	13,027	12,028
Sale of investment (note 6)	(41)	-
Goodwill adjustment due to store closures	-	(624)
Foreign currency translation	(1,422)	491
Balance – end of year	$ 283,097	$ 271,533

The Fund tests goodwill for impairment as of September 30 every year, and determined that goodwill was not impaired as of September 30, 2009 or 2008. Significant assumptions included in this test include management's expectations regarding future revenues, expenses, and other factors impacting cash flow, as well as various inputs to determine the Fund's weighted average cost of capital. While the assumptions reflect management's best estimates, they are subject to the measurement uncertainty associated with material estimates. As a result, material revisions could be required to these estimates in future periods.

10 Bank indebtedness and long-term debt

The Fund concluded an amended and restated credit agreement effective June 30, 2009, with significant terms as described below.

(a) Bank indebtedness

The Fund's credit facilities with a syndicate of Canadian banks is comprised of an extendible revolving $95 million operating facility ("Operating Facility") and a $48 million extendible revolving term loan facility ("Term Loan Facility"). The Fund also has a $5 million USD operating facility with a US bank ("US operating facility").

Interest on bank indebtedness related to the Operating Facility was payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Interest on amounts outstanding on the Term Loan Facility was payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Standby fees for the Operating Facility and Term Loan Facility were charged at an annual rate of 0.50% payable monthly on undrawn portions of the facilities. Interest on the US operating facility was payable at three month LIBOR + 2.00%. Financing fees relating to the Operating Facility have been capitalized and are being amortized over the term of the credit facility.

Subsequent to December 31, 2009, amendments were made to interest rates payable on the Operating and Term Loan Facilities. Interest on the Operating Facility is now payable at the lender's prime rate plus 1.75% or the banker's acceptance discount rate plus a stamping fee of 2.75%. Interest on the Term Loan Facility is now payable at the lender's prime rate plus 1.75% or the banker's acceptance discount rate plus a stamping fee of 2.75%. Standby fees are now charged at an annual rate of 0.55% payable monthly on undrawn portions of the facilities.

The bank indebtedness and long-term debt are collateralized by a general security agreement covering all present and after-acquired property of Liquor Stores Limited Partnership and its affiliates and subsidiaries, a floating charge over all of the present and after acquired real property of Liquor Stores Limited Partnership and its direct and indirect subsidiaries and an assignment of Liquor Stores Limited Partnership's insurance. Further, Liquor Stores Limited Partnership's direct and indirect subsidiaries have provided the syndicate with unlimited guarantees of the credit facilities. The assets of Liquor Stores Limited Partnership and its subsidiaries represent substantially all of the Fund's assets.

As at December 31, 2009, $27 million was advanced under the Operating Facility as banker's acceptances and $11.5 million US as a LIBOR advance. Under the Term Loan Facility, $33 million was advanced as banker's acceptances and $13.5 million US as a LIBOR advance. On January 11, 2010, the LIBOR advances were rolled over into an $8 million US LIBOR advance and a $3.5 million US base rate loan under the Operating Facility and a new $13.5 million US LIBOR advance under the Term Loan Facility. No principal amounts are due on the Term Loan Facility until maturity at June 30, 2011. As at December 31, 2009, there were no amounts outstanding on the US operating facility.

At December 31, 2009, the Fund had issued $3.7 million (2008 - $3.7 million) in letters of guarantee for day-to-day inventory purchases in Canada. Subsequent to December 31, 2009, the letters of guarantee were reduced to $2.2 million.

The Fund's credit facility agreements contain both objectively determinable and subjective covenants which, if the Fund fails to comply, could accelerate repayment requirements.

b) Long-term debt

Long-term debt comprises the following:

(expressed in thousands of Canadian dollars)	Maturity Date	2009 Effective Rate	December 31, 2009	December 31, 2008
Term Loan Facility advance	June 30, 2011	4.03%	$ 47,188	$ 28,000
Unamortized financing charges (i)			(135)	-
			47,053	28,000
Convertible unsecured subordinated debentures:				
6.75% Debenture (ii)	December 31, 2012	10.13%	52,543	51,198
8.00% Debenture (iii)	December 31, 2011	4.85%	530	544
			100,126	79,742
Less: current portion of long-term debt			-	28,000
			$ 100,126	$ 51,742

(i) Financing fees related to the Term Loan Facility have been capitalized and are being amortized over the term of the facility.

(ii) 6.75% unsecured subordinated convertible debentures ("6.75% Debentures")

The 6.75% Debentures have a principal amount of $57.5 million and are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on the earlier of December 31, 2012 and the business day immediately prior to a date specified by the Fund for redemption of the 6.75% Debentures at a conversion price of $28.50.

The 6.75% Debentures are not redeemable by the Fund prior to January 1, 2011. On or after January 1, 2011 and prior to January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the Indenture, of the Units on the date of the notice of redemption is not less than 125% of the conversion price of $28.50. On or after January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest.

The value of the conversion feature was determined to be $4,830,000 and has been recorded as equity with the remaining $52,670,000 allocated to long-term debt, net of $2,663,951 in transaction costs. The debentures are being accreted such that the liability at maturity will be equal to the face value of $57,500,000. As at December 31, 2009, there were no conversions of these debentures.

(iii) 8.00% unsecured subordinated convertible debentures ("8.00% Debentures")

The 8.00% Debentures have a principal amount of $500,000. The 8.00% Debentures are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on December 31, 2011 and the business day immediately prior to a date specified by the Fund for redemption of the 8.00% Debentures at a conversion price of $15.09.

The 8.00% Debentures are not redeemable by the Fund prior to December 31, 2009. On or after December 31, 2009 and prior to December 31, 2010, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the weighted average trading price of the Units on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is not less than $18.86. On or after December 31, 2010 and prior to December 31, 2011, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest.

The fair value of the debenture was determined to be $703,000 as part of the acquisition of Liquor Barn. The value of the conversion feature was determined to be $140,000 and has been recorded as equity with the remaining $563,000 allocated to long term debt. The debentures are amortized such that the liability at maturity will be equal to the face value of $500,000. As at December 31, 2009, there were no conversions of these debentures.

Upon the occurrence of a change of control involving the acquisition of voting control or direction over 66-2/3% or more of the Units of the Fund, the Fund will be required to make an offer to purchase, within 30 days following the consummation of the change of control, all of the 6.75% Debentures and 8.00% Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest. This is not effective if the transaction is undertaken as a consequence of the SIFT legislation in which a new parent entity is established, created, or adapted for, or in replacement of, the Fund and there is no change in ultimate ownership of the business of the Fund.

During the year ended December 31, 2009, interest on convertible debentures of $5,251,621 (2008 - $5,088,350) represents coupon interest of $3,921,250 and $1,330,371 pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest method.

11 Distributions

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization and adjusted by capital expenditures. Distributions totalling $1.62 (2008 - $1.62) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units were declared by the Fund for the year ended December 31, 2009.

								2009
(expressed in thousands of Canadian dollars)	**Fund Units**		**Liquor Stores Exchangeable LP Units**		**Liquor Stores Series 1 Exchangeable LP Units**		**Total**	
	Declared	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Distributions	$ 29,887	$ 27,394	$ 5,213	$ 4,781	$ 1,370	$ 1,255	$ 36,470	$ 33,430

								2008
(expressed in thousands of Canadian dollars)	**Fund Units**		**Liquor Stores Exchangeable LP Units**		**Liquor Stores Series 1 Exchangeable LP Units**		**Total**	
	Declared	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Distributions	$ 29,717	$ 27,239	$ 5,324	$ 4,882	$ 1,373	$ 1,258	$ 36,414	$ 33,379

12 Future income taxes

Prior to June 12, 2007, the Fund provided for current and future income taxes only for its incorporated subsidiaries. On June 22, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), received Royal Assent. As a consequence, Canadian income trusts are required to provide for future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011. The substantively enacted tax rates for 2011 and 2012 are 26.5% and 25.0% respectively.

Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

Future income tax assets and liabilities are recognized based on temporary differences between accounting and tax bases of existing assets and liabilities as follows:

(expressed in thousands of Canadian dollars)	December 31, 2009	December 31, 2008
Future income tax liabilities:		
Intangible assets	$ 5,806	$ 6,312
Property and equipment	2,081	2,566
Goodwill	3,263	2,627
	11,150	11,505
Future income tax assets:		
Issue and financing costs	696	549
Deferred lease inducements	237	198
Long term incentive plans	67	79
Non-capital losses	896	63
	1,896	889
	$ 9,254	$ 10,616

The above includes a net future income tax asset recorded by wholly-owned US subsidiaries of $184,979 (2008 – $84,528).

Future income taxes of $2,020,360 attributable to the Fund’s exchangeable interests are not recorded. During the year ended December 31, 2009, 79,072 (2008 – 46,721) units were exchanged resulting in an increase to future income taxes of $42,799 (2008 – $29,509).

The Fund has recognized future income taxes related to non-capital losses of $2,748,407 (2008 - $690,663) available in subsidiaries to offset income of future years. Realization of the non-capital losses is considered to be more likely than not. If not utilized, $494,694 will expire in 2028 and $2,253,713 will expire in 2029.

Future income taxes are not recorded on $103,745,778 of non tax-deductible goodwill.

13 Non-controlling interest

	Liquor Stores Exchangeable LP Units	Liquor Barn Exchangeable LP Units	Series 1 Exchangeable LP Units	Total
Balance – December 31, 2007	# 3,300,255	# 867,789	# -	# 4,168,044
Issuance of Series 1 Exchangeable LP Units	-	(867,789)	867,789	-
Exchanged for Fund Units	(24,341)	-	(22,380)	(46,721)
Balance – December 31, 2008	# 3,275,914	# -	# 845,409	# 4,121,323
Exchanged for Fund Units	(79,072)	-	-	(79,072)
Balance – December 31, 2009	# 3,196,842	# -	# 845,409	# 4,042,251

(expressed in thousands of Canadian dollars)	(restated – note 3)
Balance – December 31, 2007	$ 50,226
Earnings	4,723
Exchanged for Fund Units	(707)
Series 1 Exchangeable LP Unit conversion	210
Distributions declared (note 11)	(6,697)
Balance – December 31, 2008	$ 47,755
Earnings	4,895
Exchanged for Fund Units	(722)
Exchangeable LP Unit conversion	(43)
Distributions declared (note 11)	(6,583)
Balance – December 31, 2009	$ 45,302
Subsidiaries	
Balance – December 31, 2007	235
Earnings	415
Dividends	(392)
Balance – December 31, 2008	$ 258
Earnings	424
Sale of investment	17
Dividends	(425)
Balance – December 31, 2009	$ 274
Total	$ 45,576

Liquor Stores LP Exchangeable LP Units (“Exchangeable LP Units”) and Liquor Stores LP Series 1 Exchangeable LP Units (“Series 1 Exchangeable LP Units”)

The Exchangeable LP Units and Series 1 Exchangeable LP Units issued by Liquor Stores LP have economic and voting rights equivalent to the Fund Units (note 16), except in connection with the exchangeability terms as described below. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units are not required to be exchanged for Fund Units before transferring to third parties. Exchangeable LP Units and Series 1 Exchangeable Units have been treated as non-controlling interest.

Each Exchangeable LP Unit and Series 1 Exchangeable LP Unit entitles the holder to receive distributions pro-rata with distributions made on Fund Units.

14 Contingencies

The Fund may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Fund.

15 Commitments

The Fund occupies its head office and retail locations under lease agreements with terms varying from five to twenty-five years and expiring from 2010 to 2028. The leases provide for minimum annual lease payments as follows:

(expressed in thousands of Canadian dollars)		**Amount**
2010	$	19,076
2011		16,634
2012		14,620
2013		12,300
2014		9,285
Aggregate of all years thereafter		21,180
	$	93,095

16 Unitholders' equity

Units outstanding and capital contributions are as follows:

(expressed in thousands of Canadian dollars)	Number of units
Balance – December 31, 2007	# 18,294,278
Issued for Exchangeable Units	46,721
Vested Units	15,997
Treasury Units issued on March 7, 2008	49,143
Vested Units	(695)
Treasury Units	(48,448)
Balance – December 31, 2008	# 18,356,996
Issued for Exchangeable Units	79,072
Vested Units (note 19 (a))	31,256
Forfeited units	3,124
Balance – December 31, 2009	# 18,470,448

An unlimited number of Fund Units may be created and issued pursuant to the Declaration of Trust. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. All Fund Units entitle the holder thereof to one vote and each Fund Unit has equal voting rights and privileges.

Consideration for units issued on exchange of Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units during the year ended December 31, 2009 was recorded at the carrying amount of the Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units.

The monthly cash distributions received by the Long Term Incentive Plan and the 2007 Incentive Plan are remitted to the participants when the associated Units vest.

17 Capital management

The Fund views capital as the combination of its Term Loan Facility, convertible debentures and Unitholders' equity balances. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives when managing capital, which are to ensure the Fund has capital and capacity to support its growth strategy, provide investors with stable returns and ensure the Fund has the financial capacity to support its operations.

The Fund's capital structure reflects the requirements of a company focused on growth, both through the development of new stores and through acquisitions. Management continually monitors the adequacy of the Fund's capital structure and adjusts the structure accordingly, either by accessing credit facilities, issuing debt instruments, or issuing new units.

There were no changes to the Fund's objectives, policies or processes for managing capital from the prior fiscal year.

The Fund's credit facilities with a syndicate of Canadian banks are subject to a number of financial covenants. Management prepares financial forecasts to monitor its compliance with the financial covenants and to anticipate whether there are any forseen issues. Under the terms of the Fund's credit facility, the following ratios are monitored: current ratio, funded debt to EBITDA, adjusted debt to EBITDAR, and fixed charge coverage ratio. For the year ended December 31, 2009, the Fund is in compliance with all covenants.

With respect to equity, the current level of capital is considered adequate and in line with the operations and the strategic growth plan of the Fund. The equity component of capital changes primarily based upon the income of the Fund less distributions paid.

The Fund will monitor and assess capital changes as they may be required in relation to the taxation changes expected to impact the Fund in 2011, as described in note 12.

18 Earnings per Unit

(expressed in thousands of Canadian dollars, except per unit amounts)	**2009**	**2008 (restated – note 3)**
Net earnings (numerator utilized in basic Earnings per Unit)	$ 23,729	$ 18,856
Non-controlling interest	4,895	-
Earnings (numerator utilized in diluted Earnings per Unit	$ 28,624	$ 18,856
Units outstanding, beginning of period	# 18,356,996	# 18,294,278
Weighted average of Units issued less treasury Units acquired	88,634	48,918
Denominator utilized in basic earnings per unit	# 18,445,630	# 18,343,196
Exchangeable units	4,066,237	-
Potential units under unit-based compensation plans (note 19 (a))	20,267	14,414
Denominator utilized in diluted earnings per unit	# 22,532,134	# 18,357,610
Earnings per Unit – Basic	$ 1.29	$ 1.03
Earnings per Unit – Diluted	$ 1.27	$ 1.03

Due to their anti-dilutive effect, potential units for convertible debentures have been excluded from the diluted earnings per unit calculation. The exchangeable units were also excluded in the diluted earnings per unit calculation for the year ended December 31, 2008 as the non-controlling interest charge resulted in an anti-dilutive effect.

19 Unit-based compensation plans

(a) Long-term incentive plan ("LTIP") and 2007 Incentive Plan ("2007 Plan")

The following table summarizes the status of the Plans:

		LTIP		**2007 Plan**		**Total**
Unvested Units – December 31, 2007	#	2,692	#	42,812	#	45,504
Granted		49,143		-		49,143
Vested Units transferred to participants		(1,726)		(14,271)		(15,997)
Unvested Units – December 31, 2008	#	50,109	#	28,541	#	78,650
Vested Units transferred to participants		(16,985)		(14,271)		(31,256)
Forfeited units		(2,086)		(1,038)		(3,124)
Unvested Units – December 31, 2009	#	31,038	#	13,232	#	44,270

In January 2009, 2,086 forfeited LTIP Units and 1,038 forfeited 2007 Plan Units were sold on the market resulting in a reduction to compensation expense of $30,714. For the remaining units granted, the compensation expense will be recognized over the vesting period of three years.

Compensation expense for the LTIP was $284,936 (2008 - $654,641) and for the 2007 Incentive Plan was $89,746 (2008 - $284,713) for the year ended December 31, 2009.

(b) Trustee and director deferred unit plan ("DSU Plan")

Awards accruing to DSU Plan participants for the year ended December 31, 2009 totalled $348,939 (2008 – reduced compensation expense by $45,586), which was recorded as compensation expense. As at December 31, 2009 participants have accumulated an entitlement to the equivalent cash value of 39,180 Units under the DSU Plan (December 31, 2008 – 26,938).

20 Related party transactions

The Fund paid fees and incurred expenses to a law firm for legal services of $230,831 (2008 - $281,860) where a director of a subsidiary company of the Fund is a partner. Rent paid to companies controlled by the Executive Chairman of the Fund amounted to $587,595 (2008 - $493,862). The Fund also paid fees and expenses to a company controlled by the Executive Chairman of the Fund for consulting services of $15,427 (2008 - $53,529). These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount. There was $17,294 included in accounts payable and accrued liabilities (December 31, 2008 - $15,000) relating to these transactions.

21 Supplemental disclosure of cash flow information

Changes in non-cash working capital items:

(expressed in thousands of Canadian dollars)		**2009**		**2008**
Accounts receivable	$	22	$	1,546
Inventory		1,370		(14,244)
Prepaid expenses and deposits		(93)		(473)
Accounts payable and accrued liabilities		4,550		10,151
	$	5,849	$	(3,020)

(expressed in thousands of Canadian dollars)		**2009**		**2008**
Interest paid	$	6,323	$	5,779
Income taxes paid		46		238

22 Financial Instruments

Recognition and measurement

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest and long-term debt.

The following table shows the carrying amounts and fair values of the Fund's financial instruments at December 31:

(expressed in thousands of Canadian dollars)	December 31, 2009 Carrying Value	December 31, 2009 Estimated Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Estimated Fair Value
Held for trading (i)				
Cash and cash equivalents	$ 5,288	$ 5,288	$ 3,350	$ 3,350
Loans and receivables (ii)				
Accounts receivable	1,846	1,846	1,928	1,928
Note receivable	-	-	310	310
Other financial liabilities (iii)				
Bank indebtedness	41,094	41,094	31,172	31,172
Accounts payable and accrued liabilities	24,554	24,554	21,033	21,033
Distributions payable to unitholders	2,493	2,493	2,478	2,478
Distributions payable to non-controlling interest	547	547	557	557
Term Loan Facility advance	47,053	47,053	28,000	28,000
Convertible debentures	53,073	60,444	51,742	56,350

(i) **Held for trading**

For cash and cash equivalents, the fair value represents cost plus accrued interest. Due to the short-term nature of the instruments, the carrying value approximates fair value.

(ii) **Loans and receivables**

The carrying value less impairment provision of trade receivables approximates fair value due to the short-term nature of the instruments.

(iii) **Other financial liabilities**

The carrying value of trade payables is assumed to approximate fair value due to the short-term nature of the instruments. The carrying value of bank indebtedness and long-term debt, excluding convertible debentures, approximates the fair value as the interest rate affecting these instruments is at a variable market rate. Convertible debentures have been recorded at amortized cost using the effective interest method. The fair value of the debentures was determined based on market trading values at December 31.

Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund maintains its cash and cash equivalents with large financial institutions in Canada and the US. The Fund, in its normal course of operations, is exposed to credit risk from its wholesale customers. Risk associated with respect to accounts receivable is mitigated by credit management policies. The Fund is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the Alberta and British Columbia hospitality industries. There was $107,800 (2008 - $57,003) recorded for bad debts or significant past due accounts for the year ended December 31, 2009.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change.

(i) Interest rate risk

The Fund is subject to cash flow interest rate risk as its credit facilities bear interest at variable rates.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund, assuming an outstanding bank indebtedness and long-term debt balance of $87.3 million.

(expressed in thousands of Canadian dollars)	**+ 1.00%**	**- 1.00%**
Increase (decrease) in interest expense	$ 873	$ (873)
Increase (decrease) in earnings before income tax and non-controlling interest	$ (873)	$ 873

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

(ii) Foreign exchange risk

The Fund commenced operations in the United States in 2008 giving rise to foreign exchange risk arising from exposure to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and the Fund's net investment in foreign operations. The Fund does not actively manage this exposure. At December 31, 2009, a weakening/strengthening of the Canadian dollar by 10% against the US dollar with all other variables held constant, would result in an increase/decrease of the Fund's net assets of $202,568, as a result of translating the US operations.

The Fund also has exposure to foreign exchange risk through its US denominated loans under the Operating and Term Loan Facilities. A 10 % weakening/strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of $2,500,000.

Liquidity risk

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

(expressed in thousands of Canadian dollars)	**Current**	**Non-current**
Bank indebtedness	$ 41,094	$ -
Accounts payable and accrued liabilities	24,554	-
Distributions payable to unitholders	2,493	-
Distributions payable to non-controlling interest	547	-
Long-term debt	-	47,053
6.75% debenture	-	52,543
8.00% debenture	-	530

The Fund has long-term indebtedness with a maturity date of June 30, 2011, 8.00% convertible debentures maturing on December 31, 2011 and 6.75% convertible debentures maturing on December 31, 2012.

Liquidity risk is when the Fund may be unable to extend the maturity date of the credit facilities or to refinance outstanding indebtedness. As well, the degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance growth acquisitions.

To manage liquidity risk, the Fund has historically renewed credit terms prior to maturity dates and maintains financial ratios that are conservative compared to financial covenants applicable to the credit facilities. In addition, a portion of the Fund's short and long-term credit facilities remain undrawn.

Management monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facility agreements.

23 Segmented information

The Fund's reportable segments are Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions. The following segmented information is regularly reported to the Fund's President and Chief Executive Officer (the Fund's chief operating decision maker).

(expressed in thousands of Canadian dollars)				**2009**
	Canadian	**US**	**Intersegment Eliminations**	**Consolidated**
Sales to external customers	$ 444,870	$ 96,179	$ -	$ 541,049
Intersegment revenue (i)	3,036	-	(3,036)	-
	$ 448,006	$ 96,179	$ (3,036)	$ 541,049
Operating margin before amortization, interest and other	$ 43,465	$ 1,781	$ -	$ 45,246
Property & equipment amortization	$ 5,775	$ 496	$ -	$ 6,271
Intangible asset amortization	2,846	45	-	2,891
Interest income (i)	(1,695)	-	1,695	-
Interest expense	7,782	1,786	(1,695)	7,873
Loss on foreign exchange	746	-	-	746
Gain on sale of investment	(179)	-	-	(179)
Earnings (loss) before income tax and non-controlling interest	$ 28,190	$ (546)	$ -	$ 27,644
Future income tax recovery	$ (1,265)	$ (139)	$ -	$ (1,404)
Non-controlling interest	5,319	-	-	5,319
Net earnings (loss)	$ 24,136	$ (407)	$ -	$ 23,729
Other information				
Expenditures for additions to:				
Property and equipment	$ 4,462	$ 2,583	$ -	$ 7,045
Goodwill	697	12,330	-	13,027
Total assets	443,274	66,535	-	509,809

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

(expressed in thousands of Canadian dollars)				2008
	Canadian	US	Intersegment Eliminations	Consolidated
Sales to external customers	$ 468,578	$ 14,337	$ -	$ 482,915
Intersegment revenue [(i)]	279	-	(279)	-
	$ 468,857	$ 14,337	$ (279)	$ 482,915
Operating margin before amortization, interest and other	$ 39,929	$ 3	$ -	$ 39,932
Property & equipment amortization	$ 6,212	$ 57	$ -	$ 6,269
Intangible assets amortization	3,216	3	-	3,219
Interest income [(i)]	(280)	-	280	-
Interest expense	6,829	329	(280)	6,878
Gain on foreign exchange	(3,247)	-	-	(3,247)
Goodwill adjustment for store closures	624	-	-	624
Earnings (loss) before income tax and non-controlling interest	$ 26,575	$ (386)	$ -	$ 26,189
Future income tax expense (recovery)	$ 2,280	$ (86)	$ -	$ 2,194
Non-controlling interest	5,139	-	-	5,139
Net earnings (loss)	$ 19,156	$ (300)	$ -	$ 18,856
Other information				
Expenditures for additions to:				
Property and equipment	$ 7,213	$ 3,708	$ -	$ 10,921
Goodwill	1,060	10,968	-	12,028
Total assets	446,408	41,848	-	488,256

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

24 Economic dependence

Under Alberta provincial legislation the Fund is required to purchase liquor and related products sold in Alberta from the Alberta Gaming and Liquor Commission. As the Fund's income in Alberta is derived entirely from the sale of liquor and related products, its ability to continue viable operations is largely dependent upon maintaining its relationship with this main supplier.

The Fund is dependent on Connect Logistics Services Inc. and Brewers Distributor Ltd. in Alberta and the Liquor Distribution Branch in British Columbia for the majority of its products. Any significant disruption in the operations of these organizations resulting in interruption in supply would have a material adverse effect on liquor store operations including the operations of the Fund.