

August 11, 2006

Attention Business/Financial Editors:

Liquor Stores Income Fund Reports 2006 Second Quarter Results and Announces Cash Distribution Increase:

EDMONTON, Liquor Stores Income Fund (the "Fund") (TSX: LIQ.UN) announced its results for the three and six months ended June 30, 2006. For the second quarter, the Fund reported sales of \$52.2 million compared to \$38.5 million in 2005. For the six months ended June 30, sales were \$90.2 million compared to \$65.3 million in 2005.

Same store sales increased by 9.26%. Sales for the second quarter of 2006 benefited from the timing of festive occasions and other holidays. Same store sales for the six months ended June 30, 2006 increased 5.64%. Favourable weather conditions in Western Canada and the participation of Alberta-based professional hockey teams in the Stanley Cup playoffs also contributed to the year over year improvement.

For the quarter ended June 30, 2006, earnings before non-controlling interest were \$4.0 million or \$0.33 per weighted average unit outstanding and net earnings were \$2.9 million or \$0.33 per weighted average unit outstanding. For the six months ended June 30, 2006, earnings before non-controlling interest were \$5.1 million or \$0.45 per weighted average unit and net earnings were \$3.6 million or \$0.47 per weighted average unit outstanding. Distributable cash per weighted average unit outstanding for the three month and six month periods were \$0.33 and \$0.45, respectively, compared to \$0.27 and \$0.38 in 2005. Distributions declared were \$0.30 per unit for the second quarter of 2006 and \$0.60 for the six months ended June 30, 2006.

Operating margin as a percentage of sales for the quarter ended June 30, 2006 was 8.95% compared to 8.38% for the second quarter of 2005. The operating margin for the quarter benefited from the timing of Easter in 2006 compared to 2005. For the six months ended June 30, 2006, operating margin as a percentage of sales was 7.28% compared to 7.10% for the same period last year.

Irv Kipnes, President and Chief Executive Officer of Liquor Stores GP Inc. stated, "We are extremely pleased with the performance of the Fund in the second quarter and the year to date related to sales, earnings, acquisitions and new store development. We are expecting continued sales and earnings growth in 2006 as a result of the 25 acquisitions and new stores opened in 2005, the 20 acquisitions and new stores opened to date in 2006 and the expected completion of the further acquisition and development of 6 stores scheduled for the third quarter of this year.

All of the growth from new store development and acquisition results from the Fund's transactions with arms length third parties, and all the accretion in value from this growth continues to accrue to the benefit of the Fund's Unitholders.

I am also pleased to announce that, because of the accretive nature of acquisitions and newly developed stores and improved results from our original 50 stores, the Board of Directors of Liquor Stores GP Inc. has approved an increase in cash distributions from \$1.20 annually (\$0.10 per month) to \$1.40 (\$0.1167 per month). The increase will be effective commencing with the distribution payable November 15, 2006 to Unitholders of record October 30, 2006."

About Liquor Stores Income Fund

The Fund is a publicly traded Canadian income fund that participates in the retail liquor industry in Alberta and British Columbia through its 72.3% interest in Liquor Stores Limited Partnership. Liquor Stores Limited Partnership is Canada's largest operator of private liquor stores by number of stores. The Fund currently operates 95 stores.

The Fund's trust units trade on the Toronto Stock Exchange under the symbol LIQ.UN.

Additional information about Liquor Stores Income Fund is available at www.sedar.com and the Fund's website at www.liquorstoresincomefund.ca.

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NON-GAAP MEASURES

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 unitholders and prospective investors is the cash distributed by the Fund relative to the price of the Fund's trust units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist unitholders and prospective investors in assessing an investment in the Fund.

Operating margin has been derived by adding interest expense, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest to net earnings for the period.

Operating margin, as so calculated, and distributable cash are not measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin 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 method of calculating operating margin and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's operating margin and distributable cash may not be comparable to similar measures presented by other issuers.

FORWARD LOOKING STATEMENTS

This press release contains forward-looking statements. All statements other than statements of historical fact contained in this press release 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 Limited Partnership. 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 press release. 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” in the management's discussion and analysis that forms part of this press release.

The information contained in this press release, 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. See also the Fund's Annual Information Form and other documents the Fund files with Canadian securities regulatory authorities for further detail, copies of which are available from the Fund directly, or on its website, www.liquorstoresincomefund.ca, or on the SEDAR website at www.sedar.com.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this press release is made as of the date of this press release 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.



LIQUOR STORES INCOME FUND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATION**

**For the Second Quarter Ended June 30, 2006
As of August 11, 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 interim consolidated financial statements and accompanying notes ("Financial Statements") of Liquor Stores Income Fund (the "Fund") for the six months ended June 30, 2006 and the annual consolidated financial statements and accompanying notes of 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 "distributable cash", "operating margin", and other "Non-GAAP Measures". A description of these measures and their limitations are discussed below under "Non-GAAP Measures". See also "Risk Factors" and "Forward-Looking Statements".

This MD&A is dated August 11, 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. The trust units ("Units") of the Fund trade on the Toronto Stock Exchange under the symbol LIQ.UN. Through its 72.31% ownership of Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates 95 retail liquor stores in Alberta and British Columbia and is the largest liquor store operator in Alberta by number of stores.

The Fund commenced business operations on September 28, 2004, when it completed its initial public offering of Units and acquired the net assets of The Liquor Depot Corporation and Liquor World Group Inc. and other wholly owned subsidiaries or companies that were under common control (collectively, the "Vendors") for \$97.4 million in cash and Subordinated and Exchangeable LP Units.

In March 2005 and March 2006 the Fund issued 1,830,000 and 1,600,000 units, respectively, from treasury for aggregate net proceeds of \$59.2 million. In conjunction with the March 2006 offering, the Vendors sold 827,132 Units by way of a secondary offering. As a consequence of the secondary offering and other exchanges, the Vendors now have a 27.69% non-controlling interest

A portion of the net proceeds of the March 2005 and March 2006 issuances were used to fund deposits for acquisitions occurring after June 30, 2006 and to acquire or develop 36 retail liquor stores. To date, the aggregate of deposits and the cost to acquire and develop retail liquor stores, exclusive of working capital, is approximately \$46.9 million. The balance of the net proceeds was used to temporarily repay bank indebtedness related to inventory financing.

Subsequent to June 30, 2006, the Fund completed the acquisition of 8 additional retail liquor stores and opened a retail liquor store. As at August 11, 2006, the Fund operates 95 retail liquor stores. The opening of a store currently under development and the acquisition of 5 additional stores are expected to be completed in the third quarter.

The geographic location of the 95 liquor stores currently being operated is provided in the following table:

	Edmonton	Calgary	Alberta Other	British Columbia Lower Mainland	Other	Total
Number of stores	40	31	17	3	4	95

References to Edmonton and Calgary are to stores located in or near those urban centres.

Other communities served in Alberta include Red Deer (3), Lethbridge (1), Fort McMurray (5), Slave Lake (3), Banff (1), Grande Prairie (2) and Edson (2).

In British Columbia other communities served include Victoria (1), Kamloops (1), and Kelowna (2).

The Fund also operates a pub connected to a retail store in British Columbia.

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 88 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. We believe that the Fund is the second largest liquor store operator by revenue in Alberta.

The Fund also operates 7 stores and a pub in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of private and government operated retail outlets.

Distributable Cash and Cash Distributions

The Fund's policy is to distribute available cash from operations to Unitholders to the extent determined prudent by the Trustees of the Fund. Cash available for distribution is 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 estimates of distributable cash. 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 and the financial performance of the Fund, 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

On August 11, 2006, an increase in the cash distribution from \$1.20 (\$0.10 monthly) to \$1.40 (\$0.1167 monthly) annually was approved. The increase will be effective commencing with the distribution payable November 15, 2006 to Unitholders of record October 30, 2006.

Distributions declared during the three months ended June 30, 2006 were \$3,579,000 or \$0.30 per unit. On a weighted average basis, distributable cash per unit was \$0.38. Since inception, the Fund has distributed approximately 95% of its distributable cash. For fiscal 2006 we expect the distributions will be approximately 90% of distributable

cash. The Fund has sufficient working capital available to cover seasonal variations in distributable cash.

For 2006, the tax deferred portion of distributions for Canadian federal income tax purposes 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 three and six months ended June 30, 2006 and 2005. 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. The Fund uses cash provided by operating activities as the starting point for the calculation of distributable cash.

	April 1, 2006 to June 30, 2006	April 1, 2005 to June 30, 2005	January 1, 2006 to June 30, 2006	January 1, 2005 to June 30, 2005
Cash provided by operating activities	\$2,822,858	\$469,943	\$3,859,755	\$2,645,671
Net change in non-cash working capital items	1,719,464	2,637,320	2,233,804	1,749,802
Equity earnings	21,381	4,491	28,237	7,348
Less: Purchase of non-growth property & equipment	(69,811)	(165,857)	(177,824)	(217,682)
Distributable cash	<u>\$4,493,892</u>	<u>\$2,945,897</u>	<u>\$5,943,972</u>	<u>\$4,185,139</u>
Weighted average Units outstanding *	<u>11,930,000</u>	<u>10,330,000</u>	<u>11,281,111</u>	<u>9,723,370</u>
Distributable cash per weighted average Unit **	\$0.38	\$0.29	\$0.53	\$0.43
Distributions declared per unit	\$0.30	\$0.26	\$0.60	\$0.51
Basic earnings per Unit	\$0.33	\$0.27	\$0.47	\$0.39
Diluted earnings per unit	\$0.33	\$0.27	\$0.45	\$0.38

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

(**) In fiscal 2005 Easter fell in the first quarter. Easter was in the second quarter of 2006.

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:

	April 1, 2006 to June 30, 2006	April 1, 2005 to June 30, 2005	January 1, 2006 to June 30, 2006	January 1, 2005 to June 30, 2005
Purchase of property and equipment from the Statement of Cash Flows	\$1,175,999	\$306,614	\$ 1,863,551	\$985,186
Less: Growth expenditures including amounts relating to development and acquired stores	(1,106,188)	(140,757)	(1,685,727)	(767,504)
Purchase of non-growth property and equipment	\$69,811	\$165,857	\$177,824	\$217,682

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

Repairs and maintenance expensed in store operations for the quarters ended June 30, 2006 and 2005 was \$50,454 and \$65,535, respectively. Repairs and maintenance expensed for the six months ended June 30, 2006 and 2005 respectively was \$121,694 and \$105,412.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

Operating Results

The following table summarizes the operating results for the quarter ended June 30, 2006 with comparative figures for 2005:

	Three Months Ended June 30, 2006 (Unaudited)	Three Months Ended June 30, 2005 (Unaudited)	Six Months Ended June 30, 2006 (Unaudited)	Six Months Ended June 30, 2005 (Unaudited)
# of Stores at June 30	86	66	86	66
Sales	\$52,215,489	\$38,505,474	\$90,236,213	\$65,324,198
Cost of sales, administrative, operating, and store acquisition and development expenses	47,542,847	35,277,447	83,663,178	60,683,617
Operating margin *	\$4,672,642	3,228,027	6,573,035	\$4,640,581
Percent of Sales **	8.95%	8.38%	7.28%	7.10%

(*)Operating margin has been calculated as described under "Non-GAAP Measures".

(**) In fiscal 2005 Easter fell in the first quarter. Easter was in the second quarter of 2006.

Sales

Sales for the quarter ended June 30, 2006 increased by \$13.7 million to \$52.2 million from \$38.5 million in the second quarter of 2005. For the six months ended June 30, 2006 sales increased by \$24.9 million to \$90.2 million from \$65.3 million for the six months ended June 30, 2005.

Liquor sales typically increase on holidays and festive occasions and accordingly their timing has an effect on quarterly sales. Easter occurred in April in 2006 and in March in 2005.

Sales for the 62 stores that were in operation during the entire second quarter of 2005 increased by 9.26% to \$41.5 million from \$38.1 million in the second quarter of 2005 reflecting the timing of Easter.

Of the 86 stores open at June 30, 2006, 50 were in operation during entire first half of 2005. Sales of these stores increased by 5.64% to \$58.2 million for the six months ended June 30, 2006 from \$55.1 million for the six months ended June 30, 2005. Factors contributing to the improvement included the strength of the economy in Western Canada, favourable weather conditions and the participation of Alberta professional hockey teams in the Stanley Cup Playoffs.

Sales for the 24 stores added since March 31, 2005 increased to \$10.7 million for the three months ended June 30, 2006. For 2005, when the stores were open for a partial quarter, sales were \$0.4 million.

Sales for 13 stores that were acquired or opened in the first quarter of fiscal 2005 increased \$4.9 million to \$14.7 million from \$9.8 million for the same quarter last year.

Since March 31, 2005, 24 stores have been acquired or opened. Sales for these stores were \$17.3 million for the half year compared to \$0.4 million in 2005.

Combined Cost of Sales, Administrative, Operating and Acquisition and Store Development Expense ("Operating Expenses")

For the three months ended June 30, 2006 operating expenses of \$47.5 million compare to \$35.3 million in 2005. Operating expenses for the first half of 2006 increased to \$83.7 million, which were \$23.0 million higher than in 2005. These increases are consistent with the increase in number of stores operated.

Increases in labour costs due to upward pressure on wage rates in Alberta and an increase in staffing levels at head office to accommodate growth added \$0.6 million and \$1.1 million to operating costs for the second quarter and the half year, respectively, when compared to the same periods in 2005. These labour cost increases are consistent with management's expectations.

Operating Margin

Operating margin (as defined under Non-GAAP Measures) for the three months ended June 30, 2006 increased by \$1.4 million over the same period in 2005 to \$4.7 million. As a percentage of sales, operating margin increased to 8.95% for the quarter compared to 8.38% for the same period last year. The increase in operating margin was due primarily to the increase in the number of stores and improved results from existing stores.

Operating margin is affected by the timing of acquisitions, holidays and festive occasions. In 2005, Easter fell in the first quarter and in 2006 it fell in the second quarter.

Operating margin increased to \$6.6 million for the six months ended June 30, 2006 from \$4.6 million in 2005. The increase in operating margin was due primarily to the increase in the number of stores and improved results from existing stores.

Operating margin as a percentage of sales was 7.3% for the six months ended June 30, 2006 compared to 7.1% in 2005.

Earnings Before Non-controlling Interest and Net Earnings

Earnings before non-controlling interest of \$4.0 million for the second quarter of 2006 compared to \$2.8 million for the second quarter of 2005. For the six month period ended June 30, 2006 earnings before non-controlling interest of \$5.1 million increased over the same period in 2005, which had earnings before non-controlling interest of \$3.7 million.

Net earnings, after the deduction of non-controlling interest and as determined in accordance with GAAP, for the three-month period ended June 30, 2006 increased by \$1.3 million to \$2.9 million from \$1.6 million in 2005. Net earnings for the six-month period increased by \$1.4 million over the same six month period in 2005.

Condensed Quarterly Information

	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004
(thousands of dollars except per unit amounts)							
Balance Sheet							
Cash and cash equivalents	\$276	\$2,935	\$2,047	\$172	\$266	\$10,199	\$179
Total assets	165,812	141,511	140,806	127,114	118,425	126,040	102,081
Bank indebtedness	15,495	-	15,493	8,993	-	7,445	11,397
Total current liabilities	20,481	4,092	20,427	11,628	2,996	10,669	14,107
Long-term debt	7,500	-	11,352	7,359	7,500	7,481	7,398
Unitholders' equity	105,115	104,775	67,327	66,648	66,167	66,147	37,814
Non-controlling interest	32,716	32,643	41,700	41,471	41,762	41,742	42,377
Statement of Earnings							
Sales	\$52,215	\$38,021	\$50,686	\$41,434	\$38,505	\$26,819	\$35,543
Earnings before non-controlling interest	3,992	1,101	3,676	2,966	2,760	910	2,957
Net earnings for the period	2,871	684	2,202	1,764	1,637	495	1,496
Basic earnings per unit	\$0.33	\$0.10	\$0.38	\$0.29	\$0.27	\$0.10	\$0.35
Diluted earnings per unit	\$0.33	\$0.10	\$0.37	\$0.29	\$0.27	\$0.10	\$0.35
Distributable cash per Unit	\$0.38	\$0.14	\$0.44	\$0.29	\$0.29	\$0.14	\$0.38

The liquor retailing industry is subject to seasonal variations with approximately 45% of sales occurring in the first half of the year. Sales and operating margin improve as the year progresses.

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of August 11, 2006:

	<u>Units</u>
Fund Units	8,628,320
Liquor Stores LP Exchangeable LP Units	1,176,680
Liquor Stores LP Subordinated LP Units	<u>2,125,000</u>
	<u>11,930,000</u>

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

During the three months ended June 30, 2006, 5,541 Liquor Stores LP Exchangeable LP Units were exchanged for Fund Units resulting in an increase in Unitholders' Equity of \$55,410 and a corresponding decrease in non-controlling interest.

Credit Facilities

The Fund has a \$32 million demand operating loan that can be increased to \$38 million to accommodate seasonal inventory highs, a \$14.5 million committed non-revolving capital loan and a \$15 million committed non-revolving acquisition loan with a Canadian chartered bank. The total of all available credit facilities is \$61.5 million.

As of June 30, 2006, total indebtedness under all credit facilities was \$23 million and was related to inventory financing. As acquisitions occur and new stores are opened, credit facilities will be utilized as required.

Capital Expenditures

During the three months ended June 30, 2006, the Fund developed and opened a new store in Slave Lake, Alberta, and three in the Edmonton area. The Fund purchased two retail liquor stores located in Calgary, two in Fort McMurray, one in Grande Prairie, and one in Kelowna, BC. Since December 31, 2005 the number of stores operated by the Fund has increased from 75 to 86. Subsequent to June 30 the Fund has acquired 8 stores and opened a new store. The Fund now operates 95 stores. At June 30, 2006 the Fund had tendered deposits of \$14.8 million for acquisitions expected to occur in the third quarter.

The Fund will continue to pursue acquisition opportunities and to open new stores. In addition, the replacement of in-store information systems is anticipated for 2006/2007. 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 bear interest at floating rates based on the bank's prime rate or at short term banker's acceptance rates.

The Fund is not subject to significant exposure to interest rate fluctuations. Based on a normal outstanding debt balance a 1.0% increase in interest rates would reduce distributable cash for the year by approximately \$260,000 or \$0.02 per unit.

Contractual Obligations

The table below sets forth, as of June 30, 2006, the contractual obligations of the Fund, due in the years indicated, related to various premises operating leases and the \$7,500,000 non-revolving loan that is due in April of 2008. However, we expect to renew the credit facility prior to the maturity date.

	2006	2007	2008	2009	2010	2011 and thereafter
Operating leases	\$ 3,120,361	\$5,871,313	\$5,480,541	\$4,460,820	\$3,560,585	\$10,750,060
Long-term debt			\$7,500,000			
Total	\$3,120,361	\$5,871,313	\$12,980,541	\$4,460,820	\$3,560,585	\$10,750,060

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

The allocations of the purchases price for acquisitions involve determining the fair values assigned to the tangible and intangible assets acquired. The Fund uses independent valuers 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 is 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 six months ended June 30, 2006, the Fund incurred professional fees of \$42,082 and 97,663 respectively, to a law firm where one of the partners is a director of Liquor Stores GP Inc.(the "GP"), a subsidiary of the Fund. Rent paid to companies controlled by directors of the GP amounted to \$21,027 and \$40,883 respectively. Further, the Fund paid fees and expenses to a company controlled by the President of the GP relating to supervision of the construction of developed stores and lease administration in the amount \$38,332 and 59,070 respectively. Included in accounts payable and accrued liabilities is \$10,878 relating to these transactions (see note 6 to the Financial Statements).

OUTLOOK

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

We believe there will continue to be a consolidation trend in the industry and that the Fund is well positioned to continue to benefit from this. During the quarter, we opened 4 new stores and acquired 6 stores. Subsequent to June 30, 2006 the Fund has acquired 8 stores and opened one newly developed store. The acquisition of 5 more stores is expected to be completed in the third quarter. A newly developed store is scheduled to open in the fall of 2006 and 7 more are currently planned to open in 2007..

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; its 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; failure to successfully integrate acquisitions; dependence on key personnel; the Company's ability to hire and retain staff at acceptable wage levels, risks related to the possibility of future unionization, supply interruption or delays; reliance on information and control systems; dependence on capital markets to fund its growth strategy beyond its available credit facilities; dependence of the Fund on the Company; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; restrictions on the potential growth of Liquor Stores LP as a consequence of the payment by Liquor Stores LP of a substantial amount of its operating cash flow; income tax related risks; 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.

NON-GAAP MEASURES

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, cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes are useful supplemental measures of performance. 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 unitholders and prospective investors is the cash distributed by the Fund relative to the price of the Fund's trust units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist unitholders and prospective investors in assessing an investment in the Fund.

Operating margin for purposes of disclosure under "Operating Results" has been derived by adding interest expense, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest to net earnings for the period.

Operating margin, as so calculated, and distributable cash are not measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin 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 method of calculating operating margin and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's operating margin as and distributable cash 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 Limited Partnership. 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.

Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

June 30, 2006
(expressed in Canadian dollars)

Liquor Stores Income Fund

Interim Consolidated Balance Sheet

As at June 30, 2006

	June 30, 2006 (unaudited)	December 31, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	275,698	2,047,400
Accounts receivable	748,624	1,102,634
Inventory	36,375,932	34,066,925
Prepaid expenses and deposits	2,969,071	1,552,731
	<hr/>	<hr/>
	40,369,325	38,769,690
Pre-opening costs	738,837	471,903
Deposits on future business acquisitions	13,485,688	-
Equity investment	498,576	422,789
Property and equipment	20,216,427	18,007,419
Future income taxes	48,608	34,000
Intangible assets	400,740	424,293
Goodwill	90,054,130	82,676,117
	<hr/>	<hr/>
	165,812,331	140,806,211
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	15,494,691	15,492,652
Accounts payable and accrued liabilities	3,368,192	3,628,182
Distributions payable to unitholders (note 7)	862,064	553,576
Distributions payable to non-controlling interest (note 8)	755,936	752,500
	<hr/>	<hr/>
	20,480,883	20,426,910
Long-term debt (note 5)	7,500,000	11,352,466
	<hr/>	<hr/>
	27,980,883	31,779,376
Non-controlling interest (note 8)	32,716,072	41,700,230
	<hr/>	<hr/>
	32,716,072	41,700,230
Unitholders' Equity		
Fund Units (notes 3 and 7)	105,909,007	66,990,066
Cumulative undistributed earnings	(793,631)	336,539
	<hr/>	<hr/>
	105,115,376	67,326,605
	<hr/>	<hr/>
	165,812,331	140,806,211

Liquor Stores Income Fund

Interim Consolidated Statement of Earnings and Cumulative Undistributed Earnings

	Three month period ended		Six month period ended	
	June 30, 2006 \$ (unaudited)	June 30, 2005 \$ (unaudited)	June 30, 2006 \$ (unaudited)	June 30, 2005 \$ (unaudited)
Sales	52,215,489	38,505,474	90,236,213	65,324,198
Cost of sales, operating, administrative, acquisition and store development	47,542,847	35,277,447	83,663,178	60,683,617
Operating margin	4,672,642	3,228,027	6,573,035	4,640,581
Amortization				
Property and equipment	466,766	282,981	882,808	557,784
Intangible assets	32,139	21,450	61,626	42,900
Pre-opening costs	55,282	17,308	98,357	17,308
	554,187	321,739	1,042,791	617,992
Interest				
Interest expense on bank indebtedness	(124,653)	(56,651)	(319,672)	(179,238)
Interest expense on long-term debt	(1,578)	(89,811)	(116,959)	(173,333)
	(126,231)	(146,462)	(436,631)	(352,571)
Earnings before non-controlling interest	3,992,224	2,759,826	5,093,613	3,670,018
Non-controlling interest	(1,121,208)	(1,122,777)	(1,538,472)	(1,537,606)
Net earnings for the period	2,871,016	1,637,049	3,555,141	2,132,412
Cumulative undistributed earnings, beginning of period	(1,078,455)	(346,209)	336,539	385,437
Distributions declared (note 10)	(2,586,192)	(1,608,880)	(4,685,311)	(2,835,889)
Cumulative undistributed earnings, end of period	(793,631)	(318,040)	(793,631)	(318,040)
Basic earnings per unit (note 9)	0.33	0.27	0.47	0.39
Diluted earnings per unit (note 9)	0.33	0.27	0.45	0.38

Liquor Stores Income Fund

Interim Consolidated Statement of Cash Flows

	Three month period ended		Six month period ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	2,871,016	1,637,049	3,555,141	2,132,412
Items not affecting cash				
Amortization	554,187	321,739	1,042,791	617,992
Future income taxes	17,292	8,700	(14,608)	9,800
Equity income	(21,381)	(4,491)	(28,237)	(7,348)
Accrued interest	-	21,489	-	105,011
Non-controlling interest	1,121,208	1,122,777	1,538,472	1,537,606
	4,542,322	3,107,263	6,093,559	4,395,473
Net change in non-cash working capital items	(1,719,464)	(2,637,320)	(2,233,804)	(1,749,802)
	2,822,858	469,943	3,859,755	2,645,671
Financing activities				
Net proceeds from the issuance of Units (note 3)	-	(8,858)	30,549,000	28,670,464
Increase (decrease) in bank indebtedness	15,494,691	(7,444,907)	2,039	(11,397,240)
Proceeds of long-term debt	7,500,000	-	7,500,000	-
Repayment of long-term debt	-	-	(11,352,466)	-
Distributions paid to unitholders	(2,586,192)	(1,570,384)	(4,376,823)	(2,644,954)
Distributions paid to non-controlling interest	(992,808)	(1,062,611)	(2,149,253)	(2,129,830)
	19,415,691	(10,086,760)	20,172,497	12,498,440
Investing activities				
Business acquisitions (note 4)	(10,041,874)	5,002	(10,041,874)	(14,021,587)
Deposits on future business acquisitions	(13,485,688)	-	(13,485,688)	-
Purchase of property and equipment	(1,175,999)	(306,614)	(1,863,551)	(985,186)
Pre-opening costs	(171,101)	(31,024)	(365,291)	(110,199)
Repayment from (investment in) equity investee	(23,410)	16,534	(47,550)	59,974
	(24,898,072)	(316,102)	(25,803,954)	(15,056,998)
Increase (decrease) in cash and cash equivalents	(2,659,523)	(9,932,919)	(1,771,702)	87,113
Cash and cash equivalents balance, beginning of period	2,935,221	10,198,704	2,047,400	178,672
Cash and cash equivalents balance, end of period	275,698	265,785	275,698	265,785
Supplementary information				
Interest paid	126,231	124,973	436,631	247,560

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

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 June 30, 2006, Liquor Stores LP operated eighty (June 30, 2005 – sixty-three) retail liquor stores in Alberta and six (June 30, 2005 - three) retail liquor stores in British Columbia.

2 Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2005. However, these interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto, for the year ended December 31, 2005.

3 Issuance of Units

On March 15, 2006, the Fund issued 1,600,000 Fund Units at \$20.25 per Fund Unit for aggregate proceeds of \$32,400,000. The cost of issuance of the units was \$1,851,000, resulting in net proceeds of \$30,549,000. The Fund used the net proceeds from the issuance to acquire new stores as described in notes 4 and 12, develop new stores, repay existing indebtedness and for general corporate purposes.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

4 Business acquisitions

During the quarter ended June 30, 2006, the Fund completed the acquisition of 6 retail liquor store businesses and one pub. 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.

The purchase price allocated to the assets acquired and the liabilities assumed, based on their fair values, is as follows:

Property and equipment	1,228,265
Goodwill	7,378,013
Intangible assets	<u>38,073</u>
	8,644,351
Net working capital	<u>1,397,523</u>
Cash paid	<u><u>10,041,874</u></u>

5 Bank indebtedness and long-term debt

Interest on bank indebtedness is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%. As at June 30, 2006, the bank indebtedness rate of interest was 6.25% (December 31, 2005 – 5.25%). As at June 30, 2006 and December 31, 2005, there were no banker's acceptances.

Interest on long-term debt is payable at the bank's prime rate plus 0.50%. As of June 30, 2006 the effective long-term debt rate of interest was 6.50% (December 31, 2005 – 5.50%). The loan matures on April 30, 2007. The loan does not require principal repayments, but the bank has the right to demand the loan to be repaid in full, three hundred and sixty-four days from the maturity of the current term. Therefore, the loan is due on April 29, 2008.

The bank indebtedness and long-term debt are collateralized by a general security agreement covering all present and after acquired personal property of Liquor Stores LP and also by a floating charge over all of Liquor Stores LP's present and after acquired real property and an assignment of Liquor Stores LP's insurance.

Subsequent to June 30, 2006, interest on bank indebtedness has been adjusted to prime and the interest rate on long-term debt has been reduced to prime plus 0.25%. The aggregate of the facilities has been increased from \$55.1 million at June 30, 2006 to \$61.5 million.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

6 Related party transactions

During the three and six month periods ended June 30, 2006, the Fund incurred professional fees of \$42,082 and \$97,663 respectively, to a law firm where one of the partners is a director of a subsidiary of the Fund. Rent paid to companies controlled by directors of a subsidiary of the Fund amounted to \$21,027 and \$40,883 respectively. Further, the Fund paid fees and expenses to a company controlled by the President of the Fund, relating to the supervision of construction of developed stores and lease administration, in the amount \$38,332 and \$59,070 respectively. These transactions are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount. Included in accounts payable and accrued liabilities is \$10,878 relating to these transactions.

7 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs \$	Net capital contributions \$
Balance – December 31, 2005	6,179,683	6,518,764	66,990,066
Units issued on March 15, 2006	1,600,000	1,851,000	30,549,000
Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the six months ended June 30, 2006	846,500	-	8,369,941
Balance – June 30, 2006	<u>8,626,183</u>	<u>8,369,764</u>	<u>105,909,007</u>

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.

Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the six months ended June 30, 2006 were issued at the carrying amount of the Liquor Stores LP Exchangeable LP Units in accordance with EIC-151.

Distributions payable to Unitholders

Distributions to Unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$2,586,192 (\$0.30 per Fund Unit) were declared by the Fund for the quarter ended June 30, 2006. Of the distributions declared during the quarter, \$1,724,128 were paid and

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

\$862,064 were payable as of June 30, 2006. Distributions of \$2,586,192 were paid during the quarter, which included \$862,064 of distributions that were declared and payable as of March 31, 2006.

8 Non-controlling interest

	Liquor Stores LP Exchangeable LP Units #	Liquor Stores LP Subordinated LP Units #	Total #
Balance – December 31, 2005	2,025,317	2,125,000	4,150,317
Redemption of Liquor Stores LP Exchangeable LP Units for Fund Units during the six months ended June 30, 2006	(846,500)	-	(846,500)
Balance – June 30, 2006	1,178,817	2,125,000	3,303,817
Fund Special Voting Units	1,178,817	2,125,000	3,303,817
	\$	\$	\$
Balance – December 31, 2005	20,351,876	21,348,354	41,700,230
Fund Special Voting Units – Amount	-	-	-
Earnings	759,231	779,241	1,538,472
Units exchanged for Fund Units	(8,369,941)	-	(8,369,941)
Distributions declared (note 10)	(877,689)	(1,275,000)	(2,152,689)
	11,863,477	20,852,595	32,716,072

Distributions payable to non-controlling interest

Distributions to non-controlling interest are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$355,308 (\$0.30 per Exchangeable LP Unit) and \$637,500 (\$0.30 per Subordinated LP Unit) were declared by the Fund for the quarter ended June 30, 2006. Of the distributions declared during the quarter, \$236,872 was paid and \$755,936 was payable as of June 30, 2006. Distributions of \$992,808 were paid during the quarter, which included \$755,936 of distributions that were declared and payable as of March 31, 2006.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

9 Earnings per Unit

	June 30, 2006 (3 months) \$	June 30, 2005 (3 months) \$	June 30, 2006 (6 months) \$	June 30, 2005 (6 months) \$
Net Earnings (Numerator utilized in basic earnings per unit)	2,871,016	1,637,049	3,555,141	2,132,412
Non-controlling interest	1,121,208	1,122,777	1,538,472	1,537,606
Earnings (Numerator utilized in diluted earnings per unit)	3,992,224	2,759,826	5,093,613	3,670,018
Earnings per unit - basic	\$0.33	\$0.27	\$0.47	\$0.39
- diluted	\$0.33	\$0.27	\$0.45	\$0.38
Equivalent units outstanding, beginning of period	8,620,642	6,130,000	6,179,683	4,300,000
Weighted average of equivalent units issued	972	-	1,452,774	1,223,370
Denominator utilized in basic earnings per unit	8,621,614	6,130,000	7,632,457	5,523,370
Exchangeable and Subordinated units	3,308,386	4,200,000	3,648,654	4,200,000
Denominator utilized in diluted earnings per unit	11,930,000	10,330,000	11,281,111	9,723,370

10 Distributions

	Date distribution declared	Date distribution paid	Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
			Declared \$	Paid \$	Declared \$	Paid \$	Declared \$	Paid \$
	January 9, 2006	February 15, 2006	618,111	618,111	202,389	202,389	820,500	820,500
	February 15, 2006	March 15, 2006	618,944	618,944	201,556	201,556	820,500	820,500
	March 10, 2006	April 17, 2006	862,064	862,064	755,936	755,936	1,618,000	1,618,000
	April 13, 2006	May 15, 2006	862,064	862,064	118,436	118,436	980,500	980,500
	May 15, 2006	June 15, 2006	862,064	862,064	118,436	118,436	980,500	980,500
	June 15, 2006	July 17, 2006	862,064	-	755,936	-	1,618,000	-
			4,685,311	3,823,247	2,152,689	1,396,753	6,838,000	5,220,000

11 Seasonal nature of the business

The Fund's results for the second quarter and first six months of 2006 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Fund historically experiences higher sales in the third and fourth quarters, while the first and second quarter typically experience lower sales levels due to seasonal shopping patterns. Occupancy related expenses, operating and administrative expense, amortization and interest expense remain relatively steady throughout the year.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

12 Subsequent events

Subsequent to June 30, 2006, the Fund completed the acquisition of 8 retail liquor store businesses. The aggregate purchase price (including inventory) for the acquisitions was approximately \$9,464,000 and was paid in cash from existing facilities and proceeds from the issuance of Fund Units (note 3).

The purchase price on the acquisition will be allocated to the fair value of the acquired assets when determined.

13 Comparative figures

Certain comparative figures have been reclassified to conform with the current period presentation.