LIQUOR STORES INCOME FUND

FOR IMMEDIATE RELEASE

LIQUOR STORES INCOME FUND REPORTS RECORD RESULTS

EDMONTON, ALBERTA, February 28, 2008 – Liquor Stores Income Fund ("Liquor Stores" or the "Fund") (TSX:LIQ.UN) today reported its 2007 and fourth quarter results:

2007 FINANCIAL HIGHLIGHTS

- **Distributable cash per unit up 20% to $1.67 per unit from $1.39 in 2006**
- **Operating margin up to $34.7 million from $19.5 million; a 78% increase over 2006**
- **Sales up to $383 million from $222 million; 73% over 2006**
- **Currently operating 198 stores**

Operating margin increased to $34.7 million for the year ended December 31, 2007 from $19.5 million in 2006 and to $12.3 million for the three months ended December 31, 2007 from $7.1 million for the same period in 2006.

The Fund has successfully integrated the 81 Liquor Barn stores acquired in June 2007. For the three months ended December 31, 2007, Liquor Barn stores operating margin as a percentage of sales improved significantly resulting in a blended rate with Liquor Depot of 9.81%. For the last quarter of 2006, Liquor Barn's operating margin as a percentage of sales was 5.9%

Same store sales increased 2.92% for the year ended December 31, 2007. There was a 1% decrease in same store sales for the three months ended December 31, 2007. Management believes that the Liquor Barn stores gained market share from Liquor Depot same stores as a consequence of adopting the Fund's advertising and promotional practices.

"We are very pleased with the results we achieved in 2007. After the acquisition of the Liquor Barn stores we have achieved the majority of the synergies anticipated in this merger," said Mr. Kipnes, Chief Executive officer of Liquor Stores GP Inc.

Mr Kipnes added, "We now expect to resume a more normal growth pattern targeting to reach 300 stores over the next three to five years by focusing on development of new stores in Alberta, acquisitions in British Columbia and pursuing opportunities to expand into the United States.

We have the human and financial resources we require to support our growth strategy. We recently issued convertible debentures for net proceeds of $55 million. We believe that these proceeds together with our credit facilities are sufficient to allow us to execute our strategy."

DISTRIBUTABLE CASH

Distributable cash for 2007 was $1.67 per unit, up 20% from $1.39 per unit a year earlier. Distributions declared were $1.49 per unit, up 20% from $1.24 per unit a year earlier. For the three months ended December 31, 2007, distributable cash is up 6.7% to $0.48 per unit from $0.45 per unit for the same period in 2006. Distributions on an annualized basis were increased to $1.62 from $1.50 effective for distributions paid on January 15, 2008.

EARNINGS

After the recording of a future tax expense of $10.4 million resulting from the substantive enactment of Bill C – 52, the net earnings before non-controlling interest decreased by $2.8 million to $13.1 million for the year ended December 31, 2007 compared to 2006. After recording a $3.0 million future income tax recovery for the three months ended December 31, 2007, net earnings before non-controlling interest increased by $5.8 million to $12.0 million over the same period in 2006. Net earnings and comprehensive income decreased by $1.6 million to $9.9 million compared to 2006 for the year ended December 31, 2006 and increased $5.2 million to $9.8 million compared to the same period in the prior year for the three months ended December 31, 2007.

DILUTED EARNINGS PER UNIT

Diluted earnings per unit for the year ended December 31, 2007 were $0.68 compared to $1.32 in 2006. For the year, $10.4 million ($0.56 per diluted unit) was charged to earnings in respect of future income taxes, $2.2 million ($0.12 per diluted unit) for the amortization of a fair value adjustment recorded at the time of the Liquor Barn acquisition and $0.8 million ($0.04 per diluted unit) for administrative costs related to the integration of Liquor Barn. This is a non-cash charge.

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 81.6% interest in Liquor Stores Limited Partnership. Management believes the Fund is Canada's largest operator of private liquor stores by both number of stores and sales revenue. The Fund currently operates 198 stores.

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

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 is a useful supplemental measure 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 has been derived by adding amortization of inventory fair value adjustments, interest expense and amortization of property and equipment, intangibles and pre-opening costs to net earnings before non-controlling interest. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.

Operating margin, operating margin as a percentage of sales and distributable cash are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales and distributable cash should not replace net earnings 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, operating margin as a percentage of sales and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's operating margin, operating margin as a percentage of sales 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, Liquor Stores Limited Partnership or Liquor Barn 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 2007 Management’s Discussion and Analysis attached hereto.

The information contained in this press release, including the information set forth under "Risk Factors" in the 2007 Management’s Discussion and Analysis, identifies additional factors that could affect the operating results and performance of the Fund and Liquor Stores Limited Partnership.

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 are 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.

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LIQUOR STORES INCOME FUND

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

For the Year Ended December 31, 2007

As of February 28, 2008

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores Income Fund (the "Fund") for the year ended December 31, 2007. 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 unless otherwise stated.

Throughout this MD&A references are made to "distributable cash", "operating margin", "operating margin as a percentage of sales", "payout ratio" 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" below.

This MD&A is dated February 28, 2008.

OVERVIEW OF THE FUND

The Fund's Business and Recent Developments

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. The Fund's 6.75% Convertible Unsecured Subordinated Debentures ("6.75% Debentures) trade on the Toronto Stock Exchange under the symbol LIQ.DB. Through its ownership of Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates 198 retail liquor stores in Alberta and British Columbia and management believes it is the largest liquor store operator in Alberta by number of stores and revenue.

On June 8, 2007, the Fund issued 6,817,533 Units to acquire a 75.96% indirect interest in Liquor Barn Limited Partnership ("Liquor Barn LP") the operator of 62 retail liquor stores in Alberta and 19 retail liquor stores in British Columbia. During the period June 8, 2007 to December 31, 2007, the Fund issued an additional 1,290,010 Units to increase its indirect interest in Liquor Barn LP to 90.33%. On January 1, 2008, Liquor Stores LP issued 867,789 Series 1 Exchangeable LP Units as consideration for the outstanding minority interest in Liquor Barn LP and the Fund merged its 75.61% indirect interest in Liquor Stores LP with its indirect interest in Liquor Barn LP to hold an 81.48% indirect interest in the merged Liquor Stores LP. Since January 1, 2008, the Fund has issued 26,572 Units to increase its indirect interest in Liquor Stores LP to 81.60%.

In addition to the acquisition of the Liquor Barn stores Liquor Stores LP opened or acquired six retail liquor stores in Alberta and four in British Columbia during the year. As a consequence of a restrictive covenant related to a liquor store in Calgary, Alberta, one retail liquor store was closed.

On December 21, 2007, the Fund completed the issue and offering of $50 million principal amount 6.75% Debentures. On January 15, 2008, the underwriters of this issue exercised their over-allotment option resulting in the issue of an additional $7.5 million principal amount 6.75% Debentures.

To date in 2008, Liquor Stores LP has acquired or opened three retail liquor stores and currently has commitments to open a further 10 new stores in 2008.

Liquor Barn LP Integration

The integration of Liquor Barn was largely completed by September 30, 2007. The point of sale software for the 81 Liquor Barn stores was replaced by software used by Liquor Stores LP. Liquor Barn head office and field supervisory staff had been integrated into Liquor Stores LP. At the time of the acquisition, Liquor Stores LP and Liquor Barn had a combined complement of 95 head office and field supervisory staff. By September 30, 2007, this number was reduced to 69. As well, an investment was made to increase the levels of inventory in the stores and to broaden product selection. Further changes to Liquor Barn operations are anticipated to provide modest incremental improvements to their operating performance.

Stores and Operations

As at February 28, 2008, the Fund operates 198 retail liquor stores located as follows:

	Alberta			British Columbia			
	Edmonton(1)	Calgary(1)	Other(2)	Lower Mainland	Vancouver Island	Interior	Total
Number of Stores	75	46	46	12	11	8	198

Notes:

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

(2) Other communities served in Alberta include, by region, Northern (23), Southern (6), Central (13) and Resort communities (4).

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. The Fund currently operates 167 liquor stores in Alberta where there are approximately 1,050 liquor stores and 86 agency stores. Management believes the Fund is the largest liquor store operator in Alberta by both number of stores and sales.

The Fund also operates 31 stores and three small associated pubs in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 630 private stores and 200 government operated stores. There are also approximately 230 agency stores that service small communities.

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, including a provision for awards related to the Fund's long-term incentive plan (the "LTIP") and other deferred compensation plans. 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 the expected performance of existing and new stores, the competitive environment and economic conditions, including labour market trends.

Per Unit cash distributions have been made as follows from the inception of the Fund:

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
February 15, 2006 to October 16, 2006	$0.10000	$1.200
November 15, 2006 to March 15, 2007	$0.11667	$1.400
April 13, 2007 to December 14, 2007	$0.12500	$1.500
Commencing January 15, 2008	$0.13500	$1.620

Distributions declared during the year ended December 31, 2007 were $28.1 million or $1.49 per Unit. On a weighted average basis, for the year ended December 31, 2007 distributable cash was $1.64 compared to $1.39 for 2006, an increase of 18%. Since inception, distributable cash has exceeded cash distributions by $5.9 million resulting in a cumulative payout ratio of approximately 90%.

As a consequence of the acquisition of Liquor Barn, the deferred portion of distributions for Canadian federal income tax purposes is not consistent throughout the year. For the five months ended May 31, 2007, the deferred portion of distributions for Canadian federal income tax purposes was 0%. Thereafter the deferred portion of distributions for Canadian federal income tax purposes was approximately 50.5%.

The retail liquor industry is subject to some seasonal variations. Historically, approximately 40% of the Fund's sales occurred in the first half of the year and 60% occurred in the second half. As a result, distributable cash was typically less than actual distributions early in the year, but exceeded distributions for the latter portion of the year.

Effect of Trust Tax Legislation

On June 22, 2007, Bill C – 52, including the provisions related to the taxation of income trusts (the "SIFT Rules"), received Royal Assent. Pursuant to the SIFT Rules, commencing in 2011 earnings of the Fund distributed to unitholders will be subject to tax at a rate of 28% (currently zero). Taxable distributions (other than return of capital) to unitholders will be characterized as eligible dividends, a change from their current treatment as ordinary income. For discussion of SIFT Rules and limitations on growth and expansion see "Capital Expenditures" below.

Distributable Cash

The Fund views distributable cash as an important supplementary measure to assist unitholders in evaluating the Fund's performance as the Fund's objective is to provide a stable and sustainable flow of distributable cash to unitholders. When evaluating the cash available for distribution to unitholders the Fund takes into consideration the following factors:

Financing Strategy

The Fund finances its acquisitions, store development costs and betterments with the proceeds of the issuance of Units from treasury or through long-term debt. Financing of the Fund's investment in inventory is done through bank indebtedness. When proceeds from the issuance of Units or long-term debt are received prior to being used to finance growth, bank indebtedness is temporarily repaid.

Maintenance of Productive Capacity

In order to maintain its productive capacity the Fund incurs expenses for routine maintenance and makes expenditures for the replacement of long lived assets. In the determination of distributable cash, provisions are made for anticipated replacements of long lived assets not yet recorded in the accounts of the Fund.

Net Change in Non-cash Working Capital

The Fund's investment in non-cash working capital is primarily related to increased inventory levels. This increase includes the cost of purchasing inventory for stores the Fund develops and opens, the cost of increasing inventory in acquired stores subsequent to their acquisition date, and an increase in current inventory purchased at times when favourable buying conditions exist. Inventory levels are also influenced by seasonal investments in inventory.

Long Term Incentive Plans

Funding for the Fund's long term incentive plans occurs subsequent to the approval of the Fund's annual financial statements. For accounting purposes, the compensation expense related to the incentive plans are recognized as awards vest. Awards under the LTIP are calculated with reference to distributable cash per Unit.

Distributable cash

The following table provides the calculation of the distributable cash of the Fund for the three and twelve months ended December 31, 2007 and 2006 and since inception:

	Three months ended December 31,		Twelve months ended December 31,		Since inception
	2007	**2006**	**2007**	**2006**	**of the Fund**
Cash provided by operating activities	$1,308	$6,166	$15,667	$9,339	$29,107
Net change in non-cash working capital	9,794	676	17,094	9,000	37,437
Equity earnings	-	-	-	28	79
Incentive plan provisions	(241)	(600)	(1,060)	(1,000)	(2,060)
Provision for non-growth property and equipment	(45)	(212)	(707)	(600)	(2,079)
Distributable cash	$10,816	$6,030	$30,994	$16,739	$62,484
Weighted average units outstanding	22,507,820	13,495,218	18,597,892	12,000,137	13,560,394
Distributable cash per weighted average Unit	$0.48	$0.45	$1.67	$1.39	$4.61
Distributions declared per unit	$0.39	$0.35	$1.49	$1.24	$4.05

Comparable GAAP Measures

Distributable cash is a Non-GAAP Measure. Adjustments and provisions related to non-growth property and equipment, incentive plan provisions and non-cash working capital are necessary to reconcile distributable cash to its nearest GAAP measure, cash provided by operating activities.

The GAAP measure comparable to distributable cash per unit is earnings per unit. Basic and diluted earnings per unit are as follows:

Basic earnings per unit	$0.54	$0.45	$0.68	$1.35
Diluted earnings per unit	$0.52	$0.45	$0.68	$1.32

Diluted earnings per unit for the year ended December 31, 2007 were $0.68 compared to $1.32 in 2006. For the year $10.4 million ($0.56 per diluted unit – a non-cash expense) was charged to earnings in respect of future income taxes, $2.2 million ($0.12 for the amortization of a fair value adjustment recorded at the time of the Liquor Barn acquisition and $0.8 million ($0.04 per diluted unit) for administrative costs related to the integration of Liquor Barn.

The following table provides an analysis of the total expenditures on property and equipment, the amounts reserved for further non-growth expenditures and the amounts charged to expense in the Fund's accounts for repairs and maintenance:

	Three months ended December 31,		Twelve months ended December 31,		Since inception
	2007	**2006**	**2007**	**2006**	**of the Fund**
Purchase of property and equipment	$1,333	$1,688	$4,411	$3,837	$10,981
Growth expenditures including amounts relating to developed stores	(1,262)	(1,551)	(3,528)	(3,512)	(9,002)
Purchase of non-growth property and equipment	71	137	883	325	1,979
Provision for further non-growth property and equipment expenditures	(26)	75	(176)	275	100
Total provision for non-growth property and equipment	45	212	707	600	2,079
Repairs and maintenance expense	209	127	612	311	1,175
Total expenditures for non-growth property and equipment purchases and repairs and maintenance expense	$254	$340	$1,319	$912	$3,255

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

Operating Results

The retail liquor industry is subject to some seasonable variations with respect to sales. Sales are typically slowest early in the year and increase in the latter half. In 2007, 20% (2006 - 20%) of same store sales occurred in the first quarter, 26% (2006 - 25%) in the second quarter, 26% (2006 - 26%) in the third quarter and 28% (2006 - 29%) in the last quarter.

The following table summarizes the operating results for the quarter and year ended December 31, 2007 with comparative figures for 2006 including those of Liquor Barn LP since June 8, 2007:

	Three months ended December 31,		**Year ended December 31,**	
	2007	**2006**	**2007**	**2006**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Number of stores at December 31	195	105	195	105
Sales	$125,920	$71,010	$383,063	$221,997
Cost of sales, operating, administrative, acquisition and store development	(113,571)	(63,869)	(350,655)	(202,497)
Add back amortization of inventory fair value adjustment	-	-	2,247	-
Operating margin [1]	$12,349	$7,141	$34,655	$19,500
Operating margin as a percentage of sales	9.81%	10.06%	9.05%	8.78%

Note:

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

Operating Margin

Operating margin (as defined under “Non-GAAP Measures”) increased to $34.7 million for the year ended December 31, 2007 from $19.5 million for the same period in 2006. Operating margin as a percentage of sales was 9.05% for the year ended December 31, 2007 compared to 8.78% in the same period in 2006.

Operating margin increased to $12.3 million for the three months ended December 31, 2007 from $7.1 million for the same period last year.

The Fund has successfully integrated the 81 Liquor Barn stores acquired in June 2007. For the three months ended December 31, 2007, Liquor Barn stores operating margin as a percentage of sales improved significantly resulting in a blended rate with Liquor Depot of 9.81%. For the last quarter of 2006, Liquor Barn’s operating margin as a percentage of sales was 5.9%.

Historically, the Fund’s stores and operating margin as a percentage of sales has been strongest in the fourth quarter of the year. The sales mix of the Liquor Barn stores is more heavily weighted to beer than the Fund’s other locations with higher sales in the third quarter than the fourth. Consequently, management expects there to be minor variations from the Fund’s historic seasonality pattern.

Sales

Sales for the year ended December 31, 2007 increased by $161.0 million to $383.0 million from $222.0 million for the year ended December 31, 2006. The increase is primarily due to the increase in number of stores operated from 105 at December 31, 2006 to 195 at December 31, 2007. The $161.0 million increase comprises:

- an increase in same store sales of $5.3 million or 2.92% to $186 million for the year ended December 31, 2007;
- an additional $29.7 million in sales to $56.6 million for the 30 stores acquired or opened in 2006;
- sales of $113.4 million for the 81 Liquor Barn stores acquired in 2007;
- sales of $10.4 million for 10 stores acquired or opened in 2007 net of the sales of a store closed in 2007;

- an increase in sales of $2.2 million to licensees.

Sales for the fourth quarter ended December 31, 2007 increased by $54.9 million to $125.9 million from $71.0 million in the fourth quarter of 2006. The $54.9 million increase comprises:

- a decrease in same store sales of $0.5 million or 1.0%. Management believes that the Liquor Barn stores gained market share from Liquor Depot stores as a consequence of adopting the Fund's advertising and promotional practices;

- an increase of $1.1 million for stores acquired or opened in 2006;

- sales from the Liquor Barn LP stores of $48.6 million;

- an increase in sales of $2.5 million for stores acquired or opened in 2007;

- an increase in sales of $1.0 million to licensees.

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

Operating expenses for 2007 increased to $350.7 million from $202.5 million in 2006. For the three months ended December 31, 2007 operating expenses were $113.6 million compared to $63.9 million in the same period of 2006. These increases are consistent with the increase in number of stores being operated.

Operating expense includes the recognition of deferred unit-based compensation expense for the LTIP, the 2007 Incentive Plan and the Deferred Share Unit Plan. During the quarter and year ended December 31, 2007 respectively, the Fund recognized compensation expense of $263,768 and $784,871 for the plans.

Operating Expenses for the year ended December 31, 2007 includes $2.2 million amortization of an inventory fair value adjustment recorded as part of the purchase price allocation of the Liquor Barn acquisition. As of December 31, 2007, the inventory fair value adjustment has been fully amortized.

Future Income Taxes *(a Non-cash Charge)*

Prior to substantive enactment of the SIFT Rules, income tax provisions were only recorded in respect of incorporated subsidiaries. Consequently, income taxes recorded in the Fund's accounts had been nominal.

The Fund, in accordance with GAAP, follows the asset and liability method of accounting. With the substantive enactment of the SIFT Rules, the asset and liability method of accounting required the Fund to record a non-cash future tax provision. This provision relates principally to the difference between the value of intangible assets, property and equipment, and goodwill assigned at the time of acquisitions in the accounts of the Fund and their value for tax purposes. At September 30, 2007 $13.4 million was recorded, however, as a result of a change in tax rate, change in estimates and accounting classifications, an adjustment has been recorded to reduce the future tax provision by $3.0 million for the fourth quarter of 2007.

Net Earnings before Non-controlling Interest and Net Earnings and Comprehensive Income (Loss)

After recording a future tax expense of $10.4 million resulting from the substantive enactment of Bill C – 52, the net earnings before non-controlling interest decreased by $2.8 million to $13.1 million for the year ended December 31, 2007 compared to 2006. After recording a $3.0 million future income tax recovery for the three months ended December 31, 2007, net earnings before non-controlling interest increased by $5.8 million to $12.0 million over the same period in 2006. Net earnings and comprehensive income decreased by $1.6 million to $9.9 million compared to 2006 for the year ended December 31, 2006 and increased $5.2 million to $9.8 million compared to the same period in prior year for the three months ended December 31, 2007.

Condensed Annual Information

	2007	2006	2005	2004 [1]
	(thousands of dollars except per Unit amounts)			
Balance Sheet				
Cash and cash equivalents	$19,498	$ 3,397	$ 2,047	$ 1,004
Total assets	449,725	187,097	140,796	102,906
Bank indebtedness	-	5,455	15,493	12,222
Total current liabilities	14,062	12,896	20,416	14,107
Long-term debt	74,014	-	11,352	7,398
Unitholders' equity	301,678	140,706	67,327	38,200
Non-controlling interest	49,671	33,496	41,700	42,377
Statement of Earnings				
# stores	195	105	70	50
Sales	383,063	221,997	157,444	35,543
Future income tax expense	10,362	28	40	-
Earnings before non-controlling interest	13,118	15,978	10,312	2,957
Net earnings for the period	9,885	11,515	6,098	1,496
Basic earnings per Unit	$0.68	$1.35	$1.04	$0.35
Diluted earnings per Unit	$0.68	$1.32	$1.03	$0.35
Distributable cash per Unit	$1.67	$1.39	$1.14	$0.38
Distributions declared per Unit	$1.49	$1.25	$1.05	$0.26

(1) 2004 Statement of Earnings amounts are from September 28, 2004 to December 31, 2004

Condensed Quarterly Information

	2007				2006			
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31
Balance Sheet								
Cash and cash equivalents	$ 19,498	$ 6,891	$ 3,391	$ 1,715	$ 3,397	$ 1,683	$ 276	$ 2,935
Total assets	449,725	427,986	412,403	188,311	187,097	173,736	165,812	141,511
Bank indebtedness	-	37,198	35,107	11,893	5,455	28,964	15,495	–
Total current liabilities	14,062	55,403	54,916	17,489	12,895	32,140	20,481	4,092
Long-term debt	74,014	15,562	562	–	–	2,500	7,500	–
Statement of Earnings								
# stores	195	193	188	105	105	99	86	71
Sales	125,920	122,097	83,236	51,809	71,010	60,751	52,215	38,021
Future tax expense	(3,043)	943	12,460	-	-	-	-	-
Earnings before non-controlling interest	12,017	7,182	(8,465)	2,383	6,206	4,677	3,992	1,101
Net earnings for the period	9,784	5,325	(6,992)	1,767	4,627	3,332	2,871	684
Basic earnings per Unit	$0.54	$0.30	($0.59)	$0.17	$0.45	$0.39	$0.33	$0.10
Diluted earnings per Unit	$0.52	$0.30	($0.59)	$0.17	$0.45	$0.39	$0.33	$0.10
Distributable cash per Unit	$0.48	$0.49	$0.41	$0.21	$0.45	$0.40	$0.38	$0.14
Distributions declared per Unit	$0.385	$0.375	$0.375	$0.358	$0.34	$0.30	$0.30	$0.30

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of February 28, 2008:

	Units
Fund Units [1]	18,366,354
Liquor Stores LP Exchangeable LP Units	3,296,063
Liquor Stores LP Series 1 Exchangeable LP Units	845,407
	22,507,824

Note:
(1) *Includes 30,202 treasury Units*

The Liquor Stores Exchangeable and Series 1 Exchangeable LP Units represent a non-controlling interest in the Fund.

Credit Facilities

At December 31, 2007, the Fund had an available $90 million operating line and an available $30 million long-term Capital/Acquisition line. The Fund also has available a $3.5 million demand non-revolving loan to cover electronic funds transfer payments, and a $4 million bank guarantee facility to be used in day to day issuance of letters of guarantee for operations. The total of all credit facilities is $127.5 million.

As of December 31, 2007, there was no amount outstanding on the operating line. There was $30 million drawn on the long term Capital/Acquisition line repayable on May 31, 2009. Subsequent to December 31, 2007, the Fund repaid $15 million on the Capital/Acquisition line. As acquisitions occur and new stores are opened, credit facilities will be utilized as required.

Capital Expenditures

During the three months ended December 31, 2007, the Fund opened two stores. Subsequent to December 31, 2007, three additional developed stores were opened.

The Fund will continue to pursue acquisition opportunities and to open new stores.

The SIFT Rules provide that, while there is no intention to prevent "normal growth" during the transitional period, any "undue expansion" could result in the transition period being "revisited", presumably with the loss of the benefit to the Fund of that transitional period. As a result, the adverse tax consequences resulting from the SIFT Rules could be realized sooner than January 1, 2011. On December 15, 2006, the Department of Finance issued guidelines with respect to what is meant by "normal growth" in this context. Specifically, the Department of Finance stated that "normal growth" would include equity growth within certain "safe harbour" limits, measured by reference to a specified investment flow-through trust or partnership's ("SIFT") market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFT's issued and outstanding publicly-traded trust units, and not any convertible debt, options or other interests convertible into or exchangeable for trust units). These guidelines have been incorporated into the SIFT Rules. Those safe harbour limits are the greater of $50 million or 40% of the market capitalization benchmark for the period from November 1, 2006 to December 31, 2007, and 20% each for calendar 2008, 2009 and 2010. Moreover, these limits are cumulative (other than the $50 million annual limit), so that any unused limit for a period carries over into the subsequent period. Additional details of the Department of Finance's guidelines include the following:

(a) new equity for these purposes includes units and debt that is convertible into units (and may include other substitutes for equity if attempts are made to develop those);

(b) replacing debt that was outstanding as of October 31, 2006 with new equity, whether by a conversion into trust units of convertible debentures or otherwise, will not be considered growth for these purposes and will therefore not affect the safe harbour;

(c) the exchange, for trust units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006 will not be considered growth for these purposes and will therefore not affect the safe harbour where the issuance of the trust units is made in satisfaction of the exercise of the exchange right by a person other than the SIFT; and

(d) the merger of SIFT's not resulting in the issuance of additional units do not affect the safe harbour limits.

The Fund's market capitalization, including that of Liquor Barn Fund, as of the close of trading on October 31, 2006, having regard only to issued and outstanding publicly-traded units, was approximately $298 million, which means the Fund's "safe harbour" equity growth amount for the period ending December 31, 2007 is approximately $119 million. Of this amount, approximately $69 million was utilized by new equity issuances partially offset by debt replacement, leaving $50 million to be carried over to 2008. For 2008, the available amount is $109.6 million including $50 million carried over from 2007. To date, $7.5 million has been utilized leaving $102.1 million available for the remainder of the year. As a consequence, the Fund could issue new units for proceeds $102.1 million in 2008 and remain within the "safe harbour" guidelines. There is $59.6 million available for each of 2009 and 2010.

The Fund believes that while the application of the "safe harbour" guidelines are not a practical constraint on its ordinary growth prior to 2011, they could adversely affect the cost of raising capital and the Fund's ability to undertake more significant acquisitions. The long-term effect of the SIFT Rules on the Fund is yet to be determined. The Fund continues to review the impact of the SIFT Rules on its business strategy and to evaluate strategic alternatives that it could elect to pursue in response to the SIFT Rules. No assurance can be provided that the Fund will not undertake actions in the future that could cause the SIFT Rules to apply to it prior to 2011.

Interest Rate Risk and Sensitivity

The Fund's indebtedness in respect of its credit facility bears interest at floating rates based on the bank's prime rate or at short term banker's acceptance rates. Interest payments with respect to the convertible unsecured subordinated debentures are payable semi-annually based on the coupon rate of the debenture.

The Fund is not subject to significant exposure to interest rate fluctuations. Based on an assumed outstanding debt balance of $30 million, a 1.0% increase in interest rates would reduce distributable cash for the year by approximately $300,000 or $0.02 per Unit.

Foreign Exchange Risk

The Fund's business is not significantly affected by foreign exchange rate fluctuations. The majority of product cost is related to domestically sourced product and provincially regulated commodity taxes.

Contractual Obligations

The table below sets forth, as of December 31, 2007, the contractual obligations of the Fund, due in the years indicated, related to various premises operating leases, long term debt and convertible unsecured subordinated debentures.

	2008	**2009**	**2010**	**2011**	**2012**	**2013 and thereafter**
Operating leases	$14,228	$15,027	$15,586	$16,205	$16,962	$43,021
Long-term debt	-	30,000	-	-	-	-
Debentures	-	-	-	500	50,000	-
Total	$14,228	$45,027	$15,586	$16,705	$66,962	$43,021

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 estimated 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 earnings.

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 valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are allocated based on a calculation of fair values by management. A discounted cash flow analysis is prepared to determine these fair values. Goodwill is calculated based on the purchase price less the fair value of the net tangible and intangible assets stated above.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments and Other Comprehensive Income

New accounting standards are in effect for fiscal years beginning on or after October 1, 2006 for recognition and measurement of financial instruments and disclosure of comprehensive income. Effective January 1, 2007, the Fund has adopted Canadian Institute of Chartered Accountants ("CICA") Handbook sections 1530 – Comprehensive Income, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, and 3865 – Hedges. As the Fund has no items of other comprehensive income, net earnings for the period is equivalent to comprehensive income.

Upon adoption of these new standards, the Fund has designated its cash and cash equivalents held for trading, which are measured at fair value. Accounts receivable is classified as loans and receivables, which is measured 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 at amortized cost.

Effective January 1, 2007, the Fund adopted CICA Handbook section 1506, "Accounting Changes" providing standards for accounting treatment and disclosure of changes in accounting policies, accounting estimates and correction of errors.

The adoption of the new Financial Instrument sections is done retroactively without restatement of the consolidated financial statements of the prior periods. As at January 1, 2007, there was no significant impact on opening cumulative undistributed earnings as a result of the change in policies.

Capital Disclosures

This new standard establishes disclosure requirements concerning capital such as: qualitative information about its objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. This pronouncement has an effective date of January 1, 2008. The Fund is presently evaluating the impact of this new standard.

Financial Instruments - Disclosures and Financial Instruments - Presentation

These new standards replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The effective date of the standard is January 1, 2008. The Fund is presently evaluating the impact of these new standards.

Inventories

This new standard provides guidance in determining the cost of inventory and its subsequent recognition as an expense. The standard is effective for fiscal periods beginning on or after January 1, 2008 and requires the retroactive application to prior period financial statements. The Fund is presently evaluating the impact of this new standard.

Goodwill and Intangible Assets

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Fund is presently evaluating the impact of this new standard.

FINANCIAL INSTRUMENTS

Historically, due to the nature of its business, the Fund did 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 were held by the Fund consisted of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable and long-term debt. These financial instruments are held in the normal course of operations.

The fair market value of the convertible unsecured subordinated debentures was calculated as the net present value of all scheduled interest and principal payments discounted using the market yield of the particular debenture as at December 31, 2007. Costs related to the issuance of convertible are netted against the carrying value of the debentures and amortized into earnings over the life of the convertible debenture using the effective interest rate method. The Fund's convertible debentures have been classified as debt with a portion of the proceeds representing the value of the conversion option classified to equity. The debt balance accretes over time to the amount owing on maturity and such increases in the debt balance are reflected as non-cash interest expense in the Consolidated Statement of Operations. Upon conversion, a portion of debt and equity are transferred to Unitholders' Equity.

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 three months and year ended December 31, 2007, the Fund incurred professional fees of $18,882 and $287,202 respectively to a law firm of which a director of Liquor Stores GP Inc. (the "Liquor Stores GP"), a subsidiary of the Fund, is a partner. Rent paid to companies controlled by directors of the GP amounted to $465,979 over the twelve months ended December 31, 2007. The Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the GP relating to supervision of the construction of developed stores and tax services of $31,454 for the year ended December 31, 2007 (see note 18 to the Financial Statements).

The Fund entered into a lease for new office premises with a company associated with the Chief Executive Officer of the GP. The Fund has received independent fairness and legal opinions concerning the terms of the lease. Rent for the three months and year ended December 31, 2007 was $92,332 and $275,204.

OUTLOOK

On June 8, 2007, the Fund acquired 81 Liquor Barn stores and has achieved the majority of its objectives for the integration of these stores as well as the anticipated synergies. The Fund now expects to resume a more normal growth pattern targeting growth to 300 stores over the next three to five years.

The Fund will focus its growth on development of new stores in Alberta, acquisitions in British Columbia and is pursuing opportunities to expand its operation into the United States to those states where liquor legislation and regulation permit private retail distribution of alcoholic beverages.

Management believes that the return on investment for retail liquor stores in the United States is comparable to the Fund's experience in Alberta and British Columbia.

The Fund has the human and financial resources required to support its anticipated growth. On December 21, 2007 and January 14, 2008 the Fund issued 6.75%, convertible, unsecured, subordinated debentures. The aggregate $57.5 million principal amount is convertible into Fund Units at a conversion price of $28.50. The aggregate net proceeds from the issues were approximately $55 million. The Fund believes that these proceeds together with its credit facilities are sufficient to allow it to execute its growth strategy for some time.

Longer term, the Fund remains well within its "safe harbour" limits related to the SIFT Rules. While the need for funds is not anticipated, the Fund has room to raise approximately $100 million by equity or debt in the remainder of 2008 and an additional $60 million in each of 2009 and 2010. Cumulatively to December 31, 2010, the Fund has a "safe harbour" limit of approximately $220 million.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Fund has evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined under Multilateral Instrument 52-109 ("MI 52-109") of the Canadian Securities Administrators) as of December 31, 2007, and concluded that the design and effectiveness of these controls and procedures provides reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, will be made known to management on a timely basis to ensure adequate disclosure.

There have been no changes in the Fund's internal controls over financial reporting (as defined under MI 52-109) that occurred during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

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 Units are subject to a number of risks. These risk factors include: risks relating to government regulation; competition; its ability to locate, secure and maintain 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 Fund'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 Liquor Stores LP; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores LP; restrictions on the potential growth of Liquor Stores LP as a consequence of the payment by Liquor Stores LP of a substantial amount of their respective operating cash flow and income tax related risks including the SIFT Rules.

For a discussion of these risks and other risks associated with an investment in Units, see "Risk Factors" detailed in 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 is a useful supplemental measure 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 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. For a reconciliation of distributable cash to cash provided by operating activities please see "Distributable cash per unit (Fund Units, Exchangeable and Subordinated LP Units)".

Operating margin for purposes of disclosure under "Operating Results" has been derived by adding interest expense, amortization of inventory fair value adjustments, amortization of property and equipment, intangibles and pre-opening costs to net earnings before non-controlling interest. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.

"Payout ratio" is calculated by dividing cash distributions declared by distributable cash.

Operating margin, operating margin as a percentage of sales, distributable cash and payout ratio are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales, distributable cash and payout ratio should not replace net earnings 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, operating margin as a percentage of sales, distributable cash and payout ratio may differ from the methods used by other issuers. Therefore, the Fund's operating margin, operating margin as a percentage of sales, distributable cash and payout ratio 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 or recent acquisitions and the benefits to be derived therefrom, budgets, litigation, projected costs and plans and objectives of or involving the Fund, Liquor Stores LP or Liquor Barn LP. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management's discussion and analysis. There can be no assurance that such expectations will prove to be correct.

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

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

Consolidated Financial Statements
December 31, 2007 and 2006
(expressed in thousands of Canadian dollars)

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February 28, 2008

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, 2007 and 2006 and the consolidated statements of earnings, comprehensive income and cumulative undistributed earnings and cash flows for the years ended December 31, 2007 and 2006. 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Liquor Stores Income Fund

Consolidated Balance Sheets

As at December 31, 2007 and 2006

(expressed in thousands of dollars)

	2007	2006
Assets	$	$
Current assets		
Cash and cash equivalents	19,498	3,397
Accounts receivable	3,474	1,525
Inventory	84,856	49,702
Prepaid expenses and deposits (note 4)	1,348	1,159
	109,176	55,783
Pre-opening costs	773	819
Deposits on future acquisitions (note 4)	647	1,633
Property and equipment (note 5)	41,707	23,040
Future income tax asset (note 10)	-	62
Intangible assets (note 6)	37,784	806
Goodwill (note 7)	259,638	104,954
	449,725	187,097
Liabilities		
Current liabilities		
Bank indebtedness (note 8 (a))	-	5,455
Accounts payable and accrued liabilities	10,498	5,365
Distributions payable to unitholders (note 9)	2,470	1,194
Distributions payable to non-controlling interest (note 9)	1,094	881
	14,062	12,895
Long term debt (note 8 (b))	74,014	-
Future income tax liability (note 10)	10,300	-
Non-controlling interest (note 11)	49,671	33,496
	148,047	46,391
Contingencies (notes 3 (d) and 12)		
Commitments (note 13)		
Unitholders' Equity		
Fund Units (note 14)	308,087	139,709
Equity component of convertible debentures (note 8 (b))	4,340	-
Contributed surplus (note 16)	558	-
Cumulative undistributed earnings (excess distributions)	(11,307)	997
	301,678	140,706
	449,725	187,097

Liquor Stores Income Fund

Consolidated Statements of Earnings, Comprehensive Income and Cumulative Undistributed Earnings (Excess Distributions)

For the years ended December 31, 2007 and 2006

(expressed in thousands of dollars, except for per unit amounts)

	2007 $	2006 $
Sales	383,063	221,997
Cost of sales, operating, administrative, acquisition and store development	350,655	202,497
Operating earnings before amortization and interest	32,408	19,500
Amortization		
Property and equipment	4,004	1,950
Intangible assets	1,912	142
Pre-opening costs	562	325
	6,478	2,417
	25,930	17,083
Interest		
Interest expense on bank indebtedness	1,785	825
Interest expense on long-term debt	665	280
	2,450	1,105
Earnings before income tax and non-controlling interest	23,480	15,978
Future income tax	10,362	-
Earnings before non-controlling interest	13,118	15,978
Non-controlling interest (note 11)	3,233	4,463
Net earnings and comprehensive income for the year	9,885	11,515
Cumulative undistributed earnings, beginning of year	997	337
Distributions declared on Fund Units (note 9)	(22,189)	(10,855)
Cumulative undistributed earnings (excess distributions), end of year	(11,307)	997
Basic earnings per unit (note 15)	0.68	1.35
Diluted earnings per unit (note 15)	0.68	1.32

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

(**expressed in thousands of dollars**

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	9,885	11,515
Items not affecting cash		
Amortization	6,478	2,417
Amortization of inventory fair value adjustment	2,247	-
Future income tax	10,362	(28)
Equity income	-	(28)
Non-controlling interest	3,233	4,463
Unit-based compensation (note 16 (a) and (b))	558	-
	32,763	18,339
Net change in non-cash working capital items	(17,096)	(8,999)
	15,667	9,340
Financing activities		
Net proceeds from the issuance of Units	-	64,328
Units acquired (note 16 (a))	(950)	-
Proceeds from forfeited units (note 16 (a))	22	-
Increase (decrease) in bank indebtedness	(29,544)	(9,923)
Proceeds of long-term debt	77,651	-
Repayment of long-term debt	-	(11,352)
Distributions paid to unitholders	(20,912)	(10,214)
Distributions paid to non-controlling interest	(5,693)	(4,171)
Dividends paid to non-controlling interest by subsidiaries	(238)	(48)
	20,336	28,620
Investing activities		
Acquisition of Liquor Barn net of cash acquired (note 3 (a))	(4,050)	-
Other business acquisitions (note 3 (b))	(11,178)	(30,468)
Deposits on future acquisitions	253	(1,633)
Purchase of property and equipment	(4,411)	(3,837)
Pre-opening costs	(516)	(672)
	(19,902)	(36,610)
Increase in cash and cash equivalents	16,101	1,350
Cash and cash equivalents balance, beginning of period	3,397	2,047
Cash and cash equivalents balance, end of period	19,498	3,397

Supplemental disclosure of cash flow information (note 18)

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, 2007, the Fund operated 163 (2006 – 97) retail liquor stores in Alberta and 32 (2006 - 8) retail liquor stores in British Columbia. Of these stores, 179 (2006 – 94) were acquired by the Fund and 16 (2006 - 11) were developed by the Fund.

2 Significant accounting policies and basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

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 the first in, first out basis, and net realizable value.

(e) Pre-opening costs

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. The Fund defers such expenditures incurred during the pre-operating period. These costs are amortized over the 24 months after a developed store commences operations. Costs related to acquired retail liquor stores are added to the cost of the purchase at the date of acquisition. Costs incurred relating to locations that are subsequently abandoned are expensed in the period of abandonment.

(f) 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 5. 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.

(g) 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 CICA Handbook to determine if there is impairment in the carrying value of goodwill.

(h) 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 15 to 37 years. Tradenames have an indefinite life 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.

(i) 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.

(j) 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 trustees and directors as further described in note 16. 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.

(k) Transaction Costs

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

(l) 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 Unitholders' Equity.

Changes in accounting policy

(a) On June 12, 2007, Bill C-52 to amend the *Income Tax Act-Canada*, including its provisions related to the taxation of income trusts, was substantively enacted. Accordingly, the Fund, as a trust, has applied the asset and liability method of accounting for future income tax as described in note 10.

(b) Effective January 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook sections 1530 – Comprehensive Income, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, and 3865 – Hedges.

As the Fund has no items of other comprehensive income, net earnings for the year is equivalent to comprehensive income. The Fund does not use hedge accounting.

Upon adoption of these new standards, the Fund has designated its cash and cash equivalents held for trading, which are measured at fair value. Accounts receivable is classified as loans and receivables, which is measured 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 at amortized cost.

The adoption of the new Financial Instrument Sections is done retroactively without restatement of the consolidated financial statements of the prior periods. As at January 1, 2007, there was no significant impact on opening cumulative undistributed earnings as a result of the change in accounting policies.

(c) Effective January 1, 2007, the Fund adopted CICA Handbook section 1506, "Accounting Changes", providing standards for accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The section also specifies that a change in accounting policy, if not required by a primary source of Canadian GAAP, should be made only if it results in more reliable and relevant information. Section 1506 includes disclosure rules regarding the description and impact on the Fund's financial results of future accounting standards not yet applied. The adoption of the new section did not have a material effect on the Fund's financial results.

Future accounting pronouncements

(a) Section 3031 - Inventories

This new standard provides guidance in determining the cost of inventory and its subsequent recognition as an expense. The standard is effective for fiscal periods beginning on or after January 1, 2008 and requires the retroactive application to prior period financial statements. The Fund is presently evaluating the impact of this new standard.

(b) Section 3064 - Goodwill and intangible assets

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. The Fund is presently evaluating the impact of this new standard.

(c) Section 1535 – Capital disclosures

This new standard establishes disclosure requirements concerning capital such as: qualitative information about its objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Fund will implement this new standard effective January 1, 2008.

(d) Section 3862 – Financial instruments – Disclosures and Section 3863 – Financial Instruments - Presentation

These new standards replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. The Fund will implement these new standards effective January 1, 2008.

3 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) Acquisition of Liquor Barn Income Fund ("Liquor Barn")

On June 8, 2007, the Fund completed the acquisition of all issued and outstanding units of Liquor Barn, an operator of 81 retail liquor store locations. The operating results of Liquor Barn are included in the results of the Fund from June 8, 2007. The purchase price allocated to the assets acquired and the liabilities assumed is as follows:

(expressed in thousands of dollars)	$
Net assets acquired:	
Working capital (including cash of $505)	16,238
Property and equipment	16,478
Intangibles	32,248
Goodwill	152,938
Bank indebtedness assumed	(24,089)
Convertible debentures	(703)
Liquor Barn non-controlling interest	(45,292)
	147,818
Consideration:	
Issue of 6,817,533 Fund Units	143,100
Cash including transaction costs	4,718
	147,818
Cash paid consists of the following:	
Total cash consideration	4,718
Less:	
Amounts payable at December 31, 2007	(163)
Cash acquired	(505)
	4,050

Property and equipment includes $19.5 million in cost less $3.0 million in accumulated amortization.

Of the goodwill acquired, $76,418,377 is deductible for tax purposes.

Acquired intangible assets are summarized as follows:

(expressed in thousands of dollars)	**$**
Amortizing intangible assets:	
Customer relationships	1,366
Leases	3,871
Retail liquor licenses	26,556
	31,793
Indefinite life intangible assets:	
Retail liquor licenses	13
Tradename	442
	455
Total	32,248

(b) Other Retail Liquor Store Acquisitions

During the year ended December 31, 2007, the Fund acquired six retail liquor stores (2006 – 22) and purchased two liquor licenses (2006 – 1). The operating results of the acquisitions are included in the results of the Fund from the acquisition date. The purchase price allocated to the assets acquired and the liabilities assumed, based on their preliminary fair values, is as follows:

(expressed in thousands of dollars)	**2007** **$**	**2006** **$**
Purchase price:		
Cash deposit paid in prior year	733	-
Cash paid during year	11,178	30,468
	11,911	30,468
Net assets acquired:		
Working capital	2,031	4,664
Property and equipment	1,490	3,002
Intangible assets	4,020	524
Goodwill	4,370	22,278
	11,911	30,468

Of the goodwill acquired for other retail liquor store acquisitions during the year ended December 31, 2007, $4,369,411 is expected to be deductible for tax purposes.

During the year ended December 31, 2007, $2,623,515 related to prior year acquisitions was reclassified from goodwill to retail liquor licenses and favourable market leases in intangible assets as a result of finalizing third party valuations. There were adjustments to goodwill for $754,431 for prior year acquisitions relating to contingent payments and transaction costs (2006 - $124,775).

Acquired intangible assets are summarized as follows:

(expressed in thousands of dollars)	**2007** **$**	**2006** **$**
Amortizing intangible assets:		
Leases	206	324
Tradename	4	-
	210	324
Indefinite life intangible assets:		
Retail liquor licenses	3,810	200
	3,810	200
Total	4,020	524

(c) Contingent consideration

For three agreements entered into in 2005 for the purchase of certain retail liquor stores, the Fund may be required to make contingent payments as follows: i) $100,000 each year for the next four years from December 31, 2007 provided that certain sales thresholds are achieved; ii) 1% of gross sales of certain stores payable quarterly for the next three years to a cumulative maximum of $450,000; and iii) on March 15, 2008 and 2009, a payment equal to 50% times a multiple of earnings less payments to date.

For two agreements entered into during 2007 for the purchase of certain retail liquor stores, the Fund may be required to make contingent payments of $65,000 for each store, provided that certain sales thresholds are achieved. A put option exists for an agreement entered into for a 50% interest in a retail liquor store, which may require the Fund to purchase all remaining assets of the business not earlier than one year following the date of acquisition.

Six retail liquor store purchase agreements entered into by Liquor Barn prior to its acquisition include provisions for the payment of contingent consideration based upon target sales, earnings before interest, taxes and amortization or other financial measures. Of the six agreements entered into, two expired in October 2007. For the four remaining, the maximum additional consideration that may be payable under the terms of these agreements is $3,818,515. Earn out dates for all of these agreements are in 2008.

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.

4 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 dollars)	**Non-current Deposits**	**Current Deposits**
	$	**$**
Balance – December 31, 2005	-	60
Deposits Tendered	27,237	5,085
Acquisitions Completed	(25,604)	(4,724)
Balance – December 31, 2006	1,633	421
Acquisitions Completed	(983)	(984)
Amounts Refunded	(1,020)	(239)
Deposits Tendered	1,017	962
Balance – December 31, 2007	647	160

5 Property and equipment

(expressed in thousands of dollars)

	Rate %	Cost $	Accumulated amortization $	Net book value $
				2007
Leasehold improvements	7	37,287	7,139	30,148
Operating equipment	10	3,641	715	2,926
Office equipment and fixtures	10	2,409	440	1,969
Computer equipment	20	4,357	1,188	3,169
Automotive	20	487	217	270
Signage	10	1,886	313	1,573
Shelving and racking	10	2,172	520	1,652
		52,239	10,532	41,707

(expressed in thousands of dollars)

	Rate %	Cost $	Accumulated amortization $	Net book value $
				2006
Leasehold improvements	7	19,707	2,314	17,393
Operating equipment	10	2,362	372	1,990
Office equipment and fixtures	10	992	160	832
Computer equipment	20	1,393	308	1,085
Automotive	20	368	119	249
Signage	10	963	150	813
Shelving and racking	10	806	128	678
		26,591	3,551	23,040

6 Intangible Assets

(expressed in thousands of dollars)			**2007**
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Customer relationships	1,505	251	1,254
Retail liquor licenses	26,556	732	25,824
Retail liquor licenses with an indefinite life	5,717	-	5,717
Tradenames	449	-	449
Leases	5,719	1,179	4,540
	39,946	2,162	37,784

(expressed in thousands of dollars)			**2006**
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Customer relationships	139	53	86
Retail liquor licenses with an indefinite life	211	-	211
Leases	706	197	509
	1,056	250	806

7 Goodwill

(expressed in thousands of dollars)	**2007** **$**	**2006** **$**
Balance – Beginning of year	104,954	82,676
Liquor Barn acquisition (note 3 (a))	152,938	-
Other Retail Liquor Store Acquisitions (note 3 (b))	4,370	22,153
Goodwill reclassification (note 3 (b))	(2,624)	125
Balance – End of year	259,638	104,954

8 Bank indebtedness and long-term debt

(a) Credit facilities

The Fund's credit facilities with a syndicate of Canadian chartered banks comprise a demand revolving $90 million operating facility ("Operating Facility"), a $30 million capital/acquisition line ("Capital/Acquisition Facility"), a $3.5 million demand non-revolving loan to cover electronic fund transfer payments ("EFT Facility"), and a $4.0 million bank guarantee facility to be used in day to day issuance of letters of guarantee for operations ("Guarantee Facility").

Interest on bank indebtedness related to the Operating Facility is payable at the lender's prime rate or the banker's acceptance discount rate plus a stamping fee of 1.50%. Interest on amounts outstanding on the Capital/Acquisition Facility is payable at the lender's prime rate plus 0.25% or the banker's acceptance discount rate plus a stamping fee of 1.75%. Interest on the EFT Facility is payable at the lender's prime rate plus 0.75%.

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 Liquor Barn LP, subsidiaries of the Fund, and also by a floating charge over all of Liquor Stores LP's and Liquor Barn LP's present and after acquired real property and an assignment of Liquor Stores LP's and Liquor Barn LP's insurance. The assets of Liquor Stores LP and Liquor Barn LP represent substantially all of the Fund's assets.

As at December 31, 2007, the only amount outstanding under the credit facilities was a $30 million advance on the Capital/Acquisition Facility. There are no principal amounts due on the Capital/Acquisition Facility until maturity and interest is payable monthly. At December 31, 2007, the Fund had issued $3.7 million (2006 - nil) in letters of guarantee for day-to-day inventory purchases.

(b) Long-term debt

Long-term debt comprises the following:

(expressed in thousands of dollars)	Maturity Date	2007 Effective Rate	December 31, 2007	December 31, 2006
Capital/Acquisition Facility advance	May 31, 2009	6.25%	$ 30,000	$ -
Convertible unsecured subordinated debentures:				
6.75% Debenture	December 31, 2012	10.13%	$ 43,451	$ -
8.00% Debenture	December 31, 2011	4.96%	$ 563	$ -
			$ 74,014	$ -

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

The 6.75% Debentures have a principal amount of $50.0 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 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 $4,200,000 and has been recorded as equity with the remaining $45,800,000 allocated to long-term debt, net of $2,349,459 in transaction costs. The debentures are being accreted such that the liability at maturity will be equal to the face value of $50,000,000. As at December 31, 2007, there were no conversions of these debentures.

(ii) 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 30, 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, 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.

The fair value of the debenture was determined to be $702,000 as part of the acquisition of Liquor Barn (note 3 (a)). 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, 2007, 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.

9 Distributions

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling $1.49 (2006 - $1.24) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Subordinated LP Units were declared by the Fund for the year ended December 31, 2007. Distributions totalling $0.89 per Unit for Liquor Barn Exchangeable LP Units and Subordinated Units were also declared during the year.

(expressed in thousands of dollars)

	2007							
	Fund Units		**Liquor Stores Exchangeable LP Units and Subordinated LP Units**		**Liquor Barn Exchangeable LP Units and Subordinated LP Units**		**Total**	
	Declared $	**Paid $**	**Declared $**	**Paid $**	**Declared $**	**Paid $**	**Declared $**	**Paid $**
Distributions	22,189	19,719	4,929	3,952	976	859	28,094	24,530

(expressed in thousands of dollars)

	2006							
	Fund Units		**Liquor Stores Exchangeable LP Units and Subordinated LP Units**		**Liquor Barn Exchangeable LP Units and Subordinated LP Units**		**Total**	
	Declared $	**Paid $**	**Declared $**	**Paid $**	**Declared $**	**Paid $**	**Declared $**	**Paid $**
Distributions	10,855	9,661	4,299	3,418	-	-	15,154	13,079

10 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 rate applicable to the determination of these taxes is 28.0%.

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 dollars)	2007	2006
	$	$
Future income tax liabilities:		
Intangible assets	4,880	-
Property and equipment	3,925	28
Goodwill	1,962	22
Pre-opening costs	-	38
Debentures	171	-
	10,938	88
Future income tax assets:		
Issue costs	437	-
Deferred lease inducements	111	12
Non-capital losses	90	138
	638	150
	10,300	(62)

The fund has recognized future income taxes related to non-capital losses of $862,561 (2006 - $715,354) available in a subsidiary to offset income of future years. If not utilized, $64,521 will expire in 2015, $557,019 will expire in 2026 and $241,021 will expire in 2027.

Future income taxes are not recorded on $116,145,300 of non-deductible goodwill.

11 Non-controlling Interest

	Liquor Stores Exchangeable LP Units #	Liquor Barn Exchangeable LP Units #	Total #
Balance – December 31, 2005	4,150,317	-	4,150,317
Exchanged for Fund Units	(848,637)	-	(848,637)
Balance – December 31, 2006	3,301,680	-	3,301,680
Liquor Barn Exchangeable Units at June 8, 2007 on an equivalent Fund Unit basis	-	2,157,799	2,157,799
Exchanged for Fund Units	(1,425)	(1,290,010)	(1,291,435)
Balance – December 31, 2007	3,300,255	867,789	4,168,044
Fund Special Voting Units – December 31, 2007	3,300,255	867,789	4,168,044

(expressed in thousands of dollars)	$
Balance – December 31, 2005	41,700
Earnings	4,338
Exchanged for Fund Units	(8,391)
Distributions declared	(4,299)
Balance – December 31, 2006	33,348
Liquor Barn Exchangeable Units at June 8, 2007	45,292
Earnings	2,907
Liquor Stores Exchangeable Units exchanged for Fund Units	(14)
Liquor Barn Exchangeable Units exchanged for Fund Units	(26,192)
Distributions declared (note 9)	(5,905)
Balance – December 31, 2007	49,436
Subsidiaries	
Balance – December 31, 2005	-
Arising from 2006 acquisitions	71
Earnings	124
Dividends	(48)
Balance - December 31, 2006	147
Earnings	326
Dividends	(238)
Balance – December 31, 2007	235
Total	49,671

Liquor Stores LP Exchangeable LP Units and Liquor Barn Exchangeable LP Units ("Exchangeable LP Units")

The Exchangeable LP Units issued by Liquor Stores LP and Liquor Barn LP have economic and voting rights equivalent to the Fund Units (note 14), 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. As a result, they have been treated as non-controlling interest, in accordance with the CICA Emerging Issues Committee Abstract #151.

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

Liquor Stores LP Subordinated LP Units ("Subordinated LP Units")

Effective at 11:59 p.m. on December 31, 2007, the subordination provisions were eliminated and all Subordinated LP Units were exchanged for Exchangeable LP Units on a one-for-one basis.

Subordinated Unitholders	**Subordinated Units** #
Balance – December 31, 2005	2,125,000
Balance – December 31, 2006	2,125,000
Converted to Exchangeable LP Units	(2,125,000)
Balance – December 31, 2007	-

Fund Special Voting Units

Fund Special Voting Units are non-participating and are used solely for providing voting rights to persons holding Exchangeable LP Units. Fund Special Voting Units are not transferable separately from Exchangeable LP Units to which they relate. Fund Special Voting Units will automatically be transferred upon a transfer of the Exchangeable LP Units to which they relate. The Fund Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Fund Special Voting Unit entitles the holder thereof to one vote at all meetings of Unitholders.

12 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.

13 Commitments

The Fund occupies its head office and retail locations under lease agreements with varying terms from five to twenty-five years, expiring from January 2008 to October 2019. The leases provide for minimum annual lease payments as follows:

(expressed in thousands of dollars)	$
Years ending December 31, 2008	14,228
2009	15,027
2010	15,586
2011	16,205
2012	16,962
Aggregate of all years thereafter	43,021
	121,029

14 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

(expressed in thousands of dollars)	**Number of units** #	**Issue costs** $	**Net capital contributions** $
Balance – December 31, 2005	6,179,683	6,519	66,990
Units issued on March 15, 2006	1,600,000	1,756	30,644
Units issued on October 2, 2006	1,600,000	1,996	33,684
Issued for Exchangeable LP Units	848,637	-	8,391
Balance – December 31, 2006	10,228,320	10,271	139,709
Issued for Exchangeable Liquor Stores LP Units	1,425	-	14
Units issued on March 9, 2007 (note 16(a))	2,492	-	50
Issued June 8, 2007 for the Liquor Barn acquisition (note 3 (a))	6,817,533	-	143,100
Issued for Exchangeable Liquor Barn LP Units	1,290,010	-	26,192
Treasury Units	(45,504)	-	(978)
Balance – December 31 ,2007	18,294,276	10,271	308,087

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 and Liquor Barn LP Exchangeable LP Units during the year ended December 31, 2007 was recorded at the carrying amount of the Liquor Stores LP and Liquor Barn Exchangeable LP Units in accordance with EIC-151.

Treasury Units represent unvested Units held in the LTIP (note 16 (a)).

15 Earnings per Unit

(expressed in thousands of dollars)	**2007** $	**2006** $
Net Earnings (numerator utilized in basic Earnings per Unit)	9,885	11,515
Non-controlling interest	2,907	4,338
Earnings (numerator utilized in diluted Earnings per Unit)	12,792	15,853
	#	**#**
Units outstanding, beginning of period	10,228,320	6,179,683
Weighted average of Units issued less treasury Units acquired	4,363,360	2,345,239
Denominator utilized in basic earnings per unit	14,591,680	8,524,922
Exchangeable Units	4,060,397	3,475,215
Denominator utilized in diluted earnings per unit	18,652,077	12,000,137
Earnings per Unit – Basic	$0.68	$1.35
Earnings per Unit – Diluted	$0.68	$1.32

16 Unit-based compensation plans

(a) Long term incentive plan (“LTIP”) and 2007 Incentive Plan (“2007 Plan”)

The Fund has adopted long-term incentive plans (the “Plans”) to provide key senior management of the Fund with compensation opportunities that will enhance the ability of the Fund to attract, retain and motivate key personnel and reward these key employees for significant performance and associated per unit cash flow growth. Fund bonuses, in the form of Units of the Fund, will be provided to eligible employees on an annual basis where the distributable cash of the Fund exceeds certain specified threshold amounts. The monthly cash distributions received by the Plans will be remitted to the participant when the Units become vested.

The Plans are managed through separate trusts, which are considered variable interest entities. As the Fund is the primary beneficiary, the Fund consolidates the Plans in its financial statements.

If the distributable cash flow per unit exceeds the base distribution, a percentage of the distributable cash (the participation rate) is contributed by the Fund into a separate trust (the “LTIP Trust”). The LTIP Trust will use the funds to purchase Units in the open market or from treasury, and such Units will vest to the eligible employees over a three-year period. Threshold amounts and participation rates are as follows:

Excess percentage	**Participation rate**
5% or less	Nil
Greater than 5% and up to 10%	10% of any excess over 5%
Greater than 10% and up to 20%	10% of any excess over 5%, plus 20% of any excess over 10%
Greater than 20%	10% of any excess over 5%, plus 20% of any excess over 10%, plus 16.27% of any excess over 20%

The following table summarizes the status of the Plans:

	LTIP	**2007 Incentive Plan**	**2007 Total** #	**2006** #
Unvested Units, beginning of period	492	-	492	-
Granted	2,492	43,851	46,343	-
Vested Units transferred to participants	(292)	-	(292)	-
Forfeited Units	-	(1,039)	(1,039)	
Unvested Units, end of period	2,692	42,812	45,504	-

On March 9, 2007, 2,492 Units were granted under the LTIP and issued from treasury at a price of $20.07 per Unit for a total cost of $50,000. The compensation expense will be recognized over the vesting period of three years. Compensation expense for the year ended December 31, 2007 was $28,507 (2006 - $ nil).

On March 7, 2007, $950,000 was granted to purchase Units under the 2007 Incentive Plan. In total, 43,851 Units were purchased in the market at an average price of $21.66 per Unit. On September 6, 2007, 1,039 forfeited Units were sold on the market resulting in a reduction to compensation expense of $22,053. The remaining $927,947 compensation expense will be recognized over the vesting period of three years. Compensation expense of $529,052 was recorded for the year ended December 31, 2007 (2006 - $ nil).

(b) Trustee and director deferred unit plan

The Fund maintains a deferred share unit plan (the “DSU Plan”) to enhance the ability of the Fund to attract and retain non-employee Trustees and Directors whose training, experience and ability will promote the interests of the Fund and to align the interests of such non-employee Trustees and Directors with the interests of Unitholders. The DSU Plan is designed to permit such non-employee Trustees and Directors to defer the receipt of a maximum of 50% of the cash compensation otherwise payable to them for services to the Fund. As the Fund intends to settle its obligations related to the DSU Plan through cash payments, these obligations are accrued as a liability, which is adjusted to fair value based on the current market value of Units at each balance sheet date. Awards accruing to DSU Plan participants for the year ended December 31, 2007 totalled $227,312 (2006 - $99,781), which were recorded as compensation expense in the period. As at December 31, 2007 participants have accumulated an entitlement to the equivalent cash value of 13,629 Units under the DSU Plan (December 31, 2006 – 5,183).

17 Related party transactions

A director of a subsidiary of the Fund is a partner in a law firm to which, during the year ended December 31, 2007, the Fund incurred professional fees of $287,202 (2006 - $178,144). Rent paid to companies controlled by directors of a subsidiary of the Fund amounted to $45,979 (2006 - $84,490) Further, the Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the Fund, relating to the supervision of construction of developed stores, lease administration and tax services, in the amount of $31,454 (2006 - $116,294). Commencing June 1, 2007, the Fund leases office premises from a company associated with the Chief Executive Officer. Rent paid during the year was $275,204 (2006 - nil). 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. Included in accounts payable and accrued liabilities is $5,689 (2006 - $4,307) relating to these transactions.

18 Supplemental disclosure of cash flow information

(expressed in thousands of dollars)	2007 $	2006 $
Interest paid	2,199	1,105
Income taxes paid	65	16

19 Segmented information

The Fund identifies operating segments based on business activities, management responsibility, and geography. The Fund operates within a single operating segment, being the operation of retail liquor stores in Canada. All of the Fund's assets are located in Canada.

20 Financial instruments

The Fund, as part of its operations, is party to a number of financial instruments. These financial instruments include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to unitholders and non-controlling interest, and long-term debt. It is management's opinion that the Fund is not exposed to significant interest, currently or credit risk arising from these financial instruments, except as described below.

Credit risk

The Fund is exposed to credit risk from its licensee customers in the normal course of business, which 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 industry.

Interest rate risk

The Fund is exposed to interest rate cash flow risk on its floating rate bank indebtedness and long-term debt, as described further in note 8. For each 1% change in the rate of interest, the change in annual interest is approximately $300,000 (2006 - $54,554).

Fair value disclosure

Cash and cash equivalents are at fair value. The carrying amount of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and distributions payable to unitholders and non-controlling interest approximate their fair value due to their relatively short-term maturities or interest rates which approximate market rates. The carrying values of long-term debt approximate the fair value of the long-term debt as the interest rate affecting this instrument approximates market rates.

21 Economic dependence

Under Alberta provincial legislation the Fund is required to purchase liquor and related products from the Alberta Gaming and Liquor Commission. As the Fund's income is derived entirely from the sale of liquor and related products, its ability to continue viable operations is 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 substantial 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.

22 Seasonal nature of the business

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 and amortization remain relatively steady throughout the year.

23 Subsequent events

On January 1, 2008, Liquor Stores LP issued 8,107,542 Ordinary LP Units to Liquor Barn Operating Trust and 867,789 Series 1 Exchangeable LP Units to the founders of Liquor Barn LP to acquire a further interest in Liquor Barn LP. As a consequence, the Fund's indirect interest in Liquor Stores LP increased to 81.48%. Since January 1, 2008, the Fund has issued 23,848 Units to increase its indirect interest in Liquor Stores LP to 81.59%.

On January 15, 2008 underwriters for the Convertible Unsecured Subordinated Debentures issued in December exercised the Over-Allotment Option to purchase 7,500 Debentures for gross proceeds of $7.5 million and net proceeds of $7.2 million.