



## LIQUOR STORES INCOME FUND

[FOR IMMEDIATE RELEASE]

### LIQUOR STORES INCOME FUND REPORTS 2010 SECOND QUARTER RESULTS

**EDMONTON, ALBERTA, August 10, 2010** – Liquor Stores Income Fund (the “Fund”) (TSX: LIQ.UN) today reported its 2010 second quarter and first half results.

The Fund reiterated the guidance provided with its first quarter 2010 report that distributable cash per Unit before non-recurring items would be in the range of \$1.70 to \$1.80 for the year.

Commenting on second quarter results, Rick Crook, President and CEO of Liquor Stores GP Inc, administrator of the Fund, stated, “A meaningful comparison of the Fund’s second quarter 2010 operating performance to that of 2009 has to include the effect of the April 7, 2009 Government of Alberta Provincial Budget. In that budget, an increase in liquor mark ups was imposed. This measure was later reversed on July 7, 2009. While the higher mark ups were in effect, the cost to replenish inventory of alcoholic beverages in the Fund’s Alberta stores increased by approximately 10% and retail prices in the Fund’s Alberta stores were temporarily increased to recover these higher costs. Operating margin in the second quarter of 2009 included a holding gain on inventory held prior to the mark up increase of approximately \$3.0 million.” Mr. Crook added that, “This gain reversed in the three succeeding quarters following the retail price decreases in the Fund’s Alberta stores that accompanied the Government of the Province of Alberta decision to revert to the mark up structure in effect prior to April 7, 2009 and the Fund absorbed the higher cost of inventory purchased while the increased mark ups were in effect.”

### THREE AND SIX MONTHS ENDED JUNE 30, 2010

#### *OPERATING RESULTS*

Sales for the three months ended June 30, 2010 and 2009 were \$148.7 million and \$140.3 million, respectively, and for the six months ended June 30, 2010 and 2009, were \$264.5 million and \$246.6 million, respectively. Operating margin before non-recurring expenses for the three months ended June 30, 2010 was \$11.6 million, down \$3.5 million from \$15.1 million in 2009. Excluding the impact of the April 7, 2009 mark up increase and subsequent reversal July 7, 2009 referred to above (and as more fully described in the Fund’s second quarter 2010 Management’s Discussion and Analysis filed today), the Fund reports:

- Due primarily to the effect of inclement weather and the timing of the Canada Day long weekend on customer counts and a reduction in items purchased per customer visit earlier in the year, Canadian same stores sales for the three and six months ended June 30, 2010 decreased by 1.8% and 1.5%, respectively.
- In the first quarter of 2010, customers were purchasing fewer items per visit compared to 2009. This trend has reversed and in the second quarter of 2010 items purchased per customer was comparable to 2009.

- For the three and six months ended June 30, 2010, sales for the Fund's Kentucky operation acquired in the fourth quarter of 2009 and for a store opened in Alaska last year were US\$17.5 million and US\$31.0 million.
- For the three months ended June 30, 2010, operating margin before non-recurring items was \$11.6 million, down \$0.5 million from \$12.1 million last year. While operating margin for the Fund's US stores increased by Cdn\$0.9 million following the fourth quarter 2009 acquisition in Kentucky, reduced sales in the Fund's Canadian stores together with increased expenses for marketing, store improvements and scheduled rent increases led to an overall decrease in operating margin before non-recurring items of \$0.5 million.
- For the six months ended June 30, 2010, operating margin before non-recurring items was \$15.6 million, down \$1.7 million (including the first quarter 2010 \$0.3 million residual effect of the Alberta mark ups) from \$17.3 million last year. Operating margin for the Fund's US stores increased Cdn\$1.3 million. However, reduced sales in the Fund's Canadian stores together with increased marketing expenses, scheduled rent increases and second quarter 2010 store improvements led to an overall decrease in operating margin of \$1.7 million before non-recurring items.

### ***DISTRIBUTABLE CASH***

In 2009, distributable cash per Unit for the three and six months ended June 30, 2009 included \$0.13 per Unit related to the \$3.0 million holding gain realized in the second quarter last year. Distributable cash before non-recurring items was \$0.44 per Unit for the second quarter of 2010 compared with \$0.60 per Unit for 2009. For the first half of 2010, distributable cash per Unit before non-recurring items was \$0.53 compared to \$0.78 a year earlier.

In the last half of 2009, distributable cash of \$1.03 per Unit included a reduction of approximately \$0.14 per Unit related to increased cost of goods sold in the Fund's Alberta stores. The Fund expects that the return to normal inventory replenishment costs in its Alberta stores will result in year over year improvements in operating results for the final quarters of 2010 and early 2011.

### ***EARNINGS AND EARNINGS PER UNIT***

Net earnings for the three months ended June 30, 2010 were \$4.8 million, down from earnings of \$10.1 million for the same period in 2009. Net earnings were down due to a \$3.8 million decrease in operating margin, a \$0.1 million increase in non-cash future income tax and a \$0.6 million increase in interest expense related to fees incurred in 2009 for the renewal of the Fund's credit facility and the fourth quarter 2009 acquisition of the Fund's Kentucky operation. In addition, amortization expense increased by \$0.6 million due to a \$0.8 million increase related to accelerated property and equipment amortization for store and pub closures and an increase in the number of stores operated, offset by a \$0.2 million decrease in amortization of intangible assets related to the extension of the useful lives of purchased liquor licenses. The foreign exchange loss in 2010 was \$0.3 million, which included a \$0.6 million unrealized loss related to the translation of the Fund's US denominated debt, compared to a loss of \$0.1 million in 2009. Realized foreign exchange gains for the quarter were \$0.3 million compared to a loss of \$0.1 million for the same period last year.

Net earnings were \$4.8 million for the six months ended June 30, 2010, down from \$11.7 million for the same period in 2009. As previously discussed, net earnings were down due to a \$4.7 million decrease in operating margin and a \$1.0 million increase in non-cash future income tax. In addition, interest expense increased by \$1.0 million due primarily to fees incurred in 2009 for the renewal of the Fund's credit facility and the fourth quarter 2009 acquisition of the Fund's Kentucky operation. Amortization expense for the first half of 2010 was up \$0.8 million primarily due to a \$1.2 million increase related to

accelerated amortization for property and equipment for store and pub closures and an increase in the number of stores operated, offset by a \$0.4 million decrease in amortization of intangible assets related to the extension of the useful lives of purchased liquor licenses. Foreign exchange gains in 2010 were \$0.4 million compared to a small gain in 2009 and realized foreign exchange gains for the first half of 2010 were \$0.2 million compared to a small gain in the same period last year.

Basic and diluted earnings per unit were \$0.20 in the second quarter of 2010, compared with basic and diluted earnings of \$0.44 a year earlier. Basic and diluted earnings per unit were \$0.20 in the first half of 2010, compared with basic earnings of \$0.52 and diluted earnings of \$0.51 a year earlier.

### **Liquor Stores Summary Financial Results, three and six months ended June 30, 2010 with comparisons to 2009**

(expressed in thousands of Canadian dollars, except per unit amounts)	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009 (restated – note 1)	June 30, 2010	June 30, 2009 (restated – note 1)
Sales	\$ 148,742	\$ 140,253	\$ 264,539	\$ 246,605
Operating margin before non-recurring items	\$ 11,589	\$ 15,084	\$ 15,609	\$ 20,340
Adjusted operating margin	\$ 11,038	\$ 14,842	\$ 15,154	\$ 19,903
Earnings before non-cash tax charge	\$ 5,459	\$ 10,667	\$ 5,591	\$ 11,519
Net earnings	\$ 4,754	\$ 10,091	\$ 4,807	\$ 11,746
Diluted earnings per unit	\$ 0.20	\$ 0.44	\$ 0.20	\$ 0.51
Distributable cash (before non-recurring items)	\$ 9,874	\$ 13,608	\$ 11,887	\$ 17,623
Distributable cash (after non-recurring items)	\$ 9,323	\$ 13,366	\$ 11,432	\$ 17,186
Distributable cash per Unit (before non-recurring items)	\$ 0.44	\$ 0.60	\$ 0.53	\$ 0.78
Distributable cash per Unit (after non-recurring items)	\$ 0.41	\$ 0.59	\$ 0.51	\$ 0.76
Cash distributions per Unit	\$ 0.41	\$ 0.41	\$ 0.81	\$ 0.81
Diluted average units outstanding	18,536	22,523	18,531	22,548
Stores in operation at June 30	237	224	237	224

(1) *Net earnings have been restated in accordance with the adoption of CICA Handbook sections 1601 Consolidated Financial Statements and 1602 Non-Controlling Interests.*

The Management's Discussion and Analysis (MD&A) as well as the complete financial statements and notes for the second quarter ended June 30, 2010 are available on the Fund's website at this link: [www.liquorstoresincomefund.ca](http://www.liquorstoresincomefund.ca) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Conference Call**

Liquor Stores Income Fund will conduct an investor conference call on Wednesday, August 11, 2010 to discuss results for the second quarter ended June 30, 2010. The conference call will take place at 9 a.m. MT. Participants in the call include Rick Crook, President and CEO, Pat de Grace, Vice-President, Finance and Chief Financial Officer and Scott Morrow, Chief Operating Officer.

To take part in the call, please dial 416-340-2218, or toll-free 1-866-226-1793. An archived recording of the conference call will be available approximately one hour after the completion of the call until August

18, 2010, by dialling 416-695-5800, or toll-free 1-800-408-3053. The required passcode is 7464352. An archived recording of the call will also be available on the Liquor Stores Income Fund website.

### **About Liquor Stores Income Fund**

The Fund is a publicly traded Canadian income fund that participates in the retail liquor industry in Alberta, British Columbia, Alaska and Kentucky through its 82.3% interest in Liquor Stores Limited Partnership. Management believes the Fund is Alberta's largest operator of private liquor stores by both number of stores and sales revenue. The Fund currently operates 237 stores. The trust units and 6.75% convertible subordinated debentures of the Fund trade on the Toronto Stock Exchange under the symbols "LIQ.UN" and "LIQ.DB", respectively.

Additional information about Liquor Stores Income Fund is available at [www.sedar.com](http://www.sedar.com) and the Fund's website at [www.liquorstoresincomefund.ca](http://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, distributable cash, distributable cash before non-recurring items, and operating margin before non-recurring items are useful supplemental measures of performance. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. 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.

Distributable cash is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Investors are cautioned that 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 distributable cash may differ from the methods used by other issuers. Therefore, the Fund's distributable cash may not be comparable to similar measures presented by other issuers.

Same store sales include sales for stores that have been open 12 full months at the beginning of the reporting period. Stores which have significant wholesale business and stores where sales have shifted to closely-located Liquor Depot stores opened in 2009 have been excluded.

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

Operating margin and operating margin as a percentage of sales are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin and operating margin as a percentage of sales 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 and operating margin as a percentage of sales may differ from the methods used by other issuers. Therefore, the Fund's operating margin and operating margin as a percentage of sales may not be comparable to similar measures presented by other issuers.

## **FORWARD LOOKING STATEMENTS**

This press release contains forward-looking statements or information. All statements and information other than statements of historical fact contained in this press release are forward-looking statements, including, without limitation, statements regarding the future financial position and performance, cash distributions, distributable cash before non-recurring items, distributable cash before non-recurring items per Unit, business strategy, proposed or recent acquisitions and the benefits derived therefrom, budgets, projected costs and plans and objectives of or involving the Fund or Liquor Stores Limited Partnership. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "forecasts" 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 is no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur and such forward-looking statements in this press release should not be unduly relied upon. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this press release. There is 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" and "Financial Outlook" in the Second Quarter 2010 Management's Discussion and Analysis. Specific forward-looking statements contained in this press release include, among others, distributable cash before non-recurring items per Unit to be in the range of \$1.70 to \$1.80 for the year.

The information contained in this press release, including the information set forth under "Risk Factors" and "Financial Outlook" in the Second Quarter 2010 Management's Discussion and Analysis, identifies additional factors that could affect the operating results and performance of the Fund and Liquor Stores Limited Partnership.

Financial outlook information contained in this press release about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this press release should not be used for purposes other than for which it is disclosed therein.

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.

### **For further information, please contact:**

Rick Crook

President and CEO

Liquor Stores GP Inc.

(780) 497-3271

Patrick de Grace, CA

Vice President Finance and Chief Financial Officer

Liquor Stores GP Inc.

(780) 917-4179