LIQUOR STORES INCOME FUND

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

For the Third Quarter Ended September 30, 2006
As of November 8, 2006

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the interim consolidated financial statements and accompanying notes ("Financial Statements") of Liquor Stores Income Fund (the "Fund") for the three and nine months ended September 30, 2006 and the annual consolidated financial statements and accompanying notes of the Fund for the year ended December 31, 2005. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to the notes to the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "distributable cash", "operating margin", and other "Non-GAAP Measures". A description of these measures and their limitations are discussed below under "Non-GAAP Measures". See also "Risk Factors" and "Forward-Looking Statements".

This MD&A is dated November 8, 2006.

OVERVIEW OF THE FUND

Issuance of Fund Units and Development of the Business

The Fund is an unincorporated open ended, limited purpose trust established under the laws of the Province of Alberta. The trust units ("Units") of the Fund trade on the Toronto Stock Exchange under the symbol LIQ.UN. Through its 75.6% ownership of Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates 102 retail liquor stores in Alberta and British Columbia and is the largest liquor store operator in Alberta by number of stores.

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

In March 2005 and March 2006 the Fund issued 1,830,000 and 1,600,000 units, respectively, from treasury for aggregate net proceeds of $59.2 million. In conjunction with the March 2006 offering, the Vendors sold 827,132 Units by way of a secondary offering. In October 2006 the Fund issued 1,600,000 units from treasury for net proceeds of $33.9 million. As at November 8, 2006 there are 13,530,000 units outstanding. The Vendors now have a 24.4% non-controlling interest in Liquor Stores LP.

A portion of the net proceeds of the March 2005 and March 2006 issuances were used to acquire or develop 49 retail liquor stores. Net proceeds of the October 2006 issuance are being used to temporarily repay bank indebtedness related to inventory financing and to fund future acquisitions of retail liquor stores. To September 30, 2006, the aggregate of deposits and the cost to acquire and develop retail liquor stores, exclusive of working capital, is approximately $49.2 million.

Subsequent to September 30, 2006, the Fund completed the acquisition of 3 additional retail liquor stores. As at November 8, 2006, the Fund operates 102 retail liquor stores. The acquisition of 2 additional stores and the opening of a newly developed store are expected to be completed in the fourth quarter bringing the total number of stores operated to 105 prior to December 31, 2006.

The geographic location of the 102 liquor stores currently operated is provided in the following table:

	Edmonton	Calgary	Alberta Other	British Columbia Lower Mainland	British Columbia Other	Total
Number of stores	42	34	18	3	5	102

References to Edmonton and Calgary are to stores located in or near those urban centres.
Other communities served in Alberta include Red Deer (3), Lethbridge (1), Fort McMurray (5), Slave Lake (3), Banff (1), Grande Prairie (2), Edson (2) and High River.
In British Columbia other communities served include Victoria (1), Kamloops (1), Kelowna (2) and Chilliwack (1).
The Fund also operates a pub connected to a retail store in British Columbia.

Business of the Fund

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. With 94 liquor stores operating in Alberta, where there are approximately 1,050 liquor stores, the Fund is the largest liquor store operator by number of stores. We believe that the Fund is the second largest liquor store operator by revenue in Alberta.

The Fund also operates 8 stores and a pub in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 600 private stores, 208 government operated stores and approximately 400 agency stores servicing 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"). The policy allows the Fund to make stable monthly distributions to its Unitholders based on estimates of distributable cash. The Fund pays cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the previous month.

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

Payment Dates	Monthly	Annualized
November 15, 2004 to May 16, 2005	$0.08333	$1.000
June 16, 2005 to January 16, 2006	$0.08958	$1.075
February 15, 2006 to October 16, 2006	$0.10000	$1.200
Commencing November 15, 2006	$0.11667	$1.400

On August 11, 2006, an increase in the cash distribution from $1.20 ($0.10 monthly) to $1.40 ($0.1167 monthly) annually was approved. The increase is effective commencing with the distribution payable November 15, 2006 to unitholders of record October 31, 2006.

Distributions declared during the three months ended September 30, 2006 were $3,579,000 or $0.30 per unit. For the nine month period ended September 30, 2006, the

Fund declared distributions of $10,417,000 or $0.90 per unit. Since inception, the Fund has distributed approximately 89.9% of its distributable cash. The Fund's business is subject to seasonal fluctuations. In the early part of the year the Fund may use its operating line of credit to fund distributions.

For 2006, the tax deferred portion of distributions for Canadian federal income tax purposes is expected to be in the range of 25% to 30%.

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

The Fund views distributable cash as an operating performance measure. The following table summarizes the distributable cash of the Fund for the three and nine months ended September 30, 2006 and 2005:

	July 1, 2006 to September 30, 2006	**July 1, 2005 to September 30, 2005**	**January 1, 2006 to September 30, 2006**	**January 1, 2005 to September 30, 2005**
Cash provided by operating activities	$310,846	$2,020,738	$4,103,364	$4,669,338
Net change in non-cash working capital items	5,018,345	1,353,916	7,333,994	3,100,789
LTIP provision	(400,000)		(400,000)	
Purchase of non-growth property & equipment	(11,407)	(411,123)	(187,658)	(628,805)
Provision for purchase of non-growth property & equipment	(200,000)		(200,000)	
Equity earnings	-	5,237	28,237	12,585
Distributable cash	$4,717,784	$2,968,768	$10,677,937	$7,153,907
Weighted average Units outstanding	11,930,000	10,330,000	11,496,300	9,921,099
Distributable cash per weighted average Unit	$0.40	$0.29	$0.93	$0.72
Distributions declared per unit	$0.30	$0.27	$0.90	$0.78
Basic earnings per Unit	$0.39	$0.29	$0.86	$0.68
Diluted earnings per unit	$0.39	$0.29	$0.85	$0.67

Distributable cash is a Non-GAAP Measure. The following significant items are necessary to reconcile distributable cash to its nearest GAAP measure, cash provided by operating activities:

Net Changes in non-cash working capital items

Changes in the Fund's non-cash working capital are influenced by seasonal fluctuations, purchase of inventory at favourable prices when limited time offers are in effect and deposits on working capital for stores to be acquired. Management believes that these fluctuations primarily benefit future operations and, as consequence, the net change in non-cash working capital is added back to cash provided by operating activities.

LTIP Provision

Since the Fund has a residual interest in LTIP units related to forfeiture of units awarded to LTIP participants, the LTIP is a variable interest entity and consolidated in the Fund's annual consolidated financial statements. Funding for the LTIP occurs subsequent to the approval of the Fund's annual consolidated financial statements and is initially recorded at that time as a reduction of unitholders equity. For the purposes of GAAP, the expense related to the LTIP is recognized as an expense as LTIP units vest. Awards under the LTIP are calculated with reference to distributable cash per unit. As a consequence, a provision has been made for the LTIP award in the determination of current distributable cash. A further amount will be reserved in the fourth quarter to provide for LTIP funding based on distributable cash per unit for fiscal 2006.

Purchase of non-growth property and equipment

The Fund's purchases of replacement property and equipment are capitalized in its accounts. Since these expenditures are made to sustain existing operations, they are deducted in the determination of distributable cash. The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment used to determine distributable cash:

	July 1, 2006 to September 30, 2006	**July 1, 2005 to September 30, 2005**	**January 1, 2006 to September 30, 2006**	**January 1, 2005 to September 30, 2005**
Purchase of property and equipment from the Statement of Cash Flows	$678,585	$722,757	$2,542,137	$1,707,943
Less: Growth expenditures including amounts relating to development and acquired stores	(667,178)	(311,634)	(2,354,479)	(1,079,138)
Purchase of non-growth property and equipment	$11,407	$411,123	$187,658	$628,805

Routine repairs and maintenance expenditures expensed in store operations for the quarters ended September 30, 2006 and 2005 was $62,743 and $54,045, respectively. Repairs and maintenance expensed for the nine months ended September 30, 2006 and 2005 were $184,745 and $159,457, respectively.

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

Provision for purchase of non-growth property and equipment

In addition to the $187,658 noted above, management, in the third quarter, made a provision of $200,000 for further replacement of property and equipment.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

Operating Results

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

	Three Months Ended September 30, 2006 (Unaudited)	Three Months Ended September 30, 2005 (Unaudited)	Nine Months Ended September 30, 2006 (Unaudited)	Nine Months Ended September 30, 2005 (Unaudited)
# of Stores at September 30	99	66	99	66
Sales	$60,751,442	$41,434,078	$150,987,655	$106,758,276
Cost of sales, administrative, operating, and store acquisition and development expenses	54,965,287	37,924,823	138,628,468	98,608,440
LTIP provision	400,000		400,000	
Operating margin (*)	$5,386,155	3,509,255	11,959,187	$8,149,836
Percent of Sales	8.87%	8.47%	7.92%	7.63%

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

Sales

Sales for the quarter ended September 30, 2006 increased by $19.4 million to $60.8 million from $41.4 million in the third quarter of 2005. For the nine months ended September 30, 2006 sales increased by $44.2 million to $151.0 million from $106.8 million for the nine months ended September 30, 2005.

Sales for the 65 stores that were in operation during the entire third quarter of 2005 increased by 8.27% to $44.5 million from $41.1 million in the third quarter of 2005.

Of the 99 stores open at September 30, 2006, 50 were in operation during entire first nine months of 2005. Sales of these stores increased by 7.00% to $93.2 million for the nine months ended September 30, 2006 from $87.1 million for the nine months ended September 30, 2005. Factors contributing to the improvement included the strength of the economy in Western Canada, numerous festivals and sporting events, including the 2006 Stanley Cup Playoffs, drawing people to the Edmonton and Calgary regions and favourable weather conditions.

Sales for 15 stores that were acquired or opened in the first half of fiscal 2005 increased $7.3 million to $26.9 million for the nine months ended September 30, 2006 from $19.6 million for the same period last year.

Since June 30, 2005, 34 stores have been acquired or opened. Sales for these stores were $15.3 million and $0.3 million for the third quarter of 2006 and 2005, respectively. For the nine months ended September, sales for these stores were $30.9 million for 2006 compared to $0.7 million for 2005.

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

For the three months ended September 30, 2006 Operating Expenses of $55.0 million compare to $37.9 million in 2005. Operating Expenses for the first nine months of 2006 increased to $138.6 million, which were $40.0 million higher than in 2005. These increases are consistent with the increase in number of stores being operated.

Increases in labour costs due to upward pressure on wage rates in Alberta and an increase in staffing levels at head office to accommodate growth added $0.8 million and $1.7 million to operating costs for the third quarter and the nine months, respectively, when compared to the same periods in 2005. Labour cost increases are consistent with management's expectations.

Operating Margin

Operating margin (as defined under Non-GAAP Measures) for the three months ended September 30, 2006 increased by $1.9 million over the same period in 2005 to $5.4 million. The increase in operating margin was due primarily to the increase in the number of stores and improved results from existing stores.

As a percentage of sales, operating margin increased to 8.87% for the quarter compared to 8.47% for the same period last year. During the quarter, the benefits of limited time offers and increases in retail prices were partially offset by increase labour rates.

Operating margin increased to $12.0 million for the nine months ended September 30, 2006 from $8.1 million in 2005. As for the quarter, the increase in operating margin was due primarily to the increase in the number of stores as well as improved results from existing stores.

Operating margin as a percentage of sales was 7.92% for the nine months ended September 30, 2006 compared to 7.63% in 2005. The factors contributing to quarterly performance also benefited the Fund's year-to-date results.

Earnings before Non-controlling Interest and Net Earnings

Earnings before non-controlling interest of $4.7 million for the third quarter of 2006 compared to $3.0 million for the second quarter of 2005. For the nine month period ended September 30, 2006 earnings before non-controlling interest of $9.8 million increased over the same period in 2005, which had earnings before non-controlling interest of $6.6 million.

Net earnings, after the deduction of non-controlling interest and as determined in accordance with GAAP, for the three-month period ended September 30, 2006 increased by $1.5 million to $3.3 million from $1.8 million in 2005. Net earnings for the nine month period increased by $3.0 million over the same six month period in 2005.

Condensed Quarterly Information

	September 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004
	(thousands of dollars except per unit amounts)							
Balance Sheet								
Cash and cash equivalents	$1,683	$276	$2,935	$2,047	$172	$266	$10,199	$179
Total assets	173,736	165,812	141,511	140,806	127,114	118,425	126,040	102,081
Bank indebtedness	28,964	15,495	-	15,493	8,993	-	7,445	11,397
Total current liabilities	32,140	20,481	4,092	20,427	11,628	2,996	10,669	14,107
Long-term debt	2,500	7,500	-	11,352	7,359	7,500	7,481	7,398
Unitholders' equity	105,975	105,115	104,775	67,327	66,648	66,167	66,147	37,814
Non-controlling interest	33,120	32,716	32,643	41,700	41,471	41,762	41,742	42,377
Statement of Earnings								
Sales	60,751	$52,215	$38,021	$50,686	$41,434	$38,505	$26,819	$35,543
Earnings before non-controlling interest	4,678	3,992	1,101	3,676	2,966	2,760	910	2,957
Net earnings for the period	3,332	2,871	684	2,202	1,764	1,637	495	1,496
Basic earnings per unit	$0.39	$0.33	$0.10	$0.38	$0.29	$0.27	$0.10	$0.35
Diluted earnings per unit	$0.39	$0.33	$0.10	$0.37	$0.29	$0.27	$0.10	$0.35
Distributable cash per Unit	$0.43	$0.38	$0.14	$0.44	$0.29	$0.29	$0.14	$0.38

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

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of November 8, 2006:

	Units
Fund Units	10,228,320
Liquor Stores LP Exchangeable LP Units	1,176,680
Liquor Stores LP Subordinated LP Units	2,125,000
	13,530,000

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

During the three months ended September 30, 2006, 2,137 Liquor Stores LP Exchangeable LP Units were exchanged for Fund Units.

Credit Facilities

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

As of September 30, 2006, total indebtedness under all credit facilities was $31.5 million and was primarily related to inventory financing. As acquisitions occur and new stores are opened, credit facilities are utilized as required. Subsequent to September 30, 2006, the long-term debt outstanding at September 30, 2006 was repaid in full.

Capital Expenditures

During the three months ended September 30, 2006, the Fund developed and opened a new store in Kelowna, BC, and one in Edmonton. The Fund completed the purchase of ten retail liquor stores located in Calgary, and one in Leduc, AB. Since December 31, 2005 the number of stores operated by the Fund has increased from 75 to 99. Subsequent to September 30 the Fund has acquired 3 stores. The Fund now operates 102 stores. At September 30, 2006 the Fund had tendered deposits of $1.9 million for acquisitions expected to occur in the fourth quarter.

The Fund will continue to pursue acquisition opportunities and to open new stores. In addition, the replacement of in-store information systems is anticipated to begin in 2007. The improvements in marketing and administrative processes related to this replacement are intended to reduce overheads and enhance the management of retail operations. The preliminary estimate of the cost to replace in-store systems is in the range of $2.0 to $2.5 million. This cost will be treated as growth capital when incurred.

Interest Rate Risk and Sensitivity

The Fund's bank indebtedness and long-term debt bear interest at floating rates based on the bank's prime rate or at short term banker's acceptance rates.

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

Contractual Obligations

The table below sets forth, as of September 30, 2006, the contractual obligations of the Fund, due in the years indicated, related to various premises operating leases and the $2,500,000 non-revolving loan that is due in April of 2008.

	2006	2007	2008	2009	2010	2011 and thereafter
Operating leases	$ 3,195,818	$6,026,769	$5,642,587	$4,614,605	$3,689,585	$11,509,060
Long-term debt			$2,500,000			
Total	$3,195,818	$6,026,769	$13,142,587	$4,614,605	$3,689,585	$11,509,060

Subsequent to September 30, 2006, the $2.5 million long-term debt was repaid in full.

OFF BALANCE SHEET ARRANGEMENTS

The Fund has provided a letter of guarantee in the amount of $1 million to Scimtar Enterprises in respect of the purchase of a store in Chilliwack, British Columbia.

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

CRITICAL ACCOUNTING ESTIMATES

Goodwill

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

Amortization Policies and Useful Lives

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

Purchase Price Allocations

The allocations of the purchases price for acquisitions involve determining the fair values assigned to the tangible and intangible assets acquired. The Fund uses independent 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 tangible and intangible assets stated above.

CHANGES IN ACCOUNTING POLICIES

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

FINANCIAL INSTRUMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

During the quarter and nine months ended September 30, 2006, the Fund incurred professional fees of $109,032 and $155,695 respectively, to a law firm where one of the partners is a director of Liquor Stores GP Inc.(the "GP"), a subsidiary of the Fund. Rent paid to companies controlled by directors of the GP amounted to $21,604 and $75,479 respectively. Further, the Fund paid fees and expenses to a company controlled by the President of the GP relating to supervision of the construction of developed stores and lease administration in the amount $36,246 and $95,317 respectively. Included in accounts payable and accrued liabilities is $1,375 relating to these transactions (see note 7 to the Financial Statements).

OUTLOOK

Beyond 2006, the Fund intends to continue to follow the acquisition and store development strategy that led to an increase in the number of stores to 102 from 75 at the beginning of the year.

We believe there will continue to be a consolidation trend in the industry and that the Fund is well positioned to continue to benefit from this. During the quarter, we opened 2 new stores and acquired 11 stores. Subsequent to September 30, 2006 the Fund acquired 3 stores. The acquisition of 2 more stores is expected to be completed in the fourth quarter and more are currently planned to open in 2007.

SUBSEQUENT EVENT

On October 31, 2006, the Federal Department of Finance announced a new tax on distributions made by publicly traded income trusts and limited partnerships. For existing income trusts, the government has proposed a four-year transition period. The stated purpose of this proposal is to make the tax treatment of income trusts comparable to that of corporations. However, as detailed draft legislation implementing the proposals is not yet available, the full implications to the Fund cannot be determined at this time. In any event, should the proposed tax structure be implemented as broadly outlined, the Fund and its unitholders will not be subject to the new measures until the 2011 taxation year.

These comments are not to be construed as tax advice. The specific changes contemplated are outlined in an official press release from the Department of Finance available at www.fin.gc.ca/news06/06-061_1e.html. Unitholders are advised to seek independent tax advice.

ADDITIONAL INFORMATION

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

RISK FACTORS

The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: risks relating to government regulation; competition; its ability to locate and secure acceptable store sites and to adapt to changing market conditions; risks relating to future acquisitions and development of new stores; failure to successfully integrate acquisitions; dependence on key personnel; the Company's ability to hire and retain staff at acceptable wage levels, risks related to the possibility of future unionization, supply interruption or delays; reliance on information and control systems; dependence on capital markets to fund its growth strategy beyond its available credit facilities; dependence of the Fund on the Company; leverage and restrictive covenants in agreements relating to current and future indebtedness of the

Company; restrictions on the potential growth of Liquor Stores LP as a consequence of the payment by Liquor Stores LP of a substantial amount of its operating cash flow; income tax related risks; and the Vendors' right to approve certain material transactions.

For a discussion of these risks and other risks associated with an investment in Fund Units, see "Risk Factors" detailed the Fund's Annual Information Form, which is available at www.sedar.com.

NON-GAAP MEASURES

References to ''distributable cash'' are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund. Management believes that, in addition to income or loss, cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes are useful supplemental measures of performance. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by unitholders and prospective investors is the cash distributed by the Fund relative to the price of the Fund's trust units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist unitholders and prospective investors in assessing an investment in the Fund.

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

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

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains forward-looking statements. All statements other than statements of historical fact contained in this management's discussion and analysis are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Fund or Liquor Stores Limited Partnership. You can identify many of these statements by looking for words such as ''believes'', ''expects'', ''will'', ''intends'', ''projects'', ''anticipates'', ''estimates'', ''continues'' or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management's discussion and analysis. There can be no assurance that such expectations will prove to be correct.

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

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

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