Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

June 30, 2007
(expressed in Canadian dollars)

Liquor Stores Income Fund

Consolidated Balance Sheets (unaudited)

	June 30, 2007	December 31, 2006
Assets	$	$
Current assets		
Cash and cash equivalents	3,391,266	3,396,967
Accounts receivable	1,976,358	1,524,689
Inventory	68,336,866	49,702,563
Prepaid expenses and deposits (note 4)	1,873,386	1,158,617
	75,577,876	55,782,836
Pre-opening costs	788,741	818,823
Deposits on future acquisitions (note 4)	219,985	1,632,621
Property and equipment	38,627,324	23,040,537
Future income tax asset (note 5)	-	62,400
Intangible assets	37,228,550	806,044
Goodwill	259,960,656	104,953,874
	412,403,132	187,097,135
Liabilities		
Current liabilities		
Bank indebtedness (note 6 (a))	35,106,641	5,455,414
Accounts payable and accrued liabilities	16,214,513	5,365,478
Distributions payable to unitholders (note 13)	2,185,423	1,193,645
Distributions payable to non-controlling interest (note 13)	1,409,651	881,282
	54,916,228	12,895,819
Convertible debentures (note 6 (b))	561,600	-
Future income tax liability (note 5)	12,337,600	-
Non-controlling interest (note 10)	64,880,125	33,495,557
	132,695,553	46,391,376
Contingencies (notes 3 (d) and 11)		
Unitholders' Equity		
Fund Units (note 8)	291,968,133	139,708,519
Equity component of convertible debentures (note 6 (b))	140,400	-
Contributed surplus	219,282	-
Cumulative undistributed earnings (excess distributions)	(12,620,236)	997,240
	279,707,579	140,705,759
	412,403,132	187,097,135

Liquor Stores Income Fund

Consolidated Statements of Operations, Comprehensive Income and Cumulative Undistributed Earnings (unaudited)

	Three months ended June 30		Six months ended June 30	
	2007 **$**	**2006** **$**	**2007** **$**	**2006** **$**
Sales	83,236,400	52,215,489	135,045,529	90,236,213
Cost of sales, operating, administrative, acquisition and store development	77,382,945	47,542,847	125,965,267	83,663,178
Operating earnings before amortization	5,853,455	4,672,642	9,080,262	6,573,035
Amortization				
Property and equipment	1,061,799	466,766	1,629,778	882,808
Intangible assets	299,145	32,139	337,097	61,626
Pre-opening costs	178,132	55,282	304,685	98,357
	1,539,076	554,187	2,271,560	1,042,791
	4,314,379	4,118,455	6,808,702	5,530,244
Interest				
Interest expense on bank indebtedness	319,447	124,653	427,872	319,672
Interest expense on long-term debt	-	1,578	-	116,959
	319,447	126,231	427,872	436,631
Earnings before income tax and non-controlling interest	3,994,932	3,992,224	6,388,830	5,093,613
Future income tax	12,460,000	-	12,462,400	-
Earnings (loss) before non-controlling interest	(8,465,068)	3,992,224	(6,081,570)	5,093,613
Non-controlling interest (note 10)	1,473,360	(1,121,208)	856,394	(1,538,472)
Net earnings (loss) and comprehensive income (loss) for the period	(6,991,708)	2,871,016	(5,225,176)	3,555,141
Cumulative undistributed earnings (excess distributions), beginning of period	(896,683)	(1,078,455)	997,240	336,539
Distributions declared on Fund Units (note 13)	(4,731,845)	(2,586,192)	(8,392,300)	(4,685,311)
Cumulative undistributed earnings (excess distributions), end of period	(12,620,236)	(793,631)	(12,620,236)	(793,631)
Basic earnings (loss) per unit (note 12)	(0.59)	0.33	(0.47)	0.47
Fully diluted earnings (loss) per unit (note 12)	(0.59)	0.33	(0.47)	0.45

Liquor Stores Income Fund

Consolidated Statements of Cash Flows (unaudited)

	Three months ended June 30		Six months ended June 30	
	2007 $	2006 $	2007 $	2006 $
Cash provided by (used in)				
Operating activities				
Net earnings (loss) and comprehensive income (loss) for the period	(6,991,708)	2,871,016	(5,225,176)	3,555,141
Items not affecting cash				
Amortization	1,539,076	554,187	2,271,560	1,042,791
Amortization of inventory fair value adjustment	1,300,000	-	1,300,000	
Other	-	17,292	-	(14,608)
Future income tax	12,460,000	-	12,462,400	-
Equity income	-	(21,381)	-	(28,237)
Non-controlling interest	(1,473,360)	1,121,208	(856,396)	1,538,472
Unit-based compensation	173,519	-	219,282	-
	7,007,527	4,542,322	10,171,670	6,093,559
Net change in non-cash working capital items	5,854,829	(1,719,464)	5,137,575	(2,233,804)
	12,862,356	2,822,858	15,309,245	3,859,755
Financing activities				
Net proceeds from the issuance of Units	-	-	-	30,549,000
Units acquired (note 9)	-	-	(949,986)	-
Increase (decrease) in bank indebtedness	(823,840)	15,494,691	5,613,598	2,039
Proceeds of long-term debt	-	7,500,000	-	7,500,000
Repayment of long-term debt	-	-	-	(11,352,466)
Distributions paid to unitholders	(3,819,633)	(2,586,192)	(7,400,522)	(4,376,823)
Distributions paid to non-controlling interest	(1,202,320)	(992,808)	(2,358,240)	(2,149,253)
Dividends paid to non-controlling interest by subsidiaries	(40,000)	-	(54,866)	-
	(5,885,793)	19,415,691	(5,150,016)	20,172,497
Investing activities				
Acquisition of Liquor Barn net of cash acquired(note 3(a))	(750,811)	-	(750,811)	-
Other business acquisitions (note 3(b))	(2,699,604)	(10,041,874)	(6,893,360)	(10,041,874)
Additional goodwill acquired (note 3(b))	(146,247)	-	(206,755)	-
Deposits on future acquisitions	829,844	(13,485,688)	729,844	(13,485,688)
Purchase of property and equipment	(1,350,261)	(1,175,999)	(1,799,830)	(1,863,551)
Purchase of intangibles	(969,415)	-	(969,415)	-
Pre-opening costs	(213,752)	(171,101)	(274,603)	(365,291)
Repayment from (investment in) equity investee	-	(23,410)	-	(47,550)
	(5,300,246)	(24,898,072)	(10,164,930)	(25,803,954)
Increase (decrease) in cash and cash equivalents	1,676,317	(2,659,523)	(5,701)	(1,771,702)
Cash and cash equivalents balance, beginning of period	1,714,949	2,935,221	3,396,967	2,047,400
Cash and cash equivalents balance, end of period	3,391,266	275,698	3,391,266	275,698

Supplemental disclosure of cash flow information (note 14)

1 Nature of operations and organization

Liquor Stores Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated August 10, 2004.

As at June 30, 2007, the Fund operated 160 (June 30, 2006 – 80) retail liquor stores in Alberta and 28 (June 30, 2006 - 6) retail liquor stores in British Columbia. Of these stores, 177 (June 30, 2006 – 81) were acquired by the Fund and 11 (June 30, 2006 - 5) were developed by the Fund.

2 Significant accounting policies and basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2006. However, these interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto, for the year ended December 31, 2006.

Accounting Policies Adopted in 2007

(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 and provided $12.4 million for future income tax.

(b) 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, and 3865 – Hedges.

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

Accounting Standards Issued but Not Yet Effective

(a) 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.

(b) 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 unchanged its presentation requirements. The Fund is presently will implement these new standards effective January 1, 2008.

(c) 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.

3 Business acquisitions

During the quarter ended June 30, 2007, the Fund completed the acquisition of 83 retail liquor store businesses comprising 81 Liquor Barn retail locations and other acquisition of independently owned retail locations as discussed below. The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase. The purchase price allocations are preliminary and are subject to change once the final valuations of assets acquired are completed and the final determination of costs related to the acquisitions have been made.

(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. The operating results of Liquor Barn are included in the combined results of the Fund from June 8, 2007. The purchase price allocated to the assets acquired and the liabilities assumed, based on their preliminary fair values, is as follows:

	$
Purchase price:	
Issue of Fund Units	143,100,017
Liquor Barn non-controlling interest	45,292,018
Transaction costs payable	2,975,171
Transaction costs paid	1,255,860
	192,623,066
Net assets acquired:	
Working capital (including cash of $505,049)	17,424,784
Property and equipment	14,306,066
Intangible assets	31,837,000
Goodwill	153,846,112
Bank indebtedness assumed	(24,088,896)
Assumption of convertible debentures	(702,000)
	191,623,067

The Fund issued 6,817,533 Units with an assigned value of $20.99 per Unit.
Of the goodwill acquired, $76,669,284 is not deductible for tax purposes.

(b) Other Acquisitions

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:

	Three months ended March 31, 2007	**Three months ended June 30, 2007**	**Six months ended June 30, 2007**
	$	**$**	**$**
Purchase price	4,493,756	3,966,781	8,460,537
Net assets acquired:			
Working capital	992,456	706,163	1,698,619
Property and equipment	526,898	443,530	970,428
Intangible assets	-	2,274,838	2,274,838
Goodwill	2,974,402	542,250	3,516,652
	4,493,756	3,966,781	8,460,537

Of the goodwill purchased in during the six months ended June 30, 2007, $383,183 is not deductible for tax purposes.

(c) During the period, $2,623,515 of goodwill related to prior period acquisitions was reclassified to licenses in intangible assets. In the second quarter, there were adjustments to goodwill for prior period acquisitions of $206,755 relating to contingent payments and transaction costs (quarter ended - March 31, 2007 - $60,508).

(d) 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 five years provided that certain sales thresholds are achieved; ii) 1% of gross sales of certain stores payable quarterly for the next five 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 an agreement entered into in the three months ended March 31, 2007 for the purchase of a certain retail liquor store, the Fund may be required to make a contingent payment of $65,000 provided that a certain sales threshold is achieved.

Six store purchase agreements entered into by Liquor Barn prior to its acquisition include provisions for the payment of contingent consideration based upon target performance based on sales, earnings before interest, taxes and amortization or other measures of cash flow. The maximum consideration that may be payable under the terms of these agreements is $4,746,844.

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.

For an agreement entered into in the three months ended June 30, 2007 for a 50% interest in a retail liquor store, a put option exists which may require the Fund to purchase all remaining assets of the business not earlier than one year following the date of acquisition.

4 Deposits on future acquisitions

At June 30, 2007 the Fund had tendered deposits for future acquisitions of three retail liquor stores in the amount of $219,985 (December 31, 2006 – $1,632,621). Related to these acquisitions are deposits for inventory and working capital in the amount of $307,208 which are included in prepaid expenses and deposits at June 30, 2007 (December 31, 2006 - $306,252). During the three months ended June 30, 2007 the Fund applied future business acquisitions deposits of $382,792 to the purchase of two retail liquor stores. The Fund also received a refund of deposits in the amount of $899,829 and related working capital of $239,082 related to a business acquisition the Fund is no longer pursuing. Additional deposits totalling $169,985 were made during the period.

5 Future income taxes

Prior to June 12, 2007, the Fund provided for current and future income taxes only for its incorporated subsidiaries. On June 12, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), was substantively enacted. As a consequence, Canadian income trusts are required, commencing with their interim periods ending June 30, 2007, 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 31.5%.

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

	June 30, 2007 $	**December 31, 2006** $
Future income tax liabilities:		
Intangible assets	5,277,382	-
Property and equipment	3,924,833	27,832
Goodwill	3,258,631	21,756
Pre-opening costs	35,828	37,194
	12,496,674	87,502
Future income tax assets:		
Deferred lease inducements	21,545	12,373
Non-capital losses	137,529	137,529
	159,074	149,902
	12,337,600	62,400

Future income taxes are not recorded on $115,673,125 of non-deductible goodwill.

6 Bank indebtedness and long-term debt

(a) Bank indebtedness and long-term debt

At June 30, 2007, the Fund's subsidiary, Liquor Stores LP, had an available $32 million operating line, with a seasonal bulge to $38 million between October 1 and February 28. Interest on bank indebtedness is payable at the lender's prime rate. As at June 30, 2007, the bank indebtedness rate of interest was 6.25% (December 31, 2006 – 6.0%) and $11,050,399 (December 31, 2006 - $7,532,285) was drawn on the operating line, offset by outstanding cheques and deposits of $2,154,975 (December 31, 2006 - $2,076,871).

Also at June 30, 2007, the Fund's subsidiary, Liquor Barn LP, had indebtedness of $26,357,972 outstanding, offset by cheques and deposits of $157,288, under its credit facility. At the time of its acquisition Liquor Barn LP was not in compliance with a number of covenants under the term of its credit facility agreement. Subsequent to June 30, 2007, the Liquor Barn LP credit facility was repaid and the facility was cancelled. The repayment was funded by a draw on the Liquor Stores LP credit facility.

Interest on long-term debt is payable at the lender's prime rate plus 0.25%. As of June 30, 2007 the effective long-term debt rate of interest was 6.25% (December 31, 2006 – 6.25%). There was no long-term debt outstanding at June 30, 2007 or December 31, 2006.

The Fund has an available $30.8 million credit facility consisting of a $14.5 million committed non-revolving loan to be used in financing capital assets of the Fund, a $15 million committed non-revolving loan to assist in financing the acquisition and development of liquor stores, a $0.65 million demand loan to cover electronic funds transfer payments, and a $0.65 million demand non-revolving loan to be used in financing motor vehicle and other asset acquisitions.

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

On August 7, 2007, the Fund entered into a new credit facility agreement with a syndicate of Canadian chartered banks (see note 17).

(b) Convertible Debentures

The Fund assumed 8% unsecured subordinated convertible debentures (the "Debentures") maturing December 31, 2011 with a fair value of $702,000 when it acquired Liquor Barn. The fair value of the conversion feature at the time of the acquisition was $140,400 and this amount is presented as a component of equity.

The Debentures have a principal amount of $500,000 and are convertible into Units of the Fund at the option of the holder at a conversion price of $15.09 per Unit. Interest on the Debentures is payable on June 30 and December 31 of each year.

The Debentures are not redeemable before December 31, 2009 (the "First Call Date"). On and after the First Call Date and prior to December 31, 2010, the Debentures can be redeemable in whole or in part from time to time, at the Fund's option, at par plus accrued and unpaid interest, provided that 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 given is not less than 125% of the conversion price. On and after December 31, 2010, the Debentures will be redeemable at the Fund's option at any time at par plus accrued and unpaid interest.

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 Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

The Fund will have the right at any time to purchase the Debentures in the market (if possible), by tender, or by private contract.

7 Related party transactions

A director of a subsidiary of the Fund is a partner in a law firm to which, during the three month and six month periods ended June 30, 2007, the Fund incurred professional fees of $71,662 and $161,079 respectively. Rent paid to companies controlled by directors of a subsidiary of the Fund amounted to $18,967 and $40,001 respectively. 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 and lease administration, in the amount $4,832 and $15,506 respectively. This arrangement ended during the period. The Fund entered into a lease for new office premises with payments beginning June 1, 2007 with a company associated with the Chief Executive Officer. The Fund has received independent fairness and legal opinions concerning the terms of the lease. Rent under this lease commences July 1, 2007. 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 $8,587 (December 31, 2006 - $4,307) relating to these transactions.

8 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs $	Net capital contributions $
Balance – December 31, 2006	10,228,320	10,271,305	139,708,519
Issued for Exchangeable Liquor Stores LP Units	1,425	-	14,231
Units issued on March 9, 2007	2,492	-	50,014
Issued June 8, 2007 for the Liquor Barn acquisition	6,817,533	-	143,100,017
Issued for Exchangeable Liquor Barn LP Units	480,158	-	10,095,352
Treasury Units	(46,543)	-	(1,000,000)
Balance – June 30 ,2007	17,483,385	10,271,305	291,968,133

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 three months ended March 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 9 (a)) and the 2007 Incentive Plan (note 9 (c)).

9 Unit-based compensation plans

a) Long term incentive plan

The Fund has adopted a long-term incentive plan (the “Plan”) 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 Plan will be remitted to the participant when the Units become vested.

The Plan is managed through a separate trust, which is considered a variable interest entity. As the Fund is the primary beneficiary, the Fund consolidates the Plan 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 25% of any excess over 20%

The following table summarizes the status of the Plan:

	Three and six months ended June 30	
	2007	**2006**
	#	**#**
Unvested Units, beginning of period	492	-
Granted	2,492	-
Vested Units transferred to participants	(292)	-
Unvested Units, end of period	2,692	-

On March 9, 2007, 2,492 Units were granted and issued from treasury at a price of $20.07 per Unit for a total cost of $50,014. The compensation expense will be recognized over the vesting period of three years. Compensation expense for the three and six months ended June 30, 2007 was $8,676 and $10,964 respectively (June 30, 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 three and six months ended June 30, 2007 totalled $34,069 and $92,703 respectively (2006 - $ nil), which were recorded as compensation expense in the period. As at June 30, 2007 participants have accumulated an entitlement to the equivalent cash value of 9,412 Units under the DSU Plan (December 31, 2006 – 5,183).

c) 2007 Incentive Plan

A special one-time discretionary compensation plan (the "2007 Plan") was implemented in the first quarter of 2007 in order to 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. The Units will vest over a three-year period from the March 7, 2007 grant date to January 7, 2010. The monthly cash distributions received by the 2007 Plan will be remitted to the participant when the Units become vested.

The following table summarizes the status of the 2007 Plan:

	Six months ended June 30	
	2007	**2006**
	#	**#**
Unvested Units, beginning of period	-	-
Granted	43,851	-
Vested Units transferred to participants	-	-
Unvested Units, end of period	43,851	-

$950,000 was granted effective March 7, 2007 to purchase Units under the 2007 Plan. In total, 43,851 Units were purchased in the open market at an average price of $21.66 per Unit. The $950,000 compensation expense will be recognized over the vesting period of three years. Compensation expense of $164,843 and $208,318 respectively was recorded for the three and six months ended June 30, 2007 (June 30, 2006 - $ nil).

10 Non-controlling Interest

Exchangeable and Subordinated Unitholders

	Exchangeable LP Units #	Subordinated LP Units #	Total #
Liquor Stores Limited Partnership			
Balance – December 31, 2006	1,176,680	2,125,000	3,301,680
Exchanged for Fund units	(1,425)	-	(1,425)
Balance – June 30, 2007	1,175,255	2,125,000	3,300,255
Fund Special Voting Units – June 30, 2007	1,175,255	2,125,000	3,300,255
	$	**$**	**$**
Balance – December 31, 2006	11,879,798	21,468,318	33,348,116
Earnings	127,621	230,765	358,386
Exchanged for Fund Units	(14,231)	-	(14,231)
Distributions declared (note 13)	(862,266)	(1,558,475)	(2,420,741)
Balance – June 30, 2007	11,016,064	20,140,610	31,271,534
	#	#	#
Liquor Barn Limited Partnership			
On an equivalent Fund Unit basis			
Balance – June 8, 2007	1,027,651	1,130,139	2,157,790
Exchanged for Fund Units	(480,158)	-	(480,158)
Balance – June 30, 2007	547,593	1,130,139	1,677,632
	$	**$**	**$**
Balance – June 8, 2007	21,559,001	23,733,017	45,292,018
Earnings	(428,921)	(885,175)	(1,314,097)
Exchanged for Fund Units	(10,095,352)	-	(10,095,352)
Distributions declared (note 13)	(68,437)	(397,432)	(465,869)
	10,966,291	22,450,410	33,416,700
Subsidiaries			
Balance - December 31, 2006			147,441
Earnings			99,317
Dividends paid			(54,867)
Balance – June 30, 2007			191,891
Total			64,880,125

11 Contingencies

On May 3, 2007 a claim of approximately $1.5 million against Liquor Barn LP alleging breaches of contract related to the acquisition agreement was filed by one of the vendors from the Liquor Barn IPO transaction. On May 18, 2007, Liquor Barn LP filed a statement of defence. The Fund has accrued $227,641 in respect of this claim.

On January 9, 2007, the Fund filed a Statement of Claim in the amount of $4,500,000 against Branch of the Willow et al for damages relating to breach of the terms of agreement, breach of non-competition agreements, breach of good faith and failure to act upon their express and implied obligations. On May 16, 2007, Branch of the Willow et al filed a statement of defence. No amounts are recorded in the accounts of the Fund with respect to this claim.

The outcomes of all of the claims are uncertain. The settlement of any of these claims in amounts different than those accrued in the Fund's accounts will be accounted for in the period of resolution.

12 Earnings (loss) per Unit

	For the three months ended June 30		For the six months ended June 30	
	2007	2006	2007	2006
	$	$	$	$
Net Earnings (loss) (numerator utilized in basic Earnings per Unit)	(6,991,708)	2,871,016	(5,225,176)	3,555,141
Non-controlling interest	1,473,845	(1,121,208)	856,396	(1,538,472)
Earnings (loss) (numerator utilized in diluted Earnings per Unit)	(8,465,068)	3,992,224	(6,081,572)	5,093,613
	#	#	#	#
Units outstanding, beginning of period	10,223,600	8,620,642	10,228,320	6,179,683
Weighted average of Units issued less treasury Units acquired	1,664,022	972	813,030	1,452,774
Denominator utilized in basic earnings per unit	11,887,624	8,621,614	11,041,351	7,632,457
Exchangeable and Subordinated Units	3,724,513	3,308,386	3,513,464	3,648,654
Denominator utilized in diluted earnings per unit	15,612,137	11,929,450	14,554,815	11,281,111
Earnings (loss) per Unit – Basic	($0.59)	$0.33	($0.47)	$0.47
Earnings (loss) per Unit – Fully Diluted	($0.59)	$0.33	(0.45)	$0.45

13 Distributions

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling $0.375 (2006 - $0.30) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Subordinated LP Units were declared by the Fund for the three months ended June 30, 2007.

		Fund Units		Liquor Stores Exchangeable LP Units and Subordinated LP Units		Liquor Barn Exchangeable LP Units and Subordinated LP Units		Total	
Date distribution declared	Date distribution paid	Declared $	Paid $	Declared $	Paid $	Declared $	Paid $	Declared $	Paid $
January 15, 2007	February 15, 2007	1,193,622	1,193,622	137,319	137,319	-	-	1,330,941	1,330,941
February 15, 2007	March 15, 2007	1,193,622	1,193,622	137,319	137,319	-	-	1,330,941	1,330,941
March 15, 2007	April 13, 2007	1,273,211	1,273,211	908,507	908,507	-	-	2,181,718	2,181,718
April 13, 2007	May 15, 2007	1,273,211	1,273,211	146,907	146,907	-	-	1,420,118	1,420,118
May 15, 2007	June 15, 2007	1,273,211	1,273,211	146,907	146,907	-	-	1,420,118	1,420,118
June 15, 2007		2,185,423		943,782		465,869	-	3,595,074	-
		8,392,300	6,206,877	2,420,741	1,476,959	465,869	-	11,278,910	7,683,836

14 Supplemental disclosure of cash flow information

	For the three months ended June 30		For the six months ended June 30	
	2007 $	2006 $	2007 $	2006 $
Interest paid	319,447	126,231	427,872	436,631
Income taxes paid	64,254	-	64,532	-

15 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.

16 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.

17 Subsequent events

Subsequent to June 30, 2007, the fund acquired one retail liquor store at an approximate cost, excluding inventory, of $750,000.

On August 7, 2007, the Fund entered into a new credit facility agreement with a syndicate of Canadian chartered banks. The credit available under the this facility comprises a $90 million demand operating loan, a $30 million committed non-revolving capital loan, a $4 million guarantee and a $3.5 million to facilitate electronic payments. The total of all credit available under these facilities is $127.5 million.

The terms and conditions of the new facilities are substantially the same as under the previous agreement. 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 partnerships' insurance. The assets of Liquor Stores LP represent substantially all of the Fund's assets.