LIQUOR DEPOT

LIQUOR STORES INCOME FUND

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

For the Three Months Ended March 31, 2008
As of May 8, 2008

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

This managementôs discussion and analysis (ñMD&Aò) should be read in conjunction with the interim consolidated financial statements (the ñFinancial Statementsò) and accompanying notes of Liquor Stores Income Fund (the "Fund") for the three months ended March 31, 2008 and the annual consolidated financial statements and accompanying notes of 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 (ñGAAPò). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to ñdistributable cashò, ñdistributable cash before non-recurring itemsò, ñoperating marginò, ñoperating margin before non-recurring itemsò, ñoperating margin as a percentage of salesò, ñpayout ratioò and other ñNon-GAAP Measuresò. A description of these measures and their limitations are discussed below under ñNon-GAAP Measuresò. See also ñRisk Factorsò and ñForward-Looking Statementsò below.

This MD&A is dated May 8, 2008.

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

OUTLOOK

The Fund has experienced significant growth following its June 2007 acquisition of 81 Liquor Barn stores. There is a lack of publicly available information for the combined operation and there are a number of variables that have arisen from the acquisition. The Fund is expecting distributable cash per Unit for the full year 2008 will increase by 3% to 5% compared to 2007. This is based on a number of assumptions about future expectations. For more information about these expectations, see Future Orientated Financial Information below.

The Fund will focus its growth strategy on acquisitions in British Columbia and the development of new stores in Alberta. To date in 2008, the Fund has acquired or opened six stores in Alberta and expects to open a further eight to ten stores in Alberta and British Columbia in the remainder of 2008. Other Canadian provinces are being monitored for future growth opportunities.

The Fund is also pursuing opportunities to expand its operation into the United States. Currently there are over 30 states that allow private liquor sales. The Fund expects to acquire several stores in the United States in 2008. Management believes that the return on investment (**"ROI"**) for retail liquor stores in the United States is comparable to the Fundôs experience acquiring stores in Alberta and British Columbia even though operating margin as a percentage of sales for stores operating in the United States will be lower.

The Fund has the financial resources and has, or can recruit, the human resources required to support its anticipated growth. The aggregate net proceeds of $55 million from the issue of 6.75% convertible, unsecured, subordinated debentures combined with the Fundôs credit facilities are sufficient to execute the Fundôs growth strategy for some time.

Longer term, the Fund remains well within its ñsafe harbourò 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 ñsafe harbourò limit of approximately $220 million.

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 (ñUnitsò) of the Fund trade on the Toronto Stock Exchange under the symbol LIQ.UN. The Fundôs 6.75% Convertible Unsecured Subordinated Debentures (ñ6.75% Debenturesò) trade on the Toronto Stock Exchange under the symbol LIQ.DB. Through its ownership of Liquor Stores Limited Partnership (ñLiquor Stores LPò), the Fund operates 201 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 (ñLiquor Barn LPò) the operator of 62 retail liquor stores in Alberta and 19 retail liquor stores in British Columbia. During the period from 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 35,268 Units to increase its indirect interest in Liquor Stores LP to 81.68%.

On January 15, 2008, the underwriters of the 6.75% Debentures issued in December 2007 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 six retail liquor stores and currently has commitments to open a further eight new stores in Alberta and British Columbia in 2008.

Stores and Operations

As at May 8, 2008, the Fund operates 201 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	47	48	12	11	8	201

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 (8), 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 170 liquor stores in Alberta where there are approximately 1,100 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 operates 31 stores and three small associated pubs in British Columbia. The Province of British Columbiaôs model for liquor distribution is a blend of approximately 630 private stores and 200 government operated stores. There are also approximately 230 private agency stores that service small communities.

Distributable Cash and Cash Distributions

The Fundôs 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 provisions for the Fundôs 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 three months ended March 31, 2008 were $9.1 million or $0.405 per Unit. On a weighted average basis, for the quarter ended March 31, 2008 distributable cash before non-recurring items was $0.19 compared to $0.20 for 2007, a decrease of 5%. After non-recurring items, distributable cash per weighted average unit was $0.17 for the first quarter of 2008. Since inception, distributable cash has exceeded cash distributions by $1.1 million resulting in a cumulative payout ratio of approximately 98%. For 2008, the Fund expects the payout ratio to be approximately 90% which is consistent with 2007.

Due to seasonal variations of the retail liquor industry, distributable cash is typically less than actual distributions early in the year, but exceeds distributions in the latter portion of the year. Approximately 45% of the Fundõs sales occur in the first half of the year and approximately 55% occur in the second half.

Effect of Trust Tax Legislation

On June 22, 2007, Bill C ï 52, including the provisions related to the taxation of income trusts (the ñSIFT Rulesò), 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 ñCapital Expendituresò below.

Distributable Cash

The Fund views distributable cash as an important supplementary measure to assist unitholders in evaluating the Fundõs performance as the Fundõs 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, the issuance of convertible debentures or through other forms of long-term debt. Financing of the Fundõs 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 (ñnon-growth property and equipmentò). 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 Fundõs 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 Fundós long-term incentive plans occurs subsequent to the approval of the Fundós annual financial statements. For accounting purposes, the compensation expense related to the unit-based incentive plans is recognized as awards vest.

Subject to unitholder approval, the Fund plans to adopt a unit award incentive plan (the ñUAIPò). Under the UAIP, awards of restricted units and performance units may be granted. Under the UAIP, it is intended that restricted unit awards generally vest and be issued equally over the three year period following the award of restricted units. Awards of performance units are subject to a multiplier of between zero and to a maximum of two depending on performance criteria. Under the UAIP, these performance criteria and the vesting period for the performance units will be determined from time to time by the board of directors of Liquor Stores GP Inc.

Once the outcome of the unitholder vote related to the UAIP at the annual general meeting is known, the Fund will finalize its compensation strategy related to long-term incentives plans. The award to be granted under the UAIP in 2009 will be based on the achievement of objectives for 2008.

Distributable Cash

The following table provides the calculation of the distributable cash of the Fund for the three months ended March 31, 2008 and 2007:

	Three months ended March 31		
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**% Change**
Cash provided by operating activities	$ 2,925	$ 2,448	19%
Net change in non-cash working capital	940	714	32%
Incentive plan provisions	-	(273)	-
Provision for non-growth property and equipment	(112)	(133)	-16%
Distributable cash	3,753	2,756	23%
Non-recurring items [(1)]	500	-	-
Distributable cash before non-recurring items	4,253	2,756	54%
Weighted average units outstanding	# 22,489,571	# 13,525,040	67%
Distributable cash before non-recurring items per weighted average Unit	$ 0.19	$ 0.20	-5%
Distributable cash per weighted average Unit	$ 0.17	$ 0.20	-15%
Distributions declared per Unit	$ 0.41	$ 0.36	14%

(1) See “Operating Results” below for a description of “non-recurring items.”

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. For the three months ended March 31, 2008, $3.1 million ($0.14 per diluted Unit) was charged to earnings in respect of future income taxes (a non-cash item) and $0.5 million ($0.02 per diluted Unit) in respect of non-recurring items described under operating results. The remaining $0.08 decease is the result of changes in other operating cash components including non-cash interest expense and amortization. As a result of these charges, diluted earnings per Unit for the three months ended March 31, 2008 were ($0.07) compared to $0.17 in the same period of 2007.

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 Fundôs accounts for repairs and maintenance:

	Three months ended March 31,		
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**% Change**
Purchase of property and equipment	$ 1,433	$ 450	218%
Growth expenditures including amounts relating to developed stores	(1,221)	(317)	285%
Purchase of non-growth property and equipment	212	133	59%
Provision for further non-growth property and equipment expenditures	(100)	-	-
Total provision for non-growth property and equipment	112	133	-16%
Repairs and maintenance expense	235	113	108%
Total expenditures for non-growth property and equipment purchases and repairs and maintenance expense	$ 347	$ 246	41%

Operating Results

The following table summarizes the operating results for the quarter ended March 31, 2008, operating results for the three months ended March 31, 2007 and proforma operating results based on proforma financial statements for the three months ended March 31, 2007 included in the Fundôs Business Acquisition Report (the **“BAR”**) filed June 29, 2007 in respect of the acquisition of Liquor Barn Income Fund.

The retail liquor industry is subject to 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 acquisition of the Liquor Barn stores in the second quarter of 2007 and the measures subsequently taken to improve the performance of these stores has had a significant effect on the operating results of the Fund. In order to provide a meaningful discussion of the Fundôs comparative operating results, management has chosen to make a comparison of the Fundôs operating results for the three months ended March 31, 2008 to the proforma combined operating results of the Fund and Liquor Barn Income Fund for the three months ended March 31, 2007 as presented in the BAR.

	Three Months ended March 31					
	2008 Fund		**2007 Fund**		**2007 Fund Proforma (note 1)**	
(expressed in thousands of Canadian dollars)	**$**	**%**	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)		(unaudited)	
Number of stores at March 31	198		105		175	
Sales	94,422	100.00%	51,809	100.00%	83,469	100.00%
Gross margin	23,442	24.83%	12,968	25.03%	19,319	23.15%
Operating and administrative expense	18,477	19.57%	9,744	18.80%	15,290	18.32%
Operating margin (note 2)	4,965	5.26%	3,224	6.22%	4,029	4.83%
Non-recurring items (note 3)	500	0.53%	-	-	-	-
Operating margin (note 2) before non-recurring items	5,465	5.79%	3,224	6.22%	4,029	4.83%

Notes:

(1) *Fund Proforma refers to the combined results of the Fund and Liquor Barn Income Fund for the three months ended March 31, 2007 as presented in the BAR.*

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

(3) *Non-recurring items in the first quarter of 2008 include recruitment and relocation expenses as well as extraordinary consulting and professional fees.*

First Quarter 2008 Operating Results Compared to
First Quarter 2007 Operating Results

Sales

For the three months ended March 31, 2008 sales were $94.4 million up 82.2% from $51.8 million in the same period last year. The sales increase comprises:

- The sales for 81 Liquor Barn stores acquired in the second quarter of 2007 including sales of $29.6 million for 66 Liquor Barn stores in operation at December 31, 2006 and $7.4 million for 15 stores purchased in the period January 1, 2007 to June 8, 2007.

- The increase in same store sales of $2.7 million or 6.22% for 99 Liquor Depot stores reflects the extra day of leap year in 2008 and Easter falling in the first quarter of 2008, compared with the second quarter in 2007.

- Other stores opened or acquired subsequent to December 31, 2006 and licensee stores accounted for the remaining $2.9 million sales increase.

Gross Profit and Gross Margin

For the three months ended March 31, 2008 gross profit was $23.4 million, up 80% from $13.0 million for the same period last year. As a result of sales harmonization of Liquor Barn stores to Liquor Depot stores, blended gross margin was 24.83% of sales in the first quarter of 2008, down from 25.03% of sales a year earlier.

Operating and Administrative Expense

Operating and administrative expense for the three months ended March 31, 2008 was $18.5 million, up 90% from $9.7 million a year earlier. Operations involved 198 stores in the first quarter of 2008, up 89% from 105 stores during the same period last year.

Operating Margin

Operating margin before non-recurring items for the three months ended March 31, 2008 was $5.5 million up 69% from $3.2 million for the same period last year. This change is due primarily to the acquisition of the Liquor Barn stores.

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

The Fund, in accordance with GAAP, follows the asset and liability method of accounting. With the substantive enactment of the SIFT Rules in 2007, the asset and liability method of accounting requires the Fund to record a non-cash future tax provision. Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property, plant and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable in various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

In the quarter ended March 31, 2008, the Fund revised its estimate of temporary differences pertaining to certain goodwill, property, plant and equipment, and intangible assets balances, which, along with other changes in temporary differences, resulted in a net increase in future income taxes of $3.1 million.

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

Net loss before non-controlling interest decreased by $3.8 million to $1.4 million compared with net income before non-controlling interest of $2.4 million for the same period in 2007. The decrease is attributed mainly to the recording of the future income tax adjustment of $3.1 million, an increase in interest expense related to the 6.75% Debentures issued in December 2007, the 6.75% Debenture over-allotment issued in January 2008 and the long-term debt outstanding under the credit facility.

First Quarter 2008 Operating Results Compared to
First Quarter 2007 Proforma Operating Results
(BAR Comparison)

The acquisition of the Liquor Barn stores in the second quarter of 2007 and the measures subsequently taken to improve the performance of these stores has had a significant effect on the operating results of the Fund. In order to provide a meaningful discussion of the Fundôs comparative operating results, management has chosen to make a comparison of the Fundôs operating results for the three months ended March 31, 2008 to the proforma combined operating results of the Fund and Liquor Barn Income Fund for the three months ended March 31, 2007 as presented in the BAR. These results are as follows:

Sales

Sales for the first quarter ended March 31, 2008 were $94.4 million, up 13% from $83.5 million on a proforma basis in the first quarter of 2007. The $10.9 million increase comprises:

- In 2007, 28 stores, including 15 Liquor Barn stores, were opened or acquired and one store was closed. Sales for these stores and six stores with significant licencee sales increased to $18.7 million for the three months ended March 31, 2008 from $8.9 million for the same period in 2007.

- An increase in same store sales of $2.7 million or 6.22% for 99 comparable Liquor Depot stores and a decrease of $1.6 million on a proforma basis or 5.03% for 66 comparable Liquor Barn stores. On a combined basis, same store sales increased $1.1 million on a proforma basis or 1.52%. The increase is due to the following:

    - The first quarter of 2008 included an extra day of operations due to leap year. Also, the Easter long weekend fell in the first quarter of 2008 and the second quarter of 2007.

    - Harmonization of retail prices in the Liquor Barn stores with those of the Liquor Depot stores and the enforcement of more stringent credit policies in the Liquor Barn stores led to a same store sales decrease for the Liquor Barn stores. Similar measures taken with respect to the Fundôs Liquor World stores led to the Fund reporting a 2.53% decrease in same store sales in the first quarter of 2005 from a year earlier, even though Easter fell in the first quarter of 2005 and in the second quarter of 2004 and a similar result is expected for the Liquor Barn stores.

    - Certain stores were negatively affected by city construction projects and the impact of reduced forestry and gas exploration activity.

Gross Profit and Gross Margin

Gross profit for the three months ended March 31, 2008 was $23.4 million, up 21% from $19.3 million on a proforma basis a year earlier. Gross margin as a percentage of sales for the three months ended March 31, 2008 was 24.83% compared with 23.15% on a proforma basis for the same period in 2007. The improvement in gross margin as a percentage of sales relates principally to the harmonization of Liquor Barn retail prices with those of the majority of the Fundôs other stores.

Operating and Administrative Expense

Operating and administrative expense before non-recurring items for the three months ended March 31, 2008 was $18.0 million up 17.6% from $15.3 million on a proforma basis for the same period in 2007. Including non-recurring items, operating and administrative expenses were $18.5 million for the three months ended March 31, 2008. The number of stores operated in the three months ended March 31, 2008 was 198, up 13% from a proforma 175 a year earlier. Payroll for comparable stores increased by approximately 11%. This increase is due to inflation in hourly wages rates, the extra day of operations and staffing for the Easter long weekend.

Operating Margin

As a result of the matters discussed above, operating margin (as defined under **“Non-GAAP Measures”**) for the three months ended March 31, 2008 was $5.5 million up 37.5% from $4.0 million on a proforma basis for the same period in 2007.

Annual operating margin as a percentage of sales for 2008 is expected to be comparable to that achieved in 2007. Improvements in the remainder of the year relative to the three months ended March 31, 2008 include:

- Normal seasonal improvements as sales increase through the year,
- A slowing pace for labour cost inflation; and
- Second quarter and, to a lesser extent, third quarter synergies related to the acquisition of the Liquor Barn stores.

Condensed Quarterly Information

(expressed in thousands of Canadian dollars, except per Unit amounts)

	2008	2007				2006		
	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30
Balance Sheet								
Cash and cash equivalents	$ 768	$ 19,498	$6,891	$ 3,391	$ 1,715	$ 3,397	$ 1,683	$ 276
Total assets	434,784	449,725	427,986	412,403	188,311	187,097	173,736	165,812
Bank indebtedness	-	-	37,198	35,107	11,893	5,455	28,964	15,495
Total current liabilities	14,098	14,062	55,403	54,916	17,489	12,895	32,140	20,481
Long-term debt	65,859	74,014	15,562	562	ï	ï	2,500	7,500
Statement of Earnings								
# stores	198	195	193	188	105	105	99	86
Sales	$ 94,422	$ 125,920	$ 122,097	$ 83,236	$ 51,809	$ 71,010	$ 60,751	$ 52,215
Future tax expense (recovery)	3,062	(3,043)	943	12,460	-	-	-	-
Earnings (loss) before non-controlling interest	(1,420)	12,017	7,182	(8,465)	2,383	6,206	4,677	3,992
Net earnings (loss) for the period	(1,210)	9,784	5,325	(6,992)	1,766	4,627	3,332	2,871
Basic earnings (loss) per Unit	$ (0.07)	$ 0.54	$ 0.30	$ (0.59)	$ 0.17	$ 0.45	$ 0.39	$ 0.33
Diluted earnings (loss) per Unit	$ (0.07)	$ 0.52	$ 0.30	$ (0.59)	$ 0.17	$ 0.45	$ 0.39	$ 0.33
Distributable cash before non-recurring items per Unit	$ 0.19	$ 0.49	$ 0.52	$ 0.41	$ 0.20	$ 0.45	$ 0.40	$ 0.38
Distributable cash per Unit	$ 0.17	$ 0.48	$ 0.49	$ 0.41	$ 0.20	$ 0.45	$ 0.40	$ 0.38
Distributions declared per Unit	$ 0.405	$ 0.385	$ 0.375	$ 0.375	$ 0.358	$ 0.34	$ 0.30	$ 0.30

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of May 8, 2008:

	Units
Fund Units [(1)]	18,424,193
Liquor Stores LP Exchangeable LP Units	3,287,367
Liquor Stores LP Series 1 Exchangeable LP Units	845,409
	22,556,969

Note:
(1) *Includes 79,345 treasury Units held in respect of long term incentives plans*

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

Credit Facilities

The Fund has 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 available credit facilities is $127.5 million.

As of March 31, 2008, there was no outstanding balance on the operating line. There was $15 million drawn on the long-term Capital/Acquisition that has a term expiring May 31, 2009, which is expected to be renewed prior to that time. As acquisitions occur and new stores are opened, credit facilities will be utilized as required.

The Fundôs indebtedness is subject to a number of external covenants, but none are capital related. Under the terms of the Fundôs credit facility, the following ratios are monitored: adjusted debt to EBITDAR, current ratio and fixed coverage ratio. For the three months ended March 31, 2008, the Fund has been in compliance with all covenants.

Capital Expenditures

During the three months ended March 31, 2008, the Fund opened three stores. Subsequent to March 31, 2008, the Fund acquired three stores.

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 ñnormal growthò during the transitional period, any ñundue expansionò could result in the transition period being ñrevisitedò, 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 ñnormal growthò in this context. Specifically, the Department of Finance stated that ñnormal growthò would include equity growth within certain ñsafe harbourò limits, measured by reference to a specified investment flow-through trust or partnership's (ñSIFTò) 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 does not include 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 20% of the market capitalization benchmark for calendar years 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; and

(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.

(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 ended December 31, 2007 was approximately $119 million. Of this amount, approximately $69 million was utilized through new equity issuances which were partially offset by debt replacement. For 2008, the available amount is $109.6 million which includes $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 of $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.

Credit Risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund maintains its cash and cash equivalents with a major Canadian chartered bank. The Fund, in its normal course of operations, is exposed to credit risk from its licencee customers in Alberta whose purchases represent less than 10% of the Fund's sales. Risk associated with respect to accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. 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 industries.

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 manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund as at March 31, 2008, assuming an outstanding debt balance of $15,000,000.

(expressed in thousands of Canadian dollars)	**+ 1.00%**	**- 1.00%**
Increase (decrease) in interest expense	$ 150	$ (150)
Increase (decrease) in net earnings before income tax and non-controlling interest	(150)	150

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. The Fund has a $10 million US dollar currency forward contract, which has been renewed for an additional 30 to 60 days as the original contract was due on May 1, 2008. The fair value of the unrealized gain has been recorded in the financial statements of the Fund at March 31, 2008.

Liquidity risk

To fund acquisitions, the Fund is reliant on credit facilities and proceeds from the issuance of Units or debt on the open market. The Fund has long-term indebtedness with a maturity date of May 31, 2009, 8.00% Debentures maturing on December 31, 2011 and 6.75% Debentures maturing on December 31, 2012. The Fund also plans to continue paying distributions on Units at the current rate. The degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance growth acquisitions. The Fund may be unable to extend the maturity date of the credit facilities or to refinance outstanding indebtedness.

To reduce liquidity risk, the Fund has historically renewed credit terms prior to maturity dates and maintained financial ratios that are conservative compared to financial covenants applicable to the credit facilities. The Fund has made payments on outstanding long-term debt balances in advance of maturity dates. In addition, a portion of the Fund's short and long-term credit facilities remain undrawn. Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility agreement.

Contractual Obligations

The table below sets forth, as of March 31, 2008, the contractual obligations of the Fund, due in the years indicated and relates to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands of Canadian dollars)	2009	2010	2011	2012	2013	2014 and thereafter
Operating leases	$ 15,199	$ 15,698	$ 16,280	$ 16,962	$ 17,327	$ 26,152
Long-term debt	15,000	-	-	-	-	-
Debentures	-	-	500	57,500	-	-
Total	$ 30,199	$ 15,698	$ 16,780	$ 74,462	$ 17,327	$ 26,152

OFF BALANCE SHEET ARRANGEMENTS

At March 31, 2008, the Fund had a $10 million US dollar 90 day currency forward exchange contract, which was originally due on May 1, 2008, and has subsequently been renewed for an additional 30 to 60 days beyond the original term.

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 allocation of the purchase price for acquisitions involves 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.

Future income taxes

Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property, plant and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures, Financial Instruments, and Inventories

New accounting standards are in effect for fiscal years beginning on or after January 1, 2008 for capital disclosures, financial instruments and inventories. Effective January 1, 2008, the Fund has adopted Canadian Institute of Chartered Accountants (ñCICAò) Handbook sections 1535 ï Capital Disclosures, 3862 ï Financial Instruments ï Disclosures, 3863 ï Financial Instruments ï Presentation, and 3031 ï Inventories.

While the adoption of these standards resulted in additional financial statement presentation and disclosures, which are included in notes 11 and 16 and the statements of earnings, no accounting policy changes or adjustments to amounts recorded in prior periods were necessary.

Goodwill and Intangible Assets

This new standard, CICA Handbook section 3064, 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. Concurrent with the adoption of this standard, EIC 27 ï Revenues and Expenditures during the Pre-operating period, will be withdrawn. This will result in a change to the Fundôs accounting for store pre-opening costs as these costs will no longer be capitalized as an asset. The impact of adopting this standard is not expected to be material to the Fundôs financial statements.

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed on February 13, 2008, that International Financial Reporting Standards will replace Canadaôs current generally accepted accounting principles for the financial statements of publicly accountable enterprises effective January 1, 2011. The Fund is presently evaluating the impact these standards will have on the financial statements.

FINANCIAL INSTRUMENTS

The Fund, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest, and long-term debt including convertible unsecured subordinated debentures. The Fund does not enter into financial instruments for hedging or speculative purposes. Financial assets are classified as available for sale, held to maturity, trading, or loans and receivables. Financial liabilities are classified as other financial liabilities.

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 ended March 31, 2008, the Fund incurred professional fees of $108,894 to a law firm of which a director of Liquor Stores GP Inc. (the ñLiquor Stores GPò), a subsidiary of the Fund, is a partner. Rent paid to companies controlled by directors of the GP amounted to $122,926. The Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the GP for tax services of $33,565 for the three months ended March 31, 2008 (see note 14 to the Financial Statements).

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Fund's internal controls over financial reporting (as defined under MI 52-109) that occurred during the three months ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

RISK FACTORS

The Fundôs 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 Fundôs 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 ñRisk Factorsò detailed in the Fundôs Annual Information Form, which is available at www.sedar.com.

NON-GAAP MEASURES

References to óódistributable cashôô 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 Fundôs 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 ñDistributable cash per unit (Fund Units, Exchangeable and Subordinated LP Units)ò.

Operating margin for purposes of disclosure under ñOperating Resultsò has been derived by adding interest expense, amortization of inventory fair value adjustments, 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 before non-recurring items has been derived by adding non-recurring items to operating margin as described above.

ñPayout ratioò 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.

FUTURE ORIENTED FINANCIAL INFORMATION

In this MD&A, management has made statements and projections concerning future orientated financial information. In respect of the year ended December 31, 2008, these statements include:

- Distributable cash per weighted average unit growing by 3% to 5% compared to 2007.
- Operating margin as a percentage of sales comparable to the rate achieved in 2007.
- A payout ratio similar to 2007 of approximately 90% for 2008.

The significant assumptions made in making these statements concerning future orientated financial information include:

- A pattern of seasonal sales consistent with the Fundôs historic experience.
- Same stores sales growth for 99 comparable Liquor Depot stores in the range of 2%.
- For 66 comparable Liquor Barn stores, a decrease in same store sales for these stores of 4% in the third and fourth quarters of 2008.
- A continuing program of store acquisition and development for which commitments are in place to open ten stores and completion of negotiation to acquire or develop several additional stores.
- Wage cost inflation between 2007 and 2008 is expected to ease during the last half of the year.

The Fundôs results of operations are subject to a number of risks that could have a effect on the future orientated financial information provided in this MD&A ï See Risk Factors

In the Fundôs Management Discussion and Analysis for the three months and six months ended June 30, 2007 and dated August 13, 2007 the Fund stated that the estimated annualized sales on a go forward basis of 191 liquor stores being operated in Alberta and British Columbia at the time, including 81 Liquor Barn stores was approaching $475 million. Based on the performance of the Liquor Barn stores to date, the impact of reduced gas and forestry activity in Alberta, reduced lumber activity in British Columbia, as well as construction activity we are now expecting sales for the 191 stores to be $467 million (a 1.7% reduction from the $475 previously indicated) but with higher margins as a result of price harmonization in the Liquor Barn stores.

FORWARD LOOKING STATEMENTS

This managementôs discussion and analysis contains forward-looking statements. All statements other than statements of historical fact contained in this managementôs 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 ñbelievesò, ñexpectsò, ñwillò, ñintendsò, ñprojectsò, ñanticipatesò, ñestimatesò, ñcontinuesò 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 managementøs 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 ñRisk Factorsò.

The information contained in this managementøs discussion and analysis, including the information set forth under ñRisk Factorsò, 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 managementøs discussion and analysis is made as of the date of this managementøs 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.