Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

June 30, 2008
(expressed in thousands of Canadian dollars)

Liquor Stores Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	June 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 754	$ 19,498
Accounts receivable	3,492	3,474
Inventory	90,797	84,856
Prepaid expenses and deposits (note 4)	1,456	1,348
	96,499	109,176
Pre-opening costs	1,181	773
Deposits on future acquisitions (note 4)	10	647
Notes receivable	302	-
Property and equipment	43,436	41,707
Intangible assets (note 3)	38,455	37,784
Goodwill (note 3)	260,078	259,638
	$ 439,961	$ 449,725
Liabilities		
Current liabilities		
Bank indebtedness	$ 9,902	$ -
Accounts payable and accrued liabilities	8,876	10,498
Distributions payable to unitholders (note 6)	2,477	2,470
Distributions payable to non-controlling interest (note 6)	557	1,094
Current portion of long-term debt (note 5)	15,000	-
	36,812	14,062
Long-term debt (note 5)	51,108	74,014
Future income tax liability (note 7)	13,966	10,300
Non-controlling interest (note 8)	46,353	49,671
	148,239	148,047
Unitholders' Equity		
Fund Units (note 9)	309,035	308,087
Equity component of convertible debentures (note 5)	4,970	4,340
Contributed surplus (note 10)	622	558
Cumulative undistributed earnings (excess distributions)	(22,905)	(11,307)
	291,722	301,678
	$ 439,961	$ 449,725

Liquor Stores Income Fund

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

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

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Sales	$ 121,567	$ 83,236	$ 215,989	$ 135,046
Cost of sales	92,290	64,664	163,269	103,506
Gross margin	29,277	18,572	52,720	31,540
Operating and administrative expense	19,106	12,718	37,584	22,459
Operating earnings before amortization and interest	10,171	5,854	15,136	9,081
Amortization				
Property and equipment	1,258	1,062	2,374	1,630
Intangible assets	773	299	1,545	337
Pre-opening costs	287	178	478	305
	2,318	1,539	4,397	2,272
	7,853	4,315	10,739	6,809
Interest expense and other				
Bank indebtedness	126	319	173	428
Long-term debt	191	-	430	-
Convertible debentures (note 5)	1,263	-	2,493	-
Unrealized loss (gain) on currency forward contract	191	-	(80)	-
Realized gain on currency forward contract	(95)	-	(95)	-
	1,676	319	2,921	428
Earnings before income tax and non-controlling interest	6,177	3,996	7,818	6,381
Future income tax expense	604	12,460	3,666	12,462
Earnings (loss) before non-controlling interest	5,573	(8,464)	4,152	(6,081)
Non-controlling interest (note 8)	1,107	(1,473)	896	(856)
Net earnings (loss) and comprehensive income for the period	4,466	(6,991)	3,256	(5,225)
Cumulative undistributed earnings (excess distributions), beginning of period	(19,941)	(897)	(11,307)	997
Distributions declared on Fund Units (note 6)	(7,430)	(4,732)	(14,854)	(8,392)
Cumulative undistributed earnings (excess distributions), end of period	$ (22,905)	$ (12,620)	$ (22,905)	$ (12,620)
Earnings (loss) per Unit (note 12)				
Basic	$ 0.24	$ (0.59)	$ 0.18	$ (0.47)
Diluted	$ 0.24	$ (0.59)	$ 0.18	$ (0.47)

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

(**expressed in thousands of Canadian dollars)**

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	$ 4,466	$ (6,991)	$ 3,256	$ (5,225)
Items not affecting cash				
Amortization	2,318	1,539	4,397	2,272
Amortization of inventory fair value adjustment	-	1,300	-	1,300
Non-cash interest on convertible debentures	250	-	539	-
Future income tax	604	12,460	3,666	12,462
Unrealized loss (gain) on currency forward contract	191	-	(80)	-
Non-controlling interest	1,107	(1,473)	896	(856)
Unit-based compensation (note 13)	285	174	422	219
	9,221	7,009	13,096	10,172
Net change in non-cash working capital items	(5,850)	5,853	(6,798)	5,137
	3,371	12,862	6,298	15,309
Financing activities				
Increase (decrease) in bank indebtedness	9,902	(824)	9,902	5,614
Proceeds of long-term debt	-	-	7,187	-
Repayment of long-term debt	-	-	(15,000)	-
Distributions paid to unitholders (note 6)	(7,429)	(3,820)	(14,847)	(7,401)
Distributions paid to non-controlling interest (note 6)	(1,674)	(1,202)	(3,890)	(2,358)
Dividends paid to non-controlling interest by subsidiaries (note 8)	(138)	(40)	(242)	(55)
Cash distributions from long-term incentive plans (note 9)	-	-	(12)	-
Units acquired	-	-	-	(950)
	661	(5,886)	(16,902)	(5,150)
Investing activities				
Acquisition of Liquor Barn	-	(751)	-	(751)
Business acquisitions (note 3)	(1,901)	(3,815)	(2,115)	(8,069)
Net deposits on future acquisitions (note 4)	210	830	(2,000)	730
Notes receivable	(302)	-	(302)	-
Purchase of property and equipment	(1,499)	(1,350)	(2,932)	(1,800)
Pre-opening costs	(649)	(214)	(886)	(275)
Proceeds on currency forward contract	95	-	95	-
	(4,046)	(5,300)	(8,140)	(10,165)
Increase (decrease) in cash and cash equivalents	(14)	1,676	(18,744)	(6)
Cash and cash equivalents balance, beginning of period	768	1,715	19,498	3,397
Cash and cash equivalents balance, end of period	$ 754	$ 3,391	$ 754	$ 3,391

Supplemental disclosure of cash flow information (note 15)

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, 2008, the Fund operated 204 retail liquor stores, of which 172 (2007 – 160) were in Alberta, 31 (2007 - 28) were in British Columbia and one was in Nova Scotia (2007- nil). Of these stores, 183 (2007 – 177) were acquired by the Fund and 21 (2007 - 11) 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, 2007, except as noted below. 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, 2007.

Changes in accounting policies

Effective January 1, 2008, the Fund has adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook sections 1535 – Capital Disclosures, 3862 – Financial Instruments – Disclosures, 3863 – Financial Instruments – Presentation, and 3031 – 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.

Accounting standards issued but not yet effective

(a) Section 3064 - Goodwill and intangible assets

This new standard provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. Concurrent with the adoption of this standard, EIC 27 – Revenues and Expenditures during the Pre-operating period, will be withdrawn. This will result in a change to the Fund’s accounting for store pre-opening costs as these costs will no longer be capitalized as an asset.

(b) International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed on February 13, 2008, that International Financial Reporting Standards will replace Canada’s 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.

3 Business acquisitions

The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase. The purchase price allocations are preliminary and subject to amendment once final valuations are completed.

The purchase price allocated to the assets acquired and the liabilities assumed, based on their preliminary fair values, is as follows:

(expressed in thousands of Canadian dollars)	**Three months ended June 30, 2008**	**Six months ended June 30, 2008**
Purchase price:		
Cash deposit paid in prior year	$ 587	$ 587
Cash deposit paid during period ended March 31, 2008	2,050	2,050
Cash paid during period	1,901	2,115
	4,538	4,752
Net assets acquired:		
Working capital	926	926
Property and equipment	1,170	1,170
Intangible assets	2,103	2,216
Goodwill	339	440
	$ 4,538	$ 4,752

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	**Three months ended June 30, 2008**	**Six months ended June 30, 2008**
Finite life intangible assets:		
Retail liquor licenses	$ 199	$ 328
Customer relationships	110	110
Leases	64	44
	373	482
Indefinite life intangible assets:		
Retail liquor licenses	1,730	1,734
	1,730	1,734
	$ 2,103	$ 2,216

(a) Retail liquor store acquisitions

During the three month period ended June 30, 2008, the Fund acquired four retail liquor stores (2007 – 83). The operating results of the acquisitions are included in the results of the Fund from the acquisition date.

During the three month period ended June 30, 2008, there were adjustments to goodwill for $15,345 for prior year acquisitions relating to contingent payments and transaction costs (2007 - $206,755).

Of the goodwill acquired for retail liquor store acquisitions during the three month period ended June 30, 2008, $339,165 is expected to be deductible for tax purposes.

(b) Liquor license acquisitions

During the three month period ended June 30, 2008, the Fund acquired one liquor license (2007 – one) for cash consideration of $1,730,000. Liquor licenses acquired allow the Fund to develop and operate retail liquor stores within specific jurisdictions. The retail liquor license has an indefinite life and is not amortized.

4 Deposits on future acquisitions

Deposits represent refundable and non-refundable amounts paid for the acquisition of retail liquor stores where the purchase transaction is incomplete at the balance sheet date. Deposits for the acquisition of inventory and working capital are included in prepaid expenses and deposits.

Current period activity is as follows:

(expressed in thousands of Canadian dollars)	Non-current Deposits	Current Deposits
Balance – December 31, 2007	$ 647	$ 160
Deposits tendered	2,210	160
Acquisitions completed	(2,637)	(49)
Holdbacks released and refunds received	(210)	(66)
Balance – June 30, 2008	$ 10	$ 205

5 Long-term debt

Long-term debt comprises the following:

(expressed in thousands of Canadian dollars)	Maturity Date	2008 Effective Rate	June 30, 2008	December 31, 2007
Capital/Acquisition Facility advance	May 31, 2009	5.00%	$ 15,000	$ 30,000
Convertible unsecured subordinated debentures:				
6.75% Debenture	December 31, 2012	10.13%	50,558	43,451
8.00% Debenture	December 31, 2011	4.85%	550	563
			66,108	74,014
Less: current portion of long-term debt			(15,000)	-
			$ 51,108	$ 74,014

On January 15, 2008, the underwriters for the 6.75% unsecured subordinated convertible debentures exercised their over-allotment option to purchase 7,500 additional debentures for gross proceeds of $7.5 million, bringing the total principal amount of debentures to $57.5 million. The conversion feature value on the over-allotment option is $630,000 and has been recorded as equity. The remaining $6,870,000 was allocated to long-term debt, net of $313,475 in transaction costs.

During the three month period ended June 30, 2008, interest on convertible debentures of $1,263,095 (2007 - $nil) represents coupon interest of $1,012,988 and $250,107 pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method. For the six months ended June 30, 2008, interest on convertible debentures was $2,493,394 (2007 - $nil), of which $1,954,261 represents coupon interest and $539,132 pertains to the impact of capitalized transaction costs and the accretion of debt using the effective interest rate method.

6 Distributions

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization and adjusted by capital expenditures. Distributions totalling $0.405 (2007 - $0.375) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Liquor Stores Series 1 Exchangeable LP Units were declared by the Fund for the three months ended June 30, 2008.

(expressed in thousands of Canadian dollars)		Fund Units		Liquor Stores Exchangeable LP Units		Liquor Stores Series 1 Exchangeable LP Units		Total	
Date distribution declared	**Date distribution paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Jan 15, 2008	Feb 15, 2008	$ 2,472	$ 2,472	$ 446	$ 446	$ 117	$ 117	$ 3,035	$ 3,035
Feb 15, 2008	Mar 14, 2008	2,476	2,476	445	445	114	114	3,035	3,035
Mar 14, 2008	Apr 15, 2008	2,476	2,476	445	445	114	114	3,035	3,035
Apr 15, 2008	May 15, 2008	2,476	2,476	444	444	114	114	3,034	3,034
May 15, 2008	Jun 13, 2008	2,477	2,477	443	443	114	114	3,034	3,034
Jun 13, 2008		2,477		443		114		3,034	
		$ 14,854	$ 12,377	$ 2,666	$ 2,223	$ 687	$ 573	$ 18,207	$ 15,173

7 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.

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

(expressed in thousands of Canadian dollars)	**June 30, 2008**	**December 31, 2007**
Future income tax liabilities:		
Intangible assets	$ 7,383	$ 4,880
Property and equipment	4,011	3,925
Goodwill	3,288	1,962
Debentures	-	171
	14,682	10,938
Future income tax assets:		
Issue costs	450	437
Deferred lease inducements	159	111
Non-capital losses	107	90
	716	638
	$ 13,966	$ 10,300

The Fund has recognized future income taxes related to non-capital losses of $714,479 (2007 - $862,561) available in a subsidiary to offset income of future years. If not utilized, $473,458 will expire in 2026 and $241,021 will expire in 2027.

Future income taxes are not recorded on $103,745,778 of non-deductible goodwill.

8 Non-controlling Interest

	Exchangeable LP Units	Series 1 Exchangeable LP Units	Total
Balance – December 31, 2007	# 3,300,255	# 867,789	# 4,168,044
Exchanged for Fund Units	(15,076)	(22,380)	(37,456)
Balance – June 30, 2008	# 3,285,179	# 845,409	# 4,130,588

(expressed in thousands of Canadian dollars)

Balance – December 31, 2007	$ 49,436
Earnings	729
Exchanged for Fund Units	(619)
Distributions declared (note 6)	(3,353)
Balance – June 30, 2008	$ 46,193
Subsidiaries	
Balance - December 31, 2007	$ 235
Earnings	167
Dividends	(242)
Balance – June 30, 2008	$ 160
Total	$ 46,353

Liquor Stores LP Exchangeable LP Units ("Exchangeable LP Units") and Liquor Stores LP Series 1 Exchangeable LP Units ("Series 1 Exchangeable LP Units")

On January 1, 2008, Liquor Stores LP issued 867,789 Series 1 Exchangeable LP Units as consideration for the outstanding non-controlling interest in Liquor Barn LP, which consisted of 867,789 Liquor Barn Exchangeable LP Units.

The Exchangeable LP Units and Series 1 Exchangeable LP Units issued by Liquor Stores LP have economic and voting rights equivalent to the Fund Units (note 9), except in connection with the exchangeability terms as described below. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units are not required to be exchanged for Fund Units before transferring to third parties. As a result, they have been treated as non-controlling interest, in accordance with the CICA Emerging Issues Committee Abstract #151.

Each Exchangeable LP Unit and Series 1 Exchangeable LP Unit entitles the holder to receive distributions pro rata with distributions made on Fund Units.

9 Unitholders' Equity

Fund Units

Units outstanding and capital contributions are as follows:

(expressed in thousands of Canadian dollars)	Number of units	Issue costs	Net capital contributions
Balance – December 31, 2007	# 18,294,278	$ 10,271	$ 308,087
Issued for Exchangeable Units	37,456	-	619
Vested Units (note 13 (a))	15,997	-	341
Cash distributions on vested Units	-	-	(12)
Treasury Units issued on March 7, 2008 (note 13 (a))	49,143	-	1,060
Vested Treasury Units issued on March 7, 2008 (note 13 (a))	(695)		(15)
Treasury Units	(48,448)	-	(1,045)
Balance – June 30 ,2008	# 18,347,731	$ 10,271	$ 309,035

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 Exchangeable LP Units and Series 1 Exchangeable LP Units during the period ended June 30, 2008 was recorded at the carrying amount of the Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units in accordance with EIC-151.

The monthly cash distributions received by the Long Term Incentive Plan and the 2007 Incentive Plan are remitted to the participants when the associated Units vest.

Treasury Units represent unvested Units held in the LTIP (note 13 (a)).

10 Contributed Surplus

The table below summarizes the changes in contributed surplus:

(expressed in thousands of Canadian dollars)	Amount
Balance – December 31, 2007	$ 558
Vested Units (note 13 (a))	(341)
Unit-based compensation expense	405
Balance – June 30, 2008	$ 622

The Fund manages two unit-based incentive plans under which certain senior management receives a portion of their compensation (note 13 (a)). Awarded Units vest evenly over a period of three years. As the Units vest, they are transferred to the plan participant and recorded against contributed surplus.

11 Capital

The Fund views capital as the combination of its convertible debentures and Unitholders' equity balances. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives when managing capital, which are to ensure the Fund has capital and capacity to support its growth strategy, provide investors with stable returns and ensure the Fund has the financial capacity to support its operations.

The Fund's capital structure reflects the requirements of a company focused on growth, both through development of new stores and through acquisition. Management continually monitors the adequacy of the Fund's capital structure and adjusts the structure accordingly either by accessing credit facilities, issuing debt instruments, or issuing new units.

There were no changes to the Fund's objectives, policies or processes for managing capital from the prior fiscal period.

The Fund's indebtedness is subject to a number of external covenants, but none are capital related. Under the terms of the Fund's credit facility, the following ratios are monitored: adjusted debt to EBITDAR, current ratio and fixed coverage ratio. For the three months ended June 30, 2008, the Fund is in compliance with all covenants.

With respect to equity, the current level of capital is considered adequate with regards to operations and the strategic plan of the Fund. The equity component of capital changes primarily based upon the income of the Fund less distributions paid.

The Fund will review its level of equity in the context of the change in taxation impacting the Fund in 2011 as described in note 7.

12 Earnings (loss) per Unit

(expressed in thousands of Canadian dollars, except per unit amounts)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Net earnings (loss) (numerator utilized in basic Earnings per Unit)	$ 4,466	$ (6,991)	$ 3,256	$ (5,225)
Non-controlling interest	1,002	(1,545)	729	(956)
Earnings (loss) (numerator utilized in diluted Earnings per Unit)	$ 5,468	$ (8,536)	$ 3,985	$ (6,181)
Units outstanding, beginning of period	#18,343,592	#10,223,600	#18,294,278	#10,228,320
Weighted average of Units issued less treasury Units acquired	1,997	1,664,024	42,028	813,031
Denominator utilized in basic earnings (loss) per unit	18,345,589	11,887,624	18,336,306	11,041,351
Exchangeable Units	4,145,852	3,724,513	4,154,598	3,513,464
Denominator utilized in diluted earnings (loss) per unit	#22,491,441	#15,612,137	#22,490,904	#14,554,815
Earnings (loss) per Unit – Basic	$ 0.24	$ (0.59)	$ 0.18	$ (0.47)
Earnings (loss) per Unit – Diluted	$ 0.24	$ (0.59)	$ 0.18	$ (0.47)

Potential units for convertible debentures have not been included in the denominator used in the diluted earnings per unit calculation due to their anti-dilutive effect.

13 Unit-based compensation plans

(a) Long-term incentive plan ("LTIP") and 2007 Incentive Plan ("2007 Plan")

The following table summarizes the status of the Plans:

		LTIP		2007 Plan		2008 Total
Unvested Units December 31, 2007	#	2,692	#	42,812	#	45,504
Granted March 7, 2008		49,143		-		49,143
Vested Units transferred to participants		(1,726)		(14,271)		(15,997)
Unvested Units, end of period	#	50,109	#	28,541	#	78,650

On March 7, 2008, 49,143 Units were granted under the LTIP and issued from treasury at a price of $21.57 per Unit for a total cost of $1,060,015. Of these units granted, 695 vested during the period and compensation expense for these units have been fully recognized and expensed during the period. For the remaining units granted, the compensation expense will be recognized over the vesting period of three years or sooner under certain circumstances.

Compensation expense for the LTIP for the three month period ended June 30, 2008 was $208,153 (2007 - $8,676) and $262,786 (2007 – $10,964) for the six month period ended June 30, 2008. Compensation expense of $71,178 (2007 - $164,843) was recorded for the 2007 Plan for the three month period ended June 30, 2008 and $142,356 (2007 - $208,318) for the six month period ended June 30, 2008.

Effective May 8, 2008 the unitholders approved the adoption of the Unit Award Incentive Plan (the "UAIP"). This will replace the LTIP and 2007 Plan for awards made in 2009.

(b) Trustee and director deferred unit plan

Awards accruing to DSU Plan participants for the three and six months ended June 30, 2008 totalled $5,576 (2007 - $34,069) and $16,531 (2007 - $92,703) respectively, which were recorded as compensation expense in the period. As at June 30, 2008 participants have accumulated an entitlement to the equivalent cash value of 18,839 Units under the DSU Plan (December 31, 2007 – 13,629).

14 Related party transactions

A director of a subsidiary of the Fund is a partner in a law firm to which the Fund incurred professional fees during the three and six months ended June 30, 2008 of $73,227 (2007 - $71,662) and $182,120 (2007 - $161,079), respectively. Further, the Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the Fund for tax services in the amount of $1,643 (2007 - $4,832) during the quarter and $35,208 (2007 - $15,506) during the six month period ended June 30, 2008. Rent paid to companies controlled by directors of the GP amounted to $106,864 (2007 - $18,967) and $229,791 (2007 - $40,001) respectively for the three and six months ended June 30, 2008. 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. There are no amounts included in accounts payable and accrued liabilities (December 31, 2007 - $5,689) relating to these transactions.

15 Supplemental disclosure of cash flow information

(expressed in thousands of Canadian dollars)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest paid	$ 2,406	$ 319	$ 2,690	$ 428
Income taxes paid	27	64	230	65

16 Financial Instruments

Recognition and measurement

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest, a currency forward contract, and long-term debt.

The following table shows the carrying values and fair values of the Fund's financial instruments at June 30, 2008:

(expressed in thousands of Canadian dollars)	June 30, 2008 Carrying Value	June 30, 2008 Estimated Fair Value	December 31, 2007 Carrying Value	December 31, 2007 Estimated Fair Value
Held for trading (i)				
Cash and cash equivalents	$ 754	$ 754	$ 19,498	$ 19,498
Currency forward contract	80	80	-	-
Loans and receivables (ii)				
Accounts receivable	3,412	3,412	3,474	3,474
Notes receivable	302	302	-	-
Other financial liabilities (iii)				
Bank indebtedness	9,902	9,902	-	-
Accounts payable and accrued liabilities	8,876	8,876	10,498	10,498
Distributions payable to unitholders	2,477	2,477	2,470	2,470
Distributions payable to non-controlling interest	557	557	1,094	1,094
Capital/acquisition facility advance	15,000	15,000	30,000	30,000
Convertible debentures	51,108	58,938	44,014	50,750

(i) **Held for trading**

For cash and cash equivalents, the fair value represents cost plus accrued interest. Due to the short-term nature of the instruments, the carrying value approximates fair value.

The currency forward contract is carried at fair value, which represents the market value of the contract at June 30, 2008. The currency forward contract has been included in accounts receivable for financial statement presentation purposes.

(ii) **Loans and receivables**

The carrying value less impairment provision of trade receivables is assumed to approximate fair value due to the short-term nature of the instruments.

Notes receivable are interest-bearing loans at market rates with repayment terms that extend beyond one year. Carrying value is the amortized cost of the notes determined by using the effective interest rate method. Due to the interest being at market rates, fair value approximates carrying value.

(iii) **Other financial liabilities**

The carrying value of trade payables is assumed to approximate fair value due to the short-term nature of the instruments. The carrying value of bank indebtedness and long-term debt, excluding convertible debentures, approximates the fair value as the interest rate affecting these instruments is at market rate. Convertible debentures have been recorded at amortized cost using the effective interest method. The fair value of the debentures was determined based on trading values at June 30, 2008.

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, accounts receivable and notes receivable. The Fund invests 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 customers. Risk associated with respect to accounts receivable is mitigated by credit management policies. The Fund is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the Alberta and British Columbia hospitality industries. There were no bad debts recorded or significant past due accounts for the three and six months ended June 30, 2008. Notes receivable are secured by interests in retail liquor stores. There have been no loan impairments for the period ended June 30, 2008.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change.

The Fund is subject to interest rate risk as its credit facilities bear interest rates that vary in accordance with borrowing rates.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund as at June 30, 2008, assuming an outstanding bank indebtedness and long-term debt balance of $24,902,000.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 249	$ (249)
Increase (decrease) in earnings before income tax and non-controlling interest	$ (249)	$ 249

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

Liquidity risk

The Fund has long-term indebtedness with a maturity date of May 31, 2009, 8.00% convertible debentures maturing on December 31, 2011 and 6.75% convertible debentures maturing on December 31, 2012. 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 maintains 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.

Foreign exchange risk

The Fund has a currency forward contract which is due in October 2008. The fair value of the contract has been recorded as an asset of the Fund at June 30, 2008. The Fund does not use hedge accounting.

Other comprehensive income

As the Fund has no items of other comprehensive income, net earnings for the period is equivalent to comprehensive income.

17 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 currently located in Canada.

18 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.

19 Subsequent events

On July 20, 2008, the Fund entered into an agreement to purchase 19 retail liquor stores in the State of Alaska. The agreement is subject to completion of due diligence, customary closing conditions, and regulatory approvals and is expected to be completed by December 2008. The Fund intends to finance the purchase with its existing credit facility.