LIQUOR DEPOT

LIQUOR STORES INCOME FUND

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

For the Three and Six Months Ended June 30, 2008
As of August 13, 2008

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the interim consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores Income Fund (the "Fund") for the three and six months ended June 30, 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 ("GAAP"). 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 "EBITDA", "distributable cash", "distributable cash before non-recurring items", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", "payout ratio" and other "Non-GAAP Measures". A description of these measures and their limitations are discussed below under "Non-GAAP Measures". See also "Risk Factors" on page 19 and "Forward-Looking Statements" on page 20 of this MD&A.

This MD&A is dated August 13, 2008.

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

HIGHLIGHTS

- Liquor Stores reported second quarter 2008 distributable cash of $9.1 million, up 44% from $6.4 million in the second quarter of 2007.
- Distributable cash per unit for the second quarter of $0.41 was unchanged from 2007.
- Distributions per unit for 2008 were $0.135 monthly ($1.62 annually) compared with $0.125 monthly for most of 2007.
- The Fund entered into an agreement to acquire 19 liquor stores in Anchorage, Alaska.
- Sales for the second quarter of 2008 were $121.6 million, up 46% from $83.2 million for the same period in 2007.
- Operating margin for the second quarter of 2008 was $10.2 million, up 42% from $7.2 million for the three months ended June 30, 2007.

OUTLOOK

The Fund continues its growth strategy of acquisitions in British Columbia, development of new stores in Alberta and seeking opportunities in Canada and the United States. To date in 2008, the Fund has acquired or opened eleven stores and expects to open a further five stores in the remainder of 2008.

On July 22, 2008, the Fund announced an agreement to acquire 19 stores in greater Anchorage, Alaska from Brown Jug Inc ("Brown Jug"). Management believes Brown Jug is the largest independent chain of liquor stores in Anchorage based on sales. The acquisition is subject to completion of due diligence, customary closing conditions, and regulatory approvals. Closing is anticipated to take place by December 2008. Management expects these stores will initially contribute approximately U.S. $3.5 million annually to EBITDA, and will be accretive to cash flow in the first full year of operation, generating distributable cash of approximately $0.09 per unit for all units outstanding at July 22, 2008.

Assuming these transactions are completed as expected, the Fund will be operating 230 stores by year-end.

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 Fund's credit facilities are sufficient to execute the Fund's growth strategy for some time.

Price harmonization with the Fund’s stores has initially caused a drop in Liquor Barn sales, however management expects these same store sales to recover as did the Liquor World store sales in 2005, which rebounded nicely after an initial decline of 2.5% following price harmonization.

The Fund remains well within its “safe harbour” limits related to the SIFT Rules. While the need for immediate 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’s “safe harbour” limit is approximately $220 million.

OVERVIEW OF THE FUND

The Fund is an unincorporated open ended, limited purpose trust established under the laws of the Province of Alberta. The trust units (“Units”) of the Fund trade on the Toronto Stock Exchange under the symbol LIQ.UN. The Fund’s 6.75% Convertible Unsecured Subordinated Debentures (“6.75% Debentures”) trade on the Toronto Stock Exchange under the symbol LIQ.DB. Through its 81.69% indirect interest in Liquor Stores Limited Partnership (“Liquor Stores LP”), the Fund operates 206 retail liquor stores in Alberta, British Columbia and Nova Scotia. Management believes it is the largest liquor store operator in Alberta by number of stores and revenue.

Stores and Operations

As of August 13, 2008, the Fund operates 206 retail liquor stores located as follows:

	Alberta			British Columbia			Nova Scotia	
	Edmonton(1)	Calgary(1)	Other(2)	Lower Mainland	Vancouver Island	Interior	Halifax	Total
Number of Stores	78	47	48	12	11	9	1	206

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).

Regulatory Environment

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 173 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 32 stores and four small associated pubs in British Columbia. The Province of British Columbia’s 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.

In the state of Alaska there are currently 378 retail liquor outlets and approximately 88 stores in the greater Anchorage area. There are no government owned or operated liquor stores in the state of Alaska and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas. Management believes that Brown Jug is the largest independent liquor retailer in the state by sales, and that in the greater Anchorage market area Brown Jug’s sales represent an approximate 20% market share.

BUSINESS STRATEGY

The Fund's business strategy is to grow the business by attracting more customers to existing stores, building new stores in desirable locations and acquiring existing stores.

Growth - New Stores

The Fund intends to achieve new store growth by expanding on its existing base and by focusing on regional diversification. The Fund explores opportunities to acquire and/or develop stores in Alberta, British Columbia, the United States and elsewhere in Canada where regulatory regimes permit private liquor stores. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and unitholder value.

Stable Business

The Fund operates in a stable business environment. The business is largely cash-based with liquor products accounting for approximately 99% of total sales. The Fund and its predecessors have demonstrated stable revenues and margins with EBITDA growth of 23.8% growth from 1996 to December 31, 2007.

Differentiation: Operational Excellence

Management will continue to focus on differentiating the Fund's stores from the competition by promoting operational excellence in all of its stores with emphasis on the in-store customer experience, technology, and marketing and brand development.

In-Store Experience

The Fund currently has a number of in-store customer experience initiatives underway including signage and shelf talkers, customer education and events, merchandise presentation and the installation of Enomatics technology for wine samplings in select stores.

Technology

To improve efficiencies and enhance the customer experience, management is currently working on a number of technologically related initiatives that include a point-of-sale system upgrade, the development of a customer database as well as web promotion and enabling.

Marketing and Brand Development

Management will continue to concentrate marketing efforts on the current brand structure: Liquor Depot and Liquor Barn full service stores, Grapes 'n Grains specialty stores, and OK Liquor discount stores.

Financing

The Fund has historically financed its acquisitions, store development costs and betterments with proceeds from the issuance of Units from treasury, the issuance of convertible debentures or through available credit facilities. Financing of the Fund's investment in inventory is done through bank indebtedness. When proceeds from the issuance of Units, convertible debentures or long-term debt are received prior to being used to finance growth, bank indebtedness is temporarily repaid and redrawn when required for growth expenditures.

FINANCIAL MEASURES

Distributable Cash

The Fund views distributable cash as an important supplementary measure to assist unitholders in evaluating the Fund's performance as the Fund's objective is to provide a stable and sustainable flow of distributable cash to unitholders. 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 Fund's 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's distribution policy is based on distributable cash flow on an annualized basis; accordingly, the seasonality of the Fund's individual quarterly results must be assessed in the context of annualized distributable cash flows. Historically, approximately 45% of the Fund's sales have occurred in the first half of the year and 55% in the latter half. It is the Fund's policy to pay consistent regular monthly distributions throughout the year based on estimated cash flows. The Fund reviews its historic and expected results on a regular basis giving consideration to historical, current and expected future performance of existing and new stores, the competitive environment and economic conditions, including labour market trends. In the first half of the year distributions typically exceed distributable cash and in the second half of the year distributable cash typically exceeds distributions such that the Fund has historically distributed approximately 90% of distributable cash on an annualized basis.

Distributions declared during the three months ended June 30, 2008 were $9.1 million or $0.405 per Unit, compared with $6.4 million or $0.38 per Unit a year earlier. On a weighted average basis, for the quarter ended June 30, 2008 distributable cash including non-recurring items was consistent with 2007 at $0.41. For the six months ended June 30, 2008, distributable cash including non-recurring items per weighted average unit was $0.57 compared to $0.63 for the same period in 2007.

Per Unit cash distributions from the inception of the Fund have been made as follows:

Payment Periods	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

The following table provides the calculation of the distributable cash of the Fund for the three and six months ended June 30, 2008 and 2007:

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**2008**	**2007**
Cash provided by operating activities	$ 3,371	$ 12,862	$ 6,298	$ 15,309
Net change in non-cash working capital	5,850	(5,853)	6,798	(5,137)
Incentive plan provisions	-	(273)	-	(546)
Provision for non-growth property and equipment	(79)	(374)	(191)	(507)
Distributable cash	9,142	6,362	12,905	9,119
Non-recurring items (1)	205	182	705	182
Distributable cash before non-recurring items	$ 9,347	$ 6,544	$ 13,610	$ 9,301
Weighted average units outstanding	# 22,556,969	# 15,612,138	# 22,538,878	# 14,554,816
Distributable cash before non-recurring items per weighted average Unit	$ 0.41	$ 0.41	$ 0.60	$ 0.64
Distributable cash per weighted average Unit	$ 0.41	$ 0.41	$ 0.57	$ 0.63
Distributions declared per Unit	$ 0.41	$ 0.38	$ 0.81	$ 0.73

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

When evaluating the cash available for distribution to Unitholders, the Fund takes into consideration the following factors:

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 ("non-growth property and equipment"). 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.

The following table provides an analysis of the total expenditures on property and equipment and the amounts reserved for further non-growth expenditures:

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**2008**	**2007**
Purchase of property and equipment	$ 1,499	$ 1,350	$ 2,932	$ 1,800
Growth expenditures including amounts relating to developed stores	(1,420)	(976)	(2,641)	(1,293)
Purchase of non-growth property and equipment	79	374	291	507
Provision for further non-growth property and equipment expenditures	-	-	(100)	-
Total provision for non-growth property and equipment	79	374	191	507

Net Change in Non-cash Working Capital

The Fund's 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 Fund's long-term incentive plans occurs subsequent to the approval of the Fund's annual financial statements. For accounting purposes, the compensation expense related to the unit-based incentive plans is recognized as awards vest.

Following unitholder approval on May 8, 2008, the Fund adopted a unit award incentive plan (the "UAIP") to retain and attract qualified employees; to promote a proprietary interest in the Fund by such persons and to encourage such persons to remain in the employ or service of the Fund and put forth maximum efforts for the success of the business of the Fund; and to focus management of the Fund on operating and financial performance and long-term unitholder return. 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 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.

The Fund historically utilized the Liquor Stores Limited Partnership Long Term Incentive Plan and the 2007 Incentive Plan (the "Plans") to reward certain employees for significant performance and associated per unit cash flow growth. Following the adoption of the UAIP, no further awards are proposed under the Plans.

Comparable GAAP Measures

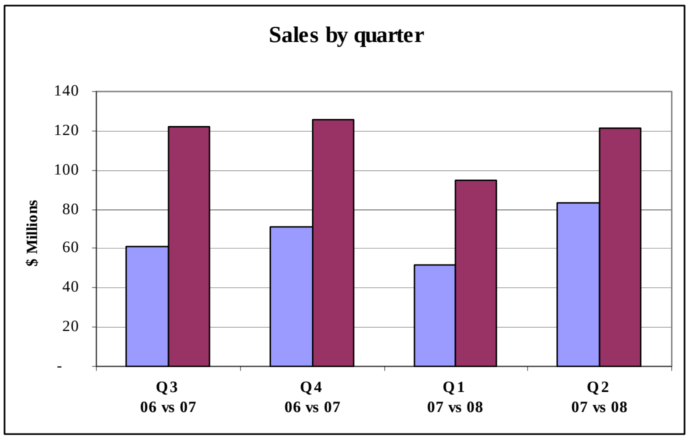
Distributable cash is a Non-GAAP Measure. Adjustments and provisions related to non-growth property and equipment, incentive plan provisions and non-cash working capital are necessary to reconcile distributable cash to its nearest GAAP measure, cash provided by operating activities.

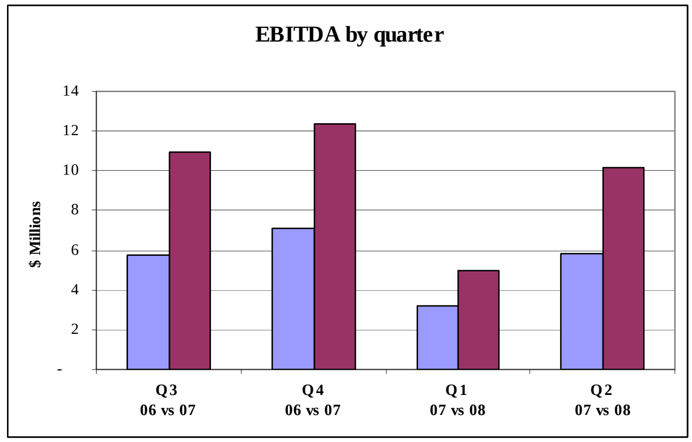
The GAAP measure comparable to distributable cash per unit is earnings per unit. During the three months ended June 30, 2008, a $0.6 million non-cash future tax expense ($0.03 per diluted unit) was recorded compared to a $12.5 million expense ($0.80 per diluted unit) recorded for the three months ended June 30, 2007. As a result of these charges, diluted earnings per Unit for the three months ended June 30, 2008 were $0.24 compared to ($0.59) in the same period of 2007.

Operating Results

The retail liquor industry is subject to seasonable variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. In 2007, 20% (2006 - 20%) of annual 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 following graphs show total sales and EBITDA of the Fund by quarter for the four most recent quarters compared to the same periods in the prior year.





Basis of Comparison

Management has chosen to compare the Fund's results for the three and six months ended June 30, 2008 to a proforma derived by combining the results of the Fund and Liquor Barn Income Fund for the three and six months ended June 30, 2007. As all comparisons to the three and six months ended June 30, 2007 contain partial month results for the stores acquired in the first six months of 2007, management believes the proforma provides a more informative comparison and thus is the basis of commentary of performance in this MD&A.

Same Store Sales

Comparable same store sales is calculated to include sales for stores that have been open 12 full months at the beginning of the reporting period. Same stores exclude stores which have significant wholesale business. For the second quarter of 2008, there were 99 Liquor Depot, Grapes 'n Grains and OK Liquor same stores (the "Fund stores") and 70 Liquor Barn same stores. For the six months ended June 30, 2008, same stores included 99 Fund stores and 66 Liquor Barn stores. Sales for Liquor Barn stores are on a proforma basis.

Second Quarter 2008 Operating Results Compared to Second Quarter 2007 Proforma Operating Results

The following table summarizes the operating results for the three months ended June 30, 2008, proforma operating results based on proforma financial statements for the three months ended June 30, 2007 for Liquor Barn Income Fund, and operating results for the three months ended June 30, 2007.

	Three Months ended June 30,					
	2008 Fund		**2007 Fund Proforma (note 1)**		**2007 Fund (note 2)**	
(expressed in thousands of Canadian dollars)	**$**	**%**	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)		(unaudited)	
Number of stores at June 30	204		188		188	
Sales	121,567	100.00%	117,059	100.00%	83,236	100.00%
Adjusted gross margin[3]	29,277	24.08%	27,669	23.64%	19,872	23.87%
Operating and administrative expense	19,106	15.72%	22,382	19.12%	12,718	15.28%
Operating margin [4]	10,171	8.36%	5,287	4.52%	7,154	8.59%
Non-recurring items [5]	205	0.17%	4,483	3.83%	182	0.22%
Operating margin [4] before non-recurring items	10,376	8.53%	9,770	8.35%	7,336	8.81%

Notes:

(1) *Fund Proforma refers to the combined 2007 second quarter results of the Fund, which include results from Liquor Barn stores for the period June 8 to 30, 2007, and Liquor Barn Income Fund for the period April 1 to June 7, 2007.*

(2) *Amounts include partial months of operations for 13 stores acquired or opened during the three months ended June 30, 2007.*

(3) *Adjusted gross margin for the 2007 Fund Proforma and 2007 Fund results excludes $1.3 million in respect of the non-cash amortization of an inventory fair value adjustment related to the Liquor Barn acquisition.*

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

(5) *Non-recurring items for the three months ended June 30, 2008 include professional and consulting fees for non-recurring business matters. Non-recurring items in the second quarter of 2007 for the 2007 Fund Proforma were expenses incurred by Liquor Barn that related to the Fund's successful offer; and for the 2007 Fund results non-recurring items were head office moving costs and Liquor Barn acquisition expenses.*

Sales

Sales for the quarter ended June 30, 2008 were $121.6 million, up from $117.1 million on a proforma basis in the second quarter of 2007. The $4.5 million increase comprises:

- In the second quarter of 2007, 13 stores, including 11 Liquor Barn stores, were opened or acquired. Sales for these stores and stores with significant wholesale business increased to $19.7 million for the three months ended June 30, 2008 from $17.5 million for the same period in 2007. Due to the timing of the acquisitions and store openings, these stores were not operational for the entire three month period ended June 30, 2007.

- Sales for stores opened or acquired subsequent to June 30, 2007 were $4.2 million.

- **Same Store Sales**

  For the three months ended June 30, 2008, there was an increase in same store sales of $0.9 million or 1.7% for 99 comparable Fund stores and a decrease of $2.8 million on a proforma basis or 6.6% for 70 comparable Liquor Barn stores. On a combined basis, same store sales decreased $1.9 million on a proforma basis or 1.8%. The decrease is due to the following:

  - The Easter long weekend fell in the first quarter of 2008 and the second quarter of 2007. Comparable sales of approximately $2.8 million related to the holiday were recorded in the first quarter of 2008 versus 2007 due to the timing of Easter.

  - Harmonization of retail prices in the Liquor Barn stores with those of the Fund stores led to a same store sales decrease for the Liquor Barn stores. Similar measures taken with respect to the Fund's Liquor World stores led to the Fund reporting a 2.5% decrease in same store sales in the first quarter of 2005 from a year earlier. In subsequent periods, sales for Liquor World stores improved and a similar result is expected for the Liquor Barn stores.

  - Certain stores continue to be negatively affected by local construction projects which adversely affect traffic flow and the impact of reduced forestry and gas exploration activity throughout Alberta.

Gross Profit and Gross Margin

Gross profit for the three months ended June 30, 2008 was $29.3 million, up 5.8% from $27.7 million on a proforma basis from a year earlier. Gross margin as a percentage of sales for the three months ended June 30, 2008 was 24.1% compared with 23.6% on a proforma basis for the same period in 2007.

Operating and Administrative Expense

Operating and administrative expense before non-recurring items for the three months ended June 30, 2008 was $18.9 million, up 5.6% from $17.9 million on a proforma basis for the same period in 2007. Including non-recurring items, operating and administrative expenses were $19.1 million for the three months ended June 30, 2008, down 14.7% from $22.4 million for the three months ended June 30, 2007. The number of stores operated in the three months ended June 30, 2008 was 204, up 8.5% from a proforma 188 a year earlier. Payroll for comparable stores increased by approximately 13%, which is due to inflation in hourly wages rates experienced mainly in Alberta during the past year.

Operating Margin

As a result of the matters discussed above, operating margin (as defined under **"Non-GAAP Measures"**) before non-recurring items for the three months ended June 30, 2008 was $10.4 million up 6.1% from $9.8 million on a proforma basis for the same period in 2007.

Six Months Ended June 30, 2008 Operating Results Compared to Six Months Ended June 30, 2007 Proforma Operating Results

The following table summarizes the operating results for the six months ended June 30, 2008, proforma operating results based on proforma financial statements for the six months ended June 30, 2007 for Liquor Barn Income Fund, and operating results for the six months ended June 30, 2007.

	Six Months ended June 30,					
	2008 Fund		**2007 Fund Proforma (note 1)**		**2007 Fund (note 2)**	
(expressed in thousands of Canadian dollars)	**$**	**%**	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)		(unaudited)	
Number of stores at June 30	204		188		188	
Sales	215,989	100.00%	200,528	100.00%	135,046	100.00%
Adjusted gross margin[(3)]	52,720	24.41%	47,221	23.55%	32,840	24.32%
Operating and administrative expense	37,584	17.40%	37,902	18.90%	22,459	16.63%
Operating margin [(4)]	15,136	7.00%	9,319	4.65%	10,381	7.69%
Non-recurring items [(5)]	705	0.33%	4,538	2.23%	182	0.13%
Operating margin [(4)] before non-recurring items	15,841	7.33%	13,857	6.91%	10,563	7.82%

Notes:

(1) *Fund Proforma refers to the results of the Fund for the six months ended June 30, 2007, which include results from Liquor Barn stores for the period June 8 to 30, 2007, and Liquor Barn Income Fund for the period January 1 to June 7, 2007.*

(2) *Amounts include partial months of operations for 17 stores acquired or opened during the six months ended June 30, 2007.*

(3) *Adjusted gross margin for the 2007 Fund Proforma and 2007 Fund results excludes $1.3 million in respect of the amortization of an inventory fair value adjustment related to the Liquor Barn acquisition.*

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

(5) *Non-recurring items for the six months ended June 30, 2008 include recruitment and relocation expenses as well as consulting and professional fees related to non-recurring business matters. Non-recurring items in the first six months of 2007 for the 2007 Fund Proforma were expenses incurred by Liquor Barn that related to the Fund's successful offer; and for the 2007 Fund results, non-recurring items were head office moving costs and Liquor Barn acquisition expenses.*

Sales

For the six months ended June 30, 2008 sales were $216.0 million up 7.7% from $200.5 million for the same period in 2007. The sales increase comprises:

- During the first six months of 2007, 17 stores, including 15 Liquor Barn stores, were opened or acquired. Sales for these stores were $18.7 million for the six months ended June 30, 2008, up 125.3% from $8.3 million for the same period in 2007.

- Sales for stores opened or acquired subsequent to June 30, 2007 and sales for stores with significant wholesale business accounted for $6.1 million of the sales increase.

- **Same Store Sales**

  For the six months ended June 30, 2008 same store sales decreased by $1.0 million or 0.5%. The decrease comprises:

  - An increase of $3.7 million or 3.6% in same store sales for 99 Fund stores.
  - A decrease of $4.7 million or 6.5% in same store sales for 66 Liquor Barn stores.

Gross Profit and Gross Margin

For the six months ended June 30, 2008 gross profit was $52.7 million, up 11.7% from $47.2 million on a proforma basis from 2007. Gross margin as a percentage of sales for the six months ended June 30, 2008 was 24.4% compared with 23.6% 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 Fund's other stores.

Operating and Administrative Expense

Operating and administrative expense before non-recurring items was $36.9 million, up 10.5% from $33.4 million for the six months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008, operating and administrative expense including non-recurring items was down 0.8% or $0.3 million to $37.6 million from $37.9 million on a proforma basis for the same period in 2007.

Operating Margin

For the six months ended June 30, 2008 operating margin before non-recurring items was $15.8 million up 13.7% from $13.9 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 and six months ended June 30, 2008 include:

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

Second Quarter and First Half Operating Results

The following is a commentary regarding the results of the Fund for the three and six months ended June 30, 2008 compared to actual Fund results for the three and six months ended June 30, 2007.

Sales

For the three months ended June 30, 2008 sales were $121.6 million up 46.1% from $83.2 million in the same period last year. The sales increase comprises:

- Sales for the three months ended June 30, 2008 for 81 Liquor Barn stores acquired in the second quarter of 2007 were $47.3 million including sales of $39.4 million for 70 Liquor Barn stores in operation at March 31, 2007 and $7.9 million for 11 stores purchased in the period April 1, 2007 to June 8, 2007. Sales for Liquor Barn stores for the period June 8 to June 30, 2007 were $14.1 million.

- Other stores opened or acquired subsequent to March 31, 2007 and stores with significant wholesale business accounted for the remaining $4.3 million sales increase.

- **Same Store Sales**

  For the three months ended June 30, 2008, same store sales for 99 Fund stores increased to $58.3 million, up $0.9 million or 1.7% from $57.4 million for the same period last year. The increase resulted from:

  - Strong second quarter same store sales even though Easter was in the first quarter in 2008 compared to the second quarter in 2007.

  - Alberta and British Columbia experienced more favourable weather conditions for both the Victoria Day and Canada Day statutory holidays in 2008 compared with a year earlier.

For the six months ended June 30, 2008 sales were $216.0 million up 60% from $135.0 million for the same period in 2007. The sales increase comprises:

- The sales for 81 Liquor Barn stores acquired in the second quarter of 2007 as noted above including sales of $66.8 million for 66 Liquor Barn stores in operation at December 31, 2006 and $17.2 million for 15 stores acquired during the six months ended June 30, 2007.

- Other stores opened or acquired subsequent to June 30, 2007 and licensee stores accounted for the remaining $7.5 million sales increase.

- **Same Store Sales**

  For the six months ended June 30, 2008, there was an increase in same store sales for 99 Fund stores to $104.4 million from $100.8 million or 3.6% compared to the prior year. The increase was due to:

  - 2008 Leap Year falling on a Friday, targeted advertising campaigns and favourable weather conditions for the Victoria Day and Canada Day long weekends.

Gross Profit and Gross Margin

For the three months ended June 30, 2008 gross profit was $29.3 million, up 47.2% from $19.9 million for the same period last year. As a result of sales harmonization of Liquor Barn stores to Fund stores, blended gross margin was 24.7% of sales in the second quarter of 2008, up from 24.5% of sales a year earlier.

For the six months ended June 30, 2008 gross profit was $52.7 million, up 60.7% from $32.8 million for the same period in 2007.

Operating and Administrative Expense

Operating and administrative expense for the three months ended June 30, 2008 was $19.1 million, up 50.2% from $12.7 million a year earlier. Operations involved 204 stores in the second quarter of 2008, up 8.5% from 188 stores during the same period last year. Of the 188 stores in operation at June 30, 2007, 81 were Liquor Barn stores acquired on June 7, 2007 and operating for 23 days during the three month period ended June 30, 2008.

Operating and administrative expense for the six months ended June 30, 2008 was $37.6 million, up $15.1 or 67.3% from $22.5 million in the first half of 2007 mainly due to the number of stores operated.

For the three and six months ended June 30, 2008 operating and administrative expense included $0.2 million and $0.7 million respectively in non-recurring items including recruitment and relocation expenses and non-recurring consulting and professional fees. For the three and six months ended June 30, 2007 operating and administrative expense included $0.2 million in non-recurring items including expenses associated with the Liquor Barn acquisition as well as the Fund's head office move.

Operating Margin

Operating margin before non-recurring items for the three months ended June 30, 2008 was $10.4 million up 42.5% from $7.3 million for the same period last year. For the six months ended June 30, 2008 operating margin before non-recurring items was $15.8 million up 49.0% from $10.6 million in 2007.

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, as expected, on the operating results of the Fund resulting in an overall blended margin of 7.33%.

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 June 30, 2008, the Fund updated its estimate of temporary differences pertaining primarily to certain goodwill, property, plant and equipment, and intangible assets, which resulted in a net increase in future income taxes of $0.6 million. For the six months ended June 30, 2008 the Fund has recorded a net increase of $3.7 million in respect of future taxes.

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

Net earnings before non-controlling interest increased by $14.1 million to $5.6 million for the three months ended June 30, 2008 compared with net loss before non-controlling interest of $8.5 million for the same period in 2007. The increase is attributed mainly to the recording of the future income tax adjustment of $12.5 million during the three months ended June 30, 2007.

For the six months ended June 30, 2008, net earnings before non-controlling interest increased by $10.2 million to $4.2 million compared to the same period in 2007.

Condensed Quarterly Information

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

	2008		2007				2006	
	June 30	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30
Balance Sheet								
Cash and cash equivalents	$ 754	$ 768	$ 19,498	$ 6,891	$ 3,391	$ 1,715	$ 3,397	$ 1,683
Total assets	439,961	434,784	449,725	427,986	412,403	188,311	187,097	173,736
Bank indebtedness	9,902	-	-	37,198	35,107	11,893	5,455	28,964
Total current liabilities	36,812	14,098	14,062	55,403	54,916	17,489	12,895	32,140
Long-term debt	51,108	65,859	74,014	15,562	562	–	–	2,500
Statement of Earnings								
# stores	204	198	195	193	188	105	105	99
Sales	$ 121,567	$ 94,422	$ 125,920	$ 122,097	$ 83,236	$ 51,809	$ 71,010	$ 60,751
Future tax expense (recovery)	604	3,062	(3,043)	943	12,460	-	-	-
Earnings (loss) before non-controlling interest	5,573	(1,420)	12,017	7,182	(8,464)	2,383	6,206	4,677
Net earnings (loss) for the period	4,466	(1,210)	9,784	5,325	(6,991)	1,766	4,627	3,332
Basic earnings (loss) per Unit	$ 0.24	$ (0.07)	$ 0.54	$ 0.30	$ (0.59)	$ 0.17	$ 0.45	$ 0.39
Diluted earnings (loss) per Unit	$ 0.24	$ (0.07)	$ 0.52	$ 0.30	$ (0.59)	$ 0.17	$ 0.45	$ 0.39
Distributable cash per Unit	$ 0.41	$ 0.17	$ 0.48	$ 0.49	$ 0.41	$ 0.20	$ 0.45	$ 0.40
Distributable cash before non-recurring items per Unit	$ 0.41	$ 0.19	$ 0.49	$ 0.52	$ 0.41	$ 0.20	$ 0.45	$ 0.40
Distributions declared per Unit	$ 0.405	$ 0.405	$ 0.385	$ 0.375	$ 0.375	$ 0.358	$ 0.34	$ 0.30

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of August 13, 2008:

	Units
Fund Units [(1)]	18,426,381
Liquor Stores LP Exchangeable LP Units	3,285,179
Liquor Stores LP Series 1 Exchangeable LP Units	845,409
	22,556,969

Note:
(1) *Includes 78,650 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 June 30, 2008, there was $9.9 million outstanding on the operating line. There was $15 million drawn on the long-term Capital/Acquisition facility with 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 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 continues to be in compliance with all covenants.

Capital Expenditures

During the three months ended June 30, 2008, the Fund acquired four stores and opened two stores. Subsequent to June 30, 2008, the Fund acquired or opened two stores and has entered into an agreement to acquire 19 Brown Jug stores in Alaska. All acquisitions will be funded with existing credit facilities.

The Fund will continue to pursue acquisition opportunities and to open new stores.

Effect of Trust Tax Legislation

On June 22, 2007, Bill C – 52, including the provisions related to the taxation of income trusts (the "SIFT Rules"), 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 "Capital Expenditures" below.

The SIFT Rules provide that, while there is no intention to prevent "normal growth" during the transitional period, any "undue expansion" could result in the transition period being "revisited", 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 "normal growth" in this context. Specifically, the Department of Finance stated that “normal growth” would include equity growth within certain “safe harbour” limits, measured by reference to a specified investment flow-through trust or partnership's (“SIFT”) 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 wholesale 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 June 30, 2008, assuming a combined outstanding bank indebtedness and long-term debt balance of $24.9 million.

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

Foreign Exchange Risk

The Fund has entered into certain US dollar purchase contracts in order to meet funding requirements relating to the closing of the Brown Jug acquisition in Alaska, including a $10 million US dollar currency forward contract, which is due in October 2008. The fair value of the contract has been recorded in the financial statements of the Fund at June 30, 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 June 30, 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	$ 15,970	$ 16,118	$ 16,636	$ 17,314	$ 17,661	$ 27,189
Long-term debt	15,000	-	-	-	-	-
Debentures	-	-	500	57,500	-	-
Total	$ 30,970	$ 16,118	$ 17,136	$ 74,814	$ 17,661	$ 27,189

OFF BALANCE SHEET ARRANGEMENTS

At June 30, 2008, the Fund had a $10 million US dollar 120 day currency forward exchange contract, which is due in October 2008.

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 ("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.

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 – 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.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") will be effective for publicly accountable enterprises beginning January 1, 2011. The Fund has developed an implementation plan to ensure compliance with the IFRS implementation timelines. Management is currently performing an assessment of the impact on the organization with specific emphasis on policy choices and elections available under IFRS 1, which is mandatory for all first-time adopters of IFRS. In conjunction with this preliminary diagnostic assessment, management is considering reporting implications and limitations on its current information technology systems and will be factoring IFRS requirements into new software purchases and implementations.

Management will be monitoring the impact of changes brought about by IFRS on its internal controls over financial reporting and disclosure controls and procedures.

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, notes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest, and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as available for sale, held to maturity, held for 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 three and six months ended June 30, 2008, the Fund incurred professional fees of $73,227 and $182,120 respectively to a law firm of which a director of Liquor Stores GP Inc. (the "Liquor Stores GP"), a subsidiary of the Fund, is a partner. Rent paid to companies controlled by directors of the GP amounted to $106,864 and $229,791. The Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the GP for tax services of $1,643 and $35,208 for the three and six months ended June 30, 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 June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

RISK FACTORS

The Fund's 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 Fund's ability to hire and retain staff at acceptable wage levels; risks related to the possibility of future unionization; supply interruption or delays; reliance on information and control systems; dependence on capital markets to fund its growth strategy beyond its available credit facilities; dependence of the Fund on 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 "Risk Factors" detailed in the Fund's Annual Information Form, which is available at www.sedar.com.

NON-GAAP MEASURES

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

For a reconciliation of distributable cash to cash provided by operating activities please see “Distributable cash per unit (Fund Units and Exchangeable Units)”.

Operating margin for purposes of disclosure under “Operating Results” 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.

“Payout ratio” is calculated by dividing cash distributions declared by distributable cash.

Operating margin, operating margin as a percentage of sales, distributable cash, EBITDA 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, EBITDA 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, EBITDA 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, EBITDA and payout ratio may not be comparable to similar measures presented by other issuers.

FORWARD LOOKING STATEMENTS

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

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under “Risk Factors”. Specific forward-looking statements contained in this management’s discussion and analysis include, among others, statements regarding the terms of the Brown Jug acquisition, the completion of the Brown Jug acquisition and the operational and financial performance of the acquired business.

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

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