LIQUOR DEPOT

LIQUOR STORES INCOME FUND

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

For the Three and Nine Months Ended September 30, 2008
As of November 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 nine months ended September 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 on page 21 below under "Non-GAAP Measures". See also "Risk Factors" on page 20 and "Forward-Looking Statements" on page 22 of this MD&A.

This MD&A is dated November 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 (Third quarter 2008 compared with third quarter 2007)

- Operating margin increased to $12.4 million, up 4.2% from $11.9 million.
- Adjusted gross margin increased to 25.5% from 24.3%.
- Sales increased 1.5% to $123.9 million.
- As a result of price harmonization of Liquor Barn stores to Fund stores, blended gross margin for same stores was up substantially to 26.3% from 25.2%.
- Distributable cash remained constant at $11.1 million.
- Distributable cash per unit remained constant at $0.49.
- Distributions declared increased by 8% to $0.41.

The improvement in overall sales and margins has offset a moderate decrease of 1.7% in same store sales for the nine months ended September 30, 2008 and 2.9% for the third quarter of 2008. Price harmonization has accounted for the increased margin and new stores for the increased sales.

Same store sales for October 2008 are up over October 2007.

RECENT DEVELOPMENTS

On November 5, 2008 the Fund completed the acquisition of 19 retail liquor stores from Brown Jug Inc. ("Brown Jug") in Anchorage, Alaska. Brown Jug's 2007 sales were in excess of US $60 million.

On November 13, 2008, the Board of Directors of Liquor Stores GP Inc. ("LSGP"), administrator of the Fund, appointed Rick Crook as President, Chief Executive Officer and Director of LSGP. Mr. Kipnes, who is currently CEO, will become Executive Chairman of LSGP. Henry Bereznicki will continue as Board Chairman. These changes are effective January 1, 2009.

OUTLOOK

To date in 2008, the Fund has acquired or opened 34 stores including 19 Brown Jug stores, giving the Fund 228 stores in which it is invested or operates. One store was closed in October 2008.

The Fund's financial capacity for growth includes proceeds from the issuance of convertible, unsecured, subordinated debentures in late 2007 and early 2008 and the Fund's current credit facilities. The Fund currently has access to funding for growth as well as sufficient additional financing to support corresponding inventory growth.

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 or has investments in 228 retail liquor stores. Management believes the Fund is the largest liquor store operator in Alberta by number of stores and revenue.

Stores and Operations

As of November 13, 2008, the Fund operates or has investments in 228 retail liquor stores located as follows:

	Alberta			British Columbia			Alaska		
	Edmonton(1)	Calgary(1)	Other(2)	Lower Mainland	Vancouver Island	Interior	Anchorage	Other	Total(3)
Number of Stores	79	46	49	13	11	10	19	1	228

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).

(3) Total stores is net of one store closure that occurred in October 2008.

Competitive 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 174 liquor stores in Alberta where there are approximately 1,100 liquor stores and 86 agency stores.

The Fund operates 34 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 approximately 380 retail liquor stores and approximately 90 stores in the greater Anchorage area. There are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas. The Fund currently operates 19 stores in Alaska.

BUSINESS STRATEGY

Growth - New Stores

The Fund's strategy is to grow by attracting more customers to existing locations as well as through new store development and acquisitions. The Fund explores opportunities to acquire and/or develop stores in Alberta, British Columbia, and the United States 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 in Canada and approximately 90% in Brown Jug operations. The Fund and its predecessors have demonstrated stable revenues and margins with compounded annual EBITDA growth of 25.2% from 1996 to September 30, 2008.

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 uses a number of in-store customer experiences including signage and shelf talkers, customer education 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 information systems initiatives that include a point-of-sale system upgrade, the development of a customer database as well as Internet promotion.

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 Fund, 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 annual 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 annual 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 September 30, 2008 were $9.1 million or $0.405 per unit, compared with $8.4 million or $0.375 per Unit a year earlier. On a weighted average basis, for the third quarter of 2008 distributable cash including non-recurring items was $0.49 per unit, consistent with the third quarter of 2007. Distributable cash before non-recurring items was $0.50 for the third quarter of 2008, also consistent with the third quarter of 2007.

For the nine months ended September 30, 2008, distributable cash was $24.0 million, up 19% from $20.2 million in the comparable period in 2007. For a per weighted average unit comparison, the Fund has determined that using the weighted average number of units for the year ended December 31, 2007 provides a more informative comparison because a nine-month weighted average unit calculation does not reflect the full dilutive effect of the units issued on June 7, 2007 in respect of the Liquor Barn acquisition. On this basis, distributable cash per weighted average unit was $1.10 before non-recurring items for the first nine months of 2008, compared with cumulative quarterly distributable cash per weighted average unit of $1.11 for the same period in 2007. After non-recurring items, distributable cash per weighted average unit is $1.07 compared with cumulative quarterly distributable cash per weighted average unit of $1.09 for the nine months ended September 30, 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 nine months ended September 30, 2008 and 2007:

	Three months ended September 30,		Nine months ended September 30,	
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**2008**	**2007**
Cash provided by operating activities	$ 10,465	$ (949)	$ 16,766	$ 14,360
Net change in non-cash working capital	736	12,437	7,531	7,299
Incentive plan provisions	-	(273)	-	(819)
Provision for non-growth property and equipment	(75)	(155)	(266)	(662)
Distributable cash	11,126	11,060	24,031	20,178
Non-recurring items (1)	90	277	795	459
Distributable cash before non-recurring items	$ 11,216	$ 11,337	$ 24,826	$ 20,637
Weighted average units outstanding	# 22,556,969	# 22,507,826	# 22,544,952	# 16,167,155
Distributable cash before non-recurring items per weighted average Unit	$ 0.50	$ 0.50	$ 1.10	$ (2)1.11
Distributable cash per weighted average Unit	$ 0.49	$ 0.49	$ 1.07	$ (2)1.09
Distributions declared per Unit	$ 0.41	$ 0.38	$ 1.22	$ 1.11

(1) *See "Operating Results" below for a description of "non-recurring items."*
(2) *The Fund has used the 2007 annual weighted average number of units to calculate distributable cash for the nine months ended September 30, 2007 to provide a more informative comparison. Distributable cash before non-recurring items per weighted average unit for the nine months ended September 30, 2007, was $1.28 and after non-recurring items $1.25, however, this does not reflect the full dilutive effect of the units issued on June 7, 2007 in respect of the Liquor Barn acquisition.*

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 September 30,		Nine months ended September 30,	
(expressed in thousands of Canadian dollars)	**2008**	**2007**	**2008**	**2007**
Purchase of property and equipment	$ 795	$ 1,277	$ 3,727	$ 3,077
Growth expenditures including amounts relating to developed stores	(720)	(972)	(3,361)	(2,265)
Purchase of non-growth property and equipment	75	305	366	812
Provision for further non-growth property and equipment expenditures	-	(150)	(100)	(150)
Total provision for non-growth property and equipment	75	155	266	662

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

The Fund has historically utilized long-term incentive plan awards to reward certain employees for significant performance and associated per unit cash flow growth. Currently there are 78,650 units which have not yet vested under the Long-Term Incentive Plan and 2007 Incentive Plan. On May 8, 2008 the Fund adopted a new incentive plan, the Unit Award Incentive Plan ("UAIP"). Awards under the UAIP are discretionary and, as such, not yet determinable. As a result, no UAIP provision has been made in the calculation of distributable cash in respect to the 2008 year.

Comparable GAAP Measures

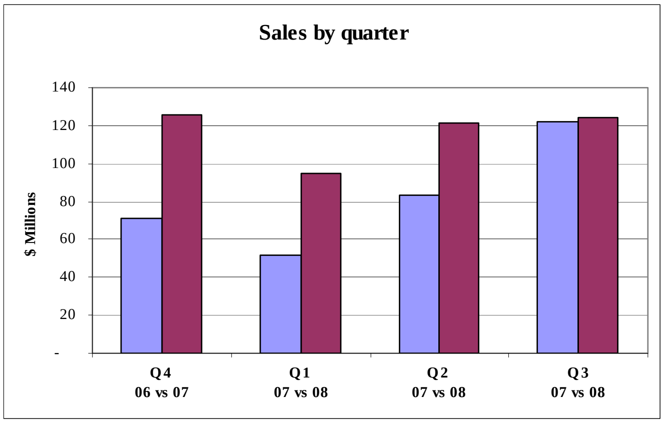
Distributable cash is a Non-GAAP Measure. Adjustments and provisions related to non-growth property and equipment, incentive plan provisions and non-cash working capital are necessary to reconcile distributable cash to its nearest GAAP measure, cash provided by operating activities.

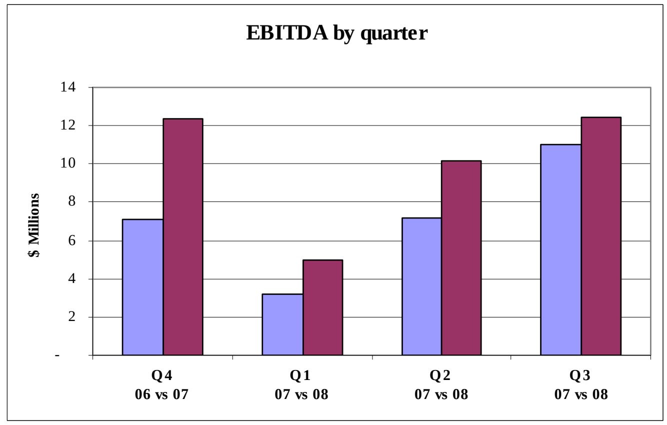
The GAAP measure comparable to distributable cash per unit is earnings per unit. Diluted earnings per Unit for the three months ended September 30, 2008 were $0.34 compared to $0.31 in the same period of 2007. Diluted earnings per Unit for the nine months ended September 30, 2008 were $0.52 compared to $0.03 for the nine months ended September 30, 2007.

Operating Results

The retail liquor industry is subject to seasonal 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.





Policy on Same Store Comparisons

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 third quarter of 2008, there were 101 Liquor Depot, Grapes ‘n Grains and OK Liquor same stores (the “Fund stores”) and 81 Liquor Barn same stores. For the nine months ended September 30, 2008, same stores included 99 Fund stores and 66 Liquor Barn stores. Sales for Liquor Barn stores for the nine months ended September 30, 2007 are on a proforma basis.

Same Store Sales

- For the three months ended September 30, 2008, total same store sales were $106.8 million, down 2.9% from $110.0 million. The decrease comprises:
  - A decrease of $0.5 million or 0.9% for the 101 Fund stores.
  - A decrease of $2.7 million or 5.4% for the 81 Liquor Barn stores.
- For the nine months ended September 30, 2008 total same store sales were $266.3 million, down 1.7% from $271.0 million. The decrease comprises:
  - An increase of $2.8 million or 1.7 % in same store sales for 99 Fund stores.
  - A decrease of $7.4 million or 6.6% in same store sales for 66 Liquor Barn stores.

Same store sales for the three and nine months ended September 30, 2008 were negatively affected by:

- The timing of the Canada Day long weekend which fell on a weekday in 2008 and on a weekend in 2007.
- Extensive construction activities which interrupted traffic routes around several stores;
- Drop in tourism resulting from high gasoline prices, the strong Canadian dollar and financial uncertainty;

- Reduced natural gas and oil exploration throughout northern Alberta and reduced forestry activities in northern Alberta and British Columbia;
- Inter-store sales cannibalization by Fund and Liquor Barn stores as well as some increased competition due to new stores opening in certain market areas; and
- Specific to the Liquor Barn stores, retail price harmonization with Fund stores resulted in a drop in sales volume, but a substantive increase in margin of 2.6% for the nine months ended September 30, 2008 compared with the same period in 2007.

Gross Margin

The improvements in gross margin over 2007, 1.2% and 1.0% respectively for the three and nine months ended September 30, 2008, offset the same store sales decrease experienced for the same periods.

Third Quarter 2008 Operating Results

The following table summarizes the operating results for the three months ended September 30, 2008 and operating results for the three months ended September 30, 2007.

	Three Months ended September 30,			
	2008		**2007**	
(expressed in thousands of Canadian dollars)	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)	
Number of stores at September 30 (note 1)	**208**		**193**	
Sales	123,913	100.00%	122,097	100.00%
Adjusted gross margin (note 2)	31,556	25.46%	29,692	24.32%
Operating and administrative expense	19,146	15.44%	17,767	14.55%
Operating margin (note 3)	12,410	10.02%	11,925	9.77%
Non-recurring items (note 4)	90	0.07%	277	0.23%
Operating margin (note 3) before non-recurring items	12,500	10.09%	12,202	10.00%

Notes:

(1) *The number of stores and corresponding results for 2008 includes partial months of operations for four stores (2007-five) opened or acquired during the three months ended September 30, 2008.*

(2) *Adjusted gross margin for the 2007 Fund results excludes $0.9 million in respect of the non-cash amortization of an inventory fair value adjustment related to the Liquor Barn acquisition.*

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

(4) *Non-recurring items for the three months ended September 30, 2008 include professional and consulting fees for non-recurring business matters and for the 2007 results non-recurring items were head office relocation and Liquor Barn acquisition expenses.*

Third Quarter 2008 Operating Results Compared to Third Quarter 2007 Operating Results

Sales

For the three months ended September 30, 2008 sales were $123.9 million, up 1.5 % from $122.1 million in the same period last year. The sales increase comprises:

- During the third quarter of 2007, four stores were acquired. Sales for these stores and stores with significant wholesale business increased to $12.3 million for the three months ended September 30, 2008 from $12.1 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 September 30, 2007.

- Stores opened or acquired subsequent to September 30, 2007 accounted for $ 4.8 million of the sales increase.

Gross Profit and Gross Margin

For the three months ended September 30, 2008 gross profit was $31.6 million, up 6.4 % from $29.7 million for the same period last year. The margin increase includes:

  - A decrease of $0.1 million or 0.5% in Fund same store gross margin.

  - An increase of $0.4 million or 3.7% in Liquor Barn same store gross margin.

As a result of retail price harmonization of Liquor Barn stores to Fund stores, blended gross margin was up substantially to 26.3% of same store sales in the third quarter of 2008 from 25.2% of same store sales a year earlier.

Operating and Administrative Expense

An increase of 15 stores operated over the number operated at the end of the third quarter of 2007 resulted in operating and administrative expense for the three months ended September 30, 2008 of $19.1 million, up 7.3% from $17.8 million a year earlier. Operations involved 208 stores in the third quarter of 2008, up 7.8% from 193 stores during the same period last year.

For the three months ended September 30, 2008, operating and administrative expenses included $0.1 million in non-recurring consulting and professional fees. For the three months ended September 30, 2007 operating and administrative expense included $0.3 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 September 30, 2008 was $12.5 million, up 2.5% from $12.2 million for the same period last year.

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 operating margin of 10.09%.

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.

The Fund has adopted CICA Emerging Issues Committee Abstract #171 (“EIC-171”) Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion.

The EIC abstract required retroactive application, which resulted in an increase to cumulative undistributed earnings of $94,297 in the third quarter.

In the quarter ended September 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. Changes to future income tax estimates represent a non-cash charge against net earnings.

Net Earnings before Non-controlling Interest and Net Earnings and Comprehensive Income

Net earnings before non-controlling interest increased by $0.5 million to $7.9 million for the three months ended September 30, 2008 compared with net earnings before non-controlling interest of $7.4 million for the same period in 2007.

For the quarter ended September 30, 2008, net earnings increased by $0.6 million to $6.2 million from $5.6 million for the quarter ended September 30, 2007.

Nine Months Ended September 30, 2008 Operating Results

Basis of Comparison

Management has chosen to compare the Fund's results for the nine months ended September 30, 2008 to a proforma derived by combining the results of the Fund and Liquor Barn Income Fund for the nine months ended September 30, 2007. As all comparisons to the nine months ended September 30, 2007 contain partial month results for the stores acquired in the first nine 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.

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

	Nine Months ended September 30,					
	2008 Fund Results		**2007 Fund Proforma (note 1)**		**2007 Fund Results (note 2)**	
(expressed in thousands of Canadian dollars)	**$**	**%**	**$**	**%**	**$**	**%**
	(unaudited)		(unaudited)		(unaudited)	
Number of stores at September 30 (note 2)	**208**		**193**		**193**	
Sales	339,902	100.00%	322,625	100.00%	257,142	100.00%
Adjusted gross margin(note 3)	84,275	24.79%	76,913	23.84%	62,530	24.32%
Operating and administrative expense	56,730	16.69%	55,669	17.26%	40,227	15.64%
Operating margin (note 4)	27,545	8.10%	21,244	6.58%	22,303	8.68%
Non-recurring items (note 5)	795	0.23%	4,815	1.49%	459	0.18%
Operating margin (note 4) before non-recurring items	28,340	8.33%	26,059	8.07%	22,762	8.86%

Notes:

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

(2) *For the nine months ended September 30, 2008,* ***2008 Fund Results*** *include partial months of operations for 13 stores opened or acquired in 2008. 2007 Fund Proforma results contain partial months of operations for eight Fund stores opened or acquired in 2007.* ***2007 Fund Results*** *contain partial months of operations for 81 Liquor Barn stores and eight Fund stores opened or acquired in 2007 and are not a good basis for comparison..*

(3) *Adjusted gross margin for the* ***2007 Fund Proforma*** *and* ***2007 Fund Results*** *excludes $2.2 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 nine months ended September 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 nine 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 relocation and Liquor Barn acquisition expenses.*

Nine Months Ended September 30, 2008 Operating Results Compared to Nine Months Ended September 30, 2007 Proforma Operating Results

Sales

For the nine months ended September 30, 2008, sales were $339.9 million up 5.4% from $322.6 million for the same period in 2007. The sales increase comprises:

- During the first nine months of 2007 the Fund opened or acquired 21 stores, including 15 Liquor Barn stores. Sales for these stores were $33.5 million for the nine months ended September 30, 2008, up 65.8% from $20.2 million for the same period in 2007.

- Sales for stores opened or acquired subsequent to September 30, 2007 and sales for stores with significant wholesale business accounted for $8.6 million of the sales increase.

Gross Profit and Gross Margin

For the nine months ended September 30, 2008 gross profit was $84.3 million, up 9.6% from $76.9 million on a proforma basis from 2007. The increase includes:

  - An increase of $0.2 million or 0.5% in Fund same store gross margin.

  - An increase of $1.2 million or 4.9% in Liquor Barn same store gross margin.

Adjusted gross margin as a percentage of sales for the nine months ended September 30, 2008 was 24.8% compared with 23.8% 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 $55.9 million, up 9.82% from $50.9 million for the nine months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008, operating and administrative expense including non-recurring items was $56.7 million, up 1.8% or $1.1 million from $55.7 million on a proforma basis for the same period in 2007 due to an increase in the number of stores operated.

Operating Margin

For the nine months ended September 30, 2008 operating margin before non-recurring items was $28.3 million up 8.4% from $26.1 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 nine months ended September 30, 2008 include:

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

Nine Months Ended September 30, 2008 Operating Results Compared to Nine Months Ended September 30, 2007 Operating Results

Sales

For the nine months ended September 30, 2008 sales were $339.9 million up 32.2% from $257.1 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 of $72.3 million.

- Other stores opened or acquired subsequent to September 30, 2007 and licensee stores accounted for the remaining $8.5 million sales increase.

- **Same Store Sales**

  For the nine months ended September 30, 2008, there was an increase in same store sales for 99 Fund stores to $161.2 million from $159.2 million or 1.73% compared to the prior year.

Gross Profit and Gross Margin

For the nine months ended September 30, 2008 gross profit was $84.3 million, up 34.9 % from $62.5 million for the same period in 2007. As a result of sales harmonization of Liquor Barn stores to Fund stores, blended adjusted gross margin was 24.8% of sales for the nine months ended September 30, 2008, up from 24.3% of sales a year earlier.

Operating and Administrative Expense

Operating and administrative expense for the nine months ended September 30, 2008 was $56.7 million, up $16.5 million or 41.0% from $40.2 million in the first three quarters of 2007 mainly due to the increased number of stores operated. Operating and administrative expense in 2008 reflects nine full months of operations for 81 Liquor Barn stores acquired on June 7, 2007, whereas for September 30, 2007, the results reflect operations from June 8, 2007 onwards. As well, the Fund grew by an additional 15 stores between September 30, 2007 and 2008.

For the nine months ended September 30, 2008 operating and administrative expense included $0.8 million in non-recurring items including recruitment and relocation expenses and non-recurring consulting and professional fees. For the nine months ended September 30, 2007 operating and administrative expense included $0.5 million in non-recurring items including expenses associated with the Liquor Barn acquisition as well as the Fund’s head office move.

Operating Margin

For the nine months ended September 30, 2008 operating margin before non-recurring items was $28.3 million up 24.1% from $22.8 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 operating margin before non-recurring items of 8.3%.

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

The Fund updated its estimate of temporary differences pertaining primarily to certain goodwill, property, plant and equipment, and intangible assets, resulting in future tax expense of $3.6 million for the nine months ended September 30, 2008.

Net Earnings before Non-controlling Interest and Net Earnings and Comprehensive Income

Net earnings before non-controlling interest increased by $8.8 million to $12.7 million for the nine months ended September 30, 2008 compared with net earnings before non-controlling interest of $3.9 million for the same period in 2007. The increase is attributed mainly to the recording of the future income tax adjustment of $10.6 million during the nine months ended September 30, 2007.

For the nine months ended September 30, 2008 net earnings increased by $9.1 million to $9.5 million from $0.4 million for the same period in 2007 mainly due to the recording of a future tax adjustment of $10.6 million during the quarter in 2007.

Condensed Quarterly Information

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

	2008			2007				2006
	Sept 30	**June 30 (restated) (note 1)**	**March 31 (restated) (note 1)**	**Dec 31 (restated) (note 1)**	**Sept 30 (restated) (note 1)**	**June 30 (restated) (note 1)**	**March 31**	**Dec 31**
Balance Sheet								
Cash and cash equivalents	$ 810	$ 754	$ 768	$ 19,498	$ 6,891	$ 3,391	$ 1,715	$ 3,397
Total assets	442,949	439,961	434,784	449,725	427,986	412,403	188,311	187,097
Bank indebtedness	13,298	9,902	-	-	37,198	35,107	11,893	5,455
Total current liabilities	39,962	36,812	14,098	14,062	55,403	54,916	17,489	12,895
Long-term debt	51,425	51,108	65,859	74,014	15,562	562	–	–
Statement of Earnings								
# stores	208	204	198	195	193	188	105	105
Sales	$ 123,913	$ 121,567	$ 94,422	$ 125,920	$ 122,097	$ 83,236	$ 51,809	$ 71,010
Future tax expense (recovery)	587	493	2,499	(2,607)	685	9,909	-	-
Earnings (loss) before non-controlling interest	7,850	5,684	(857)	11,581	7,438	(5,913)	2,383	6,206
Net earnings (loss) for the period	6,228	4,466	(1,211)	9,550	5,600	(6,937)	1,766	4,627
Basic earnings (loss) per Unit	$ 0.34	$ 0.24	$ (0.07)	$ 0.52	$ 0.31	$ (0.58)	$ 0.17	$ 0.45
Diluted earnings (loss) per Unit	$ 0.34	$ 0.24	$ (0.07)	$ 0.50	$ 0.31	$ (0.58)	$ 0.17	$ 0.45
Distributable cash per Unit	$ 0.49	$ 0.41	$ 0.17	$ 0.48	$ 0.49	$ 0.41	$ 0.20	$ 0.45
Distributable cash before non-recurring items per Unit	$ 0.50	$ 0.41	$ 0.19	$ 0.49	$ 0.50	$ 0.41	$ 0.20	$ 0.45
Distributions declared per Unit	$ 0.405	$ 0.405	$ 0.405	$ 0.385	$ 0.375	$ 0.375	$ 0.358	$ 0.34

(1) *Information for the quarters has been restated in accordance with the adoption of CICA Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through.*

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

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

	Units
Fund Units [1]	18,435,646
Liquor Stores LP Exchangeable LP Units	3,275,914
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 incentive 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 September 30, 2008, there was $13.3 million outstanding on the operating line. There was $15.0 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 September 30, 2008, the Fund continues to be in compliance with all covenants.

The Fund also has $57.5 million in 6.75% Debentures maturing on December 31, 2012 and $500 thousand 8.00% Debentures maturing on December 31, 2011.

Capital Expenditures

During the three months ended September 30, 2008, the Fund acquired one store and opened three stores. Subsequent to September 30, 2008, the Fund acquired or opened 20 stores, including 19 Brown Jug stores in Alaska. The Fund closed one store in October 2008. 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. As at September 30, 2008, $7.5 million had 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 approximately 5% 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. There were no bad debts recorded or significant past due accounts for the three and nine months ended September 30, 2008.

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 debentures. 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 September 30, 2008, assuming a combined outstanding bank indebtedness and long-term debt balance of $28.3 million.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 283	$ (283)
Increase (decrease) in net earnings before income tax and non-controlling interest	(283)	283

Foreign Exchange Risk

In anticipation of entering into the US market, the Fund entered into certain US dollar purchase contracts, including a $10 million US dollar currency forward contract, which was settled in October 2008 and foreign currency option contracts exercised in October 2008. The fair value of the contracts was recorded in the financial statements of the Fund at September 30, 2008.

Following the acquisition of 19 Brown Jug stores in Alaska, the Fund is party to foreign exchange transactions as part of normal operations between the Fund and its US subsidiaries.

Contractual Obligations

The table below sets forth, as of September 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	$ 16,082	$ 16,232	$ 16,753	$ 17,432	$ 17,781	$ 27,766
Long-term debt	15,000	-	-	-	-	-
Debentures	-	-	500	57,500	-	-
Total	$ 31,082	$ 16,232	$ 17,253	$ 74,932	$ 17,781	$ 27,766

OFF BALANCE SHEET ARRANGEMENTS

At September 30, 2008, the Fund had a $10 million US dollar 120 day currency forward exchange contract, which was settled in October 2008 and foreign currency option contracts, which were exercised in October 2008. As at November 13, 2008, the Fund does not have any off balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level. The impairment test is done annually unless circumstances arise that would potentially impair the carrying value of goodwill. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the 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 12 and 17 and the statements of earnings, no accounting policy changes or adjustments to amounts recorded in prior periods were necessary.

Future Income Taxes

Effective September 30, 2008, the Fund has adopted CICA Emerging Issues Committee Abstract #171 ("EIC-171") Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion.

The Fund has retrospectively applied EIC-171 with restatement of prior periods. The cumulative impact of the restatement resulted in an increase of $0.1 million to unitholders' equity (see note 3 to the Financial Statements).

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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 nine months ended September 30, 2008, the Fund incurred professional fees of $92,177 and $274,298 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 $99,613 and $329,404 The Fund paid fees and expenses to a company controlled by the Chief Executive Officer of the GP for tax services of $3,253 and $38,461 for the three and nine months ended September 30, 2008 (see note 15 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 September 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 distributable cash 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.

FUTURE ORIENTED FINANCIAL INFORMATION

In this MD&A, management is updating certain forward looking statements originally provided in the Fund's MD&A dated May 8, 2008 for the three months ended March 31, 2008. The update affects the 2008 outlook for estimated comparable annualized sales for 191 stores operated in Alberta and British Columba.

For the annualized comparable sales outlook affecting the 191 stores operated in Alberta and British Columbia, management currently expects a total of $460 million, a reduction of 1.5% from the $467 million previously indicated. The reduction takes into account the performance of these stores in the second and third quarters of 2008, a reduction in licensee sales and the continued impact of reduced oil and gas exploration and development activity in Alberta, and reduced forest industry activity and construction in Alberta and British Columbia, and reduced construction activity in both provinces.

Management notes that the reduction in the 2008 outlook for sales for the 191 stores is not expected to materially affect the Fund's overall operating performance in 2008. Approximately 60% of the sales reduction relates to lost licensee sales that typically attract low product margins. The Fund continues to benefit from the improved margin rates resulting from the harmonization of prices in the Liquor Barn stores with the Liquor Depot stores and is experiencing lower than anticipated store operating and head office expenses.

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 operational and financial performance of the business acquired pursuant to the Brown Jug acquisition.

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.

Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

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

Liquor Stores Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	September 30, 2008	December 31, 2007 (restated) (note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 810	$ 19,498
Accounts receivable	2,905	3,474
Inventory	92,005	84,856
Prepaid expenses and deposits (note 5)	1,491	1,348
	97,211	109,176
Pre-opening costs	1,000	773
Deposits on future acquisitions (note 5)	1,074	647
Notes receivable	306	-
Property and equipment	43,614	41,707
Intangible assets (note 4)	39,145	37,784
Goodwill (note 4)	260,599	259,638
	$ 442,949	$ 449,725
Liabilities		
Current liabilities		
Bank indebtedness	$ 13,298	$ -
Accounts payable and accrued liabilities	8,629	10,498
Distributions payable to unitholders (note 7)	2,477	2,470
Distributions payable to non-controlling interest (note 7)	558	1,094
Current portion of long-term debt (note 6)	15,000	-
	39,962	14,062
Long-term debt (note 6)	51,425	74,014
Future income tax liability (note 8)	11,996	8,632
Non-controlling interest (note 9)	48,079	50,637
	151,462	147,345
Unitholders' Equity		
Fund Units (note 10)	309,642	308,694
Equity component of convertible debentures (note 6)	4,970	4,340
Contributed surplus (note 11)	889	558
Cumulative undistributed earnings (excess distributions)	(24,014)	(11,212)
	291,487	302,380
	$ 442,949	$ 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 September 30, 2008	Three months ended September 30, 2007 (restated) (note 3)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated) (note 3)
Sales	$ 123,913	$ 122,097	$ 339,902	$ 257,142
Cost of sales	92,357	93,353	255,627	196,859
Gross margin	31,556	28,744	84,275	60,283
Operating and administrative expense	19,146	17,768	56,730	40,227
Operating earnings before amortization and interest	12,410	10,976	27,545	20,056
Amortization				
Property and equipment	1,434	1,235	3,808	2,865
Intangible assets	796	919	2,341	1,256
Pre-opening costs	578	107	1,056	411
	2,808	2,261	7,205	4,532
	9,602	8,715	20,340	15,524
Interest expense and other				
Bank indebtedness	432	380	604	807
Long-term debt	45	212	474	212
Convertible debentures (note 6)	1,297	-	3,791	-
Unrealized loss (gain) on foreign currency contracts	(616)	-	(696)	-
Realized loss (gain) on foreign currency contracts	7	-	(88)	-
	1,165	592	4,085	1,019
Earnings before income tax and non-controlling interest	8,437	8,123	16,255	14,505
Future income tax expense	587	685	3,580	10,597
Earnings before non-controlling interest	7,850	7,438	12,675	3,908
Non-controlling interest (note 9)	1,622	1,838	3,192	3,479
Net earnings and comprehensive income for the period	6,228	5,600	9,483	429
Cumulative undistributed earnings (excess distributions), beginning of period	(22,905)	(12,620)	(11,307)	997
Change in accounting policy (note 3)	94	54	95	-
Cumulative undistributed earnings (excess distributions), as restated	(22,811)	(12,566)	(11,212)	997
Distributions declared on Fund Units (note 7)	(7,431)	(6,755)	(22,285)	(15,147)
Cumulative undistributed earnings (excess distributions), end of period	$ (24,014)	$ (13,721)	$ (24,014)	$ (13,721)
Earnings per Unit (note 13)				
Basic	$ 0.34	$ 0.31	$ 0.52	$ 0.03
Diluted	$ 0.34	$ 0.31	$ 0.52	$ 0.03

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

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

	Three months ended September 30, 2008	Three months ended September 30, 2007 (restated) (note 3)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated) (note 3)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	$ 6,228	$ 5,600	$ 9,483	$ 429
Items not affecting cash				
Amortization	2,808	2,261	7,205	4,532
Amortization of inventory fair value adjustment	-	947	-	2,247
Non-cash interest on convertible debentures	317	-	856	-
Future income tax	587	685	3,580	10,597
Unrealized loss (gain) on foreign currency contracts	(616)	-	(696)	-
Non-controlling interest	1,622	1,838	3,192	3,479
Unit-based compensation (note 14)	255	156	677	375
	11,201	11,487	24,297	21,659
Net change in non-cash working capital items	(736)	(12,436)	(7,531)	(7,299)
	10,465	(949)	16,766	14,360
Financing activities				
Increase (decrease) in bank indebtedness	3,397	2,040	13,298	7,654
Proceeds of long-term debt	-	15,000	7,185	15,000
Repayment of long-term debt	-	-	(15,000)	-
Distributions paid to unitholders (note 7)	(7,431)	(6,684)	(22,277)	(14,086)
Distributions paid to non-controlling interest (note 7)	(1,672)	(1,739)	(5,563)	(4,096)
Dividends paid to non-controlling interest by subsidiaries (note 9)	(79)	(102)	(321)	(157)
Cash distributions from long-term incentive plans (note 10)	-	-	(12)	-
Units acquired	-	-	-	(950)
Proceeds from forfeited units	-	22	-	22
	(5,785)	8,537	(22,690)	3,387
Investing activities				
Acquisition of Liquor Barn	-	(928)	-	(1,679)
Business acquisitions (note 4)	(2,363)	(1,679)	(4,478)	(9,748)
Net deposits on future acquisitions (note 5)	(1,064)	(190)	(3,064)	540
Notes receivable	(4)	-	(306)	-
Purchase of property and equipment	(795)	(1,277)	(3,727)	(3,077)
Pre-opening costs	(398)	(14)	(1,284)	(289)
Proceeds on currency forward contract	-	-	95	-
	(4,624)	(4,088)	(12,764)	(14,253)
Increase (decrease) in cash and cash equivalents	56	3,500	(18,688)	3,494
Cash and cash equivalents balance, beginning of period	754	3,391	19,498	3,397
Cash and cash equivalents balance, end of period	$ 810	$ 6,891	$ 810	$ 6,891

Supplemental disclosure of cash flow information (note 16)

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 September 30, 2008, the Fund operated 207 retail liquor stores, of which 174 (2007 – 162) were in Alberta and 33 (2007 - 31) were in British Columbia, and had an interest in one store in Eastern Canada (2007 – nil). Of the stores operated, 183 (2007 – 177) were acquired by the Fund and 24 (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.

Adoption of new accounting standards

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 12 and 17 and the statements of earnings, no accounting policy changes or adjustments to amounts recorded in prior periods were necessary.

The Emerging Issues Committee of the CICA issued Abstract 171 on August 28, 2008, which resulted in a retrospective change in the Fund’s accounting policy for future income taxes (see note 3).

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 Change in accounting policy

The Fund has adopted CICA Emerging Issues Committee Abstract #171 ("EIC-171") Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion.

The Fund has retrospectively applied EIC-171 with restatement of prior periods as required by the standard's transitional provisions. The impact of retroactively adopting EIC-171 for future taxes related to temporary differences associated with the assets and liabilities attributable to exchangeable interests is as follows:

(expressed in thousands of Canadian dollars)	**December 31, 2007 (restated)**	**December 31, 2007 (as originally presented)**
Balance sheet		
Future income tax liability	$ 8,632	$ 10,300
Non-controlling interest	50,637	49,671
Fund Units	308,694	308,087

The impact on reported earnings is as follows:

	Nine months ended September 30,	
(expressed in thousands of Canadian dollars)	**2008**	**2007**
Decrease in future income tax expense	$ 674	$ 2,808
(Increase) in non-controlling interest	(675)	(2,478)
Increase (decrease) in net earnings	(1)	330
Increase in basic and diluted earnings per unit	$ 0.00	$ 0.02

The cumulative impact of the changes to December 31, 2007 is an increase of $94,834 to unitholders' equity.

4 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.

(a) Retail liquor store acquisitions

During the three and nine month periods ended September 30, 2008, the Fund acquired one (2007 – 2) and five (2007 – 86) retail liquor stores. The operating results of the acquisitions are included in the results of the Fund from the acquisition date.

During the three month period ended September 30, 2008, adjustments to goodwill and intangible assets of $18,402 and $167,055, respectively, related to transaction costs and the finalization of third party valuations for prior period acquisitions (2007 - $47,574). During the quarter, an addition to intangible assets of $750,000 for the final instalment payment related to a 2007 liquor license purchase. During the nine month period ended September 30, 2008, adjustments to goodwill and intangible assets of $240,852 and $174,218, respectively, related to transaction costs, contingent payments and the finalization of third party valuations for prior period acquisitions (2007 - $314,387).

Of the goodwill acquired for retail liquor store acquisitions during the three and nine month periods ended September 30, 2008, $520,522 and $960,791, respectively are expected to be deductible for tax purposes.

(b) Liquor license acquisitions

There were no (2007 – 2) liquor licenses acquired during the three month period ended September 30, 2008 and one (2007 -3) liquor license acquired during the nine month period ended September 30, 2008 for cash consideration of $1,730,000 (2007 – $1,628,398).

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 September 30, 2008**	**Nine months ended September 30, 2008**
Purchase price:		
Cash deposit paid in prior year	$ -	$ 587
Cash deposit paid during period ended June 30, 2008	-	2,050
Cash paid during period	2,363	4,478
	2,363	7,115
Net assets acquired:		
Working capital	75	1,001
Property and equipment	281	1,451
Intangible assets	1,487	3,702
Goodwill	520	961
	$ 2,363	$ 7,115

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	**Three months ended September 30, 2008**	**Nine months ended September 30, 2008**
Finite life intangible assets:		
Retail liquor licenses	$ 31	$ 358
Customer relationships	-	110
Leases	-	44
	31	512
Indefinite life intangible assets:		
Retail liquor licenses	1,456	3,190
	$ 1,487	$ 3,702

5 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	3,274	416
Acquisitions completed	(2,637)	(175)
Holdbacks released and refunds received	(210)	(66)
Balance – September 30, 2008	$ 1,074	$ 335

6 Long-term debt

Long-term debt comprises the following:

(expressed in thousands of Canadian dollars)	Maturity Date	2008 Effective Rate	September 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%	50,878	43,451
8.00% Debenture	December 31, 2011	4.85%	547	563
			66,425	74,014
Less: current portion of long-term debt			(15,000)	-
			$ 51,425	$ 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 September 30, 2008, interest on convertible debentures of $1,297,478 (2007 - $nil) represents coupon interest of $980,312 and $317,166 pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest rate method. For the nine months ended September 30, 2008, interest on convertible debentures was $3,790,872 (2007 - $nil), of which $2,934,574 represents coupon interest and $856,298 pertains to the impact of capitalized transaction costs and the accretion of debt using the effective interest rate method.

7 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 and $1.215 (2007 - $1.108) per Unit for the nine months ended September 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	Jul 15, 2008	2,477	2,477	443	443	114	114	3,034	3,034
Jul 15, 2008	Aug 15, 2008	2,477	2,477	443	443	114	114	3,034	3,034
Aug 15, 2008	Sep 15, 2008	2,477	2,477	444	444	114	114	3,035	3,035
Sep 15, 2008		2,477		444		114		3,035	
		$ 22,285	$ 19,808	$ 3,997	$ 3,553	$ 1,029	$ 915	$ 27,311	$ 24,276

8 Future income taxes

Prior to June 12, 2007, the Fund provided for current and future income taxes only for its incorporated subsidiaries. On June 22, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), received Royal Assent. As a consequence, Canadian income trusts are required to provide for future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011. The rate applicable to the determination of these taxes is 28.0%.

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)	**September 30, 2008**	**December 31, 2007 (restated – note 3)**
Future income tax liabilities:		
Intangible assets	$ 6,092	$ 4,330
Property and equipment	3,376	3,129
Goodwill	3,127	1,569
Debentures	-	130
	12,595	9,158
Future income tax assets:		
Issue costs	368	375
Deferred lease inducements	144	83
Non-capital losses	87	68
	599	526
	$ 11,996	$ 8,632

Future income taxes of $2,689,170 attributable to the Fund's exchangeable interests are not recorded. During the three months ended September 30, 2008 no units were exchanged. During the nine months ended September 30, 2008, 37,456 (2007 – 1,046,699) units were exchanged resulting in an increase to future income taxes of $23,863 (2007 – $506,491).

The Fund has recognized future income taxes related to non-capital losses of $597,412 (2007 - $652,203) available in a subsidiary to offset income of future years. If not utilized, $400,526 will expire in 2026 and $196,886 will expire in 2027.

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

9 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 – September 30, 2008	# 3,285,179	# 845,409	# 4,130,588

(expressed in thousands of Canadian dollars)	**(restated – note 3)**
Balance – December 31, 2007	$ 50,402
Earnings	2,937
Exchanged for Fund Units	(619)
Series 1 Exchangeable LP Unit conversion	216
Distributions declared (note 7)	(5,026)
Balance – September 30, 2008	$ 47,910
Subsidiaries	
Balance - December 31, 2007	$ 235
Earnings	255
Dividends	(321)
Balance – September 30, 2008	$ 169
Total	$ 48,079

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 10), 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. Exchangeable LP Units and Series 1 Exchangeable Units 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.

10 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 (restated – note 3)
Balance – December 31, 2007	# 18,294,278	$ 10,271	$ 308,694
Issued for Exchangeable Units	37,456	-	619
Vested Units (note 14 (a))	15,997	-	341
Cash distributions on vested Units	-	-	(12)
Treasury Units issued on March 7, 2008 (note 14 (a))	49,143	-	1,060
Vested Treasury Units issued on March 7, 2008 (note 14 (a))	(695)		(15)
Treasury Units	(48,448)	-	(1,045)
Balance – September 30 ,2008	# 18,347,731	$ 10,271	$ 309,642

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 September 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 14 (a)).

11 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 14 (a))	(341)
Unit-based compensation expense	672
Balance – September 30, 2008	$ 889

The Fund manages two unit-based incentive plans under which certain senior management receives a portion of their compensation (note 14 (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.

12 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 financial 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 September 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 8.

13 Earnings per Unit

(expressed in thousands of Canadian dollars, except per unit amounts)	Three months ended September 30, 2008	Three months ended September 30, 2007 (restated – note 3)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated – note 3)
Net earnings (numerator utilized in basic and diluted Earnings per Unit)	$ 6,228	$ 5,600	$ 9,483	$ 429
Units outstanding, beginning of period	#18,347,730	#17,521,291	#18,294,278	#10,228,320
Weighted average of Units issued less treasury Units acquired	-	460,964	45,864	3,139,384
Denominator utilized in basic earnings per unit	18,347,730	17,982,255	18,340,142	13,367,704
Potential units under unit-based compensation plans (note 14 (a))	1,294	2,507	14,838	5,027
Denominator utilized in diluted earnings per unit	#18,349,024	#17,984,762	#18,354,980	#13,372,731
Earnings per Unit – Basic	$ 0.34	$ 0.31	$ 0.52	$ 0.03
Earnings per Unit – Diluted	$ 0.34	$ 0.31	$ 0.52	$ 0.03

Non-controlling interest earnings related to exchangeable units, exchangeable units and potential units for convertible debentures have not been included in the diluted earnings per unit calculation due to their anti-dilutive effect.

14 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 nine month period ended September 30, 2008 and compensation expense for these units has been fully recognized and expensed. 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 September 30, 2008 was $195,927 (2007 - $8,771) and $458,713 (2007 – $19,735) for the nine month period ended September 30, 2008. Compensation expense of $71,178 (2007 - $146,932) was recorded for the 2007 Plan for the three month period ended September 30, 2008 and $213,534 (2007 - $355,249) for the nine month period ended September 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 future awards.

(b) Trustee and director deferred unit plan ("DSU Plan")

During the three month period ended September 30, 2008, awards accruing to DSU Plan participants were reduced by $12,118 (2007 – recorded a compensation expense of $52,664), which were recorded as a reduction to compensation expense in the period. For the nine months ended September 30, 2008, the total compensation expense related to the DSU Plan was $4,413 (2007 - $145,367). As at September 30, 2008 participants have accumulated an entitlement to the equivalent cash value of 22,399 Units under the DSU Plan (December 31, 2007 – 13,629).

15 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 nine months ended September 30, 2008 of $92,177 (2007 - $107,242) and $274,298 (2007 - $268,321), 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 $3,253 (2007 - $15,947) during the quarter and $38,461 (2007 - $31,453) during the nine month period ended September 30, 2008. Rent paid to companies controlled by directors of the GP amounted to $99,613 (2007 - $56,818) and $329,404 (2007 - $96,819) respectively for the three and nine months ended September 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.

16 Supplemental disclosure of cash flow information

(expressed in thousands of Canadian dollars)	Three months ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Interest paid	$ 475	$ 592	$ 3,166	$ 1,020
Income taxes paid	4	-	234	65

17 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, foreign currency options contracts, and long-term debt.

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

(expressed in thousands of Canadian dollars)	September 30, 2008 Carrying Value	Estimated Fair Value	December 31, 2007 Carrying Value	Estimated Fair Value
Held for trading (i)				
Cash and cash equivalents	$ 810	$ 810	$ 19,498	$ 19,498
Currency forward contract	494	494	-	-
Foreign currency option contracts	137	137	-	-
Loans and receivables (ii)				
Accounts receivable	2,274	2,274	3,474	3,474
Notes receivable	306	306	-	-
Other financial liabilities (iii)				
Bank indebtedness	13,298	13,298	-	-
Accounts payable and accrued liabilities	8,629	8,629	10,498	10,498
Distributions payable to unitholders	2,477	2,477	2,470	2,470
Distributions payable to non-controlling interest	558	558	1,094	1,094
Capital/acquisition facility advance	15,000	15,000	30,000	30,000
Convertible debentures	51,425	56,666	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 and foreign currency option contracts are carried at fair value, which represents the market value of the contracts at September 30, 2008. The currency forward contract and foreign currency option contracts have been included in accounts receivable for financial statement presentation purposes.

(ii) **Loans and receivables**

The carrying value less impairment provision of trade receivables approximates 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 September 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 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 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 nine months ended September 30, 2008. Notes receivable are secured by interests in retail liquor stores. There have been no loan impairments for the period ended September 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 September 30, 2008, assuming an outstanding bank indebtedness and long-term debt balance of $28,298,000.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 283	$ (283)
Increase (decrease) in earnings before income tax and non-controlling interest	$ (283)	$ 283

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 entered into forward currency and foreign currency options contracts and holds US dollar funds to minimize foreign exchange risk.

The Fund has a currency forward contract which is due in October 2008. The foreign currency option contracts are exercisable in October 2008. The fair values of the contracts have been recorded as an asset of the Fund at September 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.

18 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 operating assets are currently located in Canada.

19 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.

20 Subsequent events

On November 5, 2008 the Fund acquired 19 retail liquor stores located in Alaska, USA. The aggregate purchase price (including inventory) was approximately $36.3 million. In anticipation of entry into the US market, the Fund had entered into certain foreign exchange contracts. The Fund realized a foreign exchange gain of $3.1 million from settling the currency contracts and holding the resulting US dollars to the acquisition date.