Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

March 31, 2009
(expressed in thousands of Canadian dollars)

Liquor Stores Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2009	December 31, 2008 (restated) (note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 2,139	$ 3,530
Accounts receivable	836	1,928
Inventory (at cost)	99,946	114,072
Prepaid expenses and deposits	1,742	1,932
	104,663	121,462
Deposits on future acquisitions	-	10
Note receivable	313	310
Property and equipment	45,761	46,743
Intangible assets	47,787	48,198
Goodwill (note 4)	272,122	271,533
	$ 470,646	$ 488,256
Liabilities		
Current liabilities		
Bank indebtedness	$ 24,159	$ 31,172
Accounts payable and accrued liabilities	17,402	21,033
Distributions payable to unitholders (note 5)	2,484	2,478
Distributions payable to non-controlling interest (note 5)	555	557
Current portion of long-term debt	28,000	28,000
	72,600	83,240
Long-term debt	52,056	51,742
Future income tax liability (note 6)	9,814	10,616
Non-controlling interest (note 7)	46,253	48,013
	180,723	193,611
Unitholders' Equity		
Fund Units (note 8)	310,414	309,638
Equity component of convertible debentures	4,970	4,970
Contributed surplus (note 9)	555	1,156
Accumulated other comprehensive income (note 10)	2,471	1,404
Cumulative undistributed earnings (excess distributions)	(28,487)	(22,523)
	289,923	294,645
	$ 470,646	$ 488,256

Liquor Stores Income Fund

Consolidated Statements of Earnings and Comprehensive Income

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

	Three months ended March 31, 2009	March 31, 2008 (restated) (note 3)
Consolidated Statement of Earnings		
Sales	$ 106,352	$ 94,422
Cost of sales	79,649	70,980
Gross margin	26,703	23,442
Operating and administrative expense	21,850	18,728
Operating earnings before amortization and interest	4,853	4,714
Amortization		
Property and equipment	1,515	1,116
Intangible assets	759	771
	2,274	1,887
	2,579	2,827
Interest expense and other		
Bank indebtedness	265	46
Long-term debt	258	238
Convertible debentures	1,294	1,231
Gain on foreign exchange	(90)	(271)
	1,727	1,244
Earnings before income tax and non-controlling interest	852	1,583
Future income tax (recovery) expense	(803)	2,499
Earnings (loss) before non-controlling interest	1,655	(916)
Non-controlling interest (note 7)	169	342
Net earnings (loss) for the period	$ 1,486	$ (1,258)
Earnings (loss) per Unit (note 11)		
Basic	$ 0.08	$ (0.07)
Diluted	$ 0.07	$ (0.07)
Consolidated Statements of Comprehensive Income		
Net earnings (loss) for the period	$ 1,486	$ (1,258)
Other comprehensive income		
Net gain on translation of self-sustaining foreign operations	1,067	-
Comprehensive income (loss) for the period	$ 2,553	$ (1,258)

Liquor Stores Income Fund

Consolidated Statements of Changes in Unitholders' Equity

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

	March 31, 2009	March 31, 2008 (restated) (note 3)
Fund Units (note 8)	$ 310,414	$ 309,500
Equity component of convertible debentures	4,970	4,970
Contributed surplus (note 9)	555	358
Cumulative undistributed earnings (excess distributions), beginning of period	(21,670)	(11,307)
Change in accounting policy (note 3 (a))	-	95
Change in accounting policy (note 3 (b))	(853)	(450)
Cumulative undistributed earnings (excess distributions), as restated	(22,523)	(11,662)
Net earnings (loss) for the period	1,486	(1,258)
Distributions declared on Fund Units (note 5)	(7,450)	(7,424)
Cumulative undistributed earnings (excess distributions), end of period	(28,487)	(20,344)
Accumulated other comprehensive income		
Accumulated other comprehensive income, beginning of period	1,404	-
Cumulative translation adjustments	1,067	-
Accumulated other comprehensive income, end of period	2,471	-
Unitholders' equity, end of period	$ 289,923	$ 294,484

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

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

	Three months ended March 31, 2009	March 31, 2008 (restated) (note 3)
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	$ 1,486	$ (1,258)
Items not affecting cash		
Amortization	2,274	1,887
Amortization of inventory fair value adjustment	155	-
Non-cash interest on convertible debentures	314	289
Future income tax (recovery) expense	(803)	2,499
Unrealized gain on currency forward contract	-	(271)
Non-controlling interest (note 7)	169	342
Unit-based compensation (note 12)	191	126
Loss on sale of forfeited incentive plan units (note 12)	30	-
	3,816	3,614
Net change in non-cash working capital items (note 14)	11,490	(926)
	15,306	2,688
Financing activities		
Increase (decrease) in bank indebtedness	(7,012)	-
Proceeds of long-term debt	-	7,187
Repayment of long-term debt	-	(15,000)
Distributions paid to unitholders (note 5)	(7,444)	(7,417)
Distributions paid to non-controlling interest (note 5)	(1,669)	(2,216)
Dividends paid to non-controlling interest by subsidiaries (note 7)	(183)	(103)
Proceeds from sale of forfeited incentive plan units	37	-
Cash distributions from long-term incentive plans	(40)	(12)
	(16,311)	(17,561)
Investing activities		
Business acquisitions (note 4)	(135)	(214)
Net deposits on future acquisitions	10	(2,210)
Purchase of property and equipment	(339)	(1,433)
	(464)	(3,857)
Foreign exchange loss on cash held in foreign currency	78	-
(Decrease) increase in cash and cash equivalents	(1,391)	(18,730)
Cash and cash equivalents balance, beginning of period	3,530	19,498
Cash and cash equivalents balance, end of period	$ 2,139	$ 768

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 March 31, 2009, the Fund operated 223 retail liquor stores, of which 169 (2008 – 167) were in Alberta, 35 (2008 - 31) were in British Columbia and 19 (2008 – nil) were in Alaska, and had an interest in one store in Eastern Canada (2008 – nil). Of the stores operated, 196 (2008 – 179) were acquired by the Fund and 27 (2008 - 19) 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, 2008, 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, 2008.

Adoption of new accounting standards

Effective January 1, 2009, the Fund has adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3064 – Goodwill and intangible assets, which resulted in a retrospective change in the Fund’s accounting policy for pre-operating costs (see note 3). Concurrent with the adoption of this standard, EIC 27 – Revenues and Expenditures during the pre-operating period, has been withdrawn.

3 Changes in accounting policies

(a) Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through

On August 28, 2008, the Fund 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 on reported earnings is as follows:

(expressed in thousands of Canadian dollars)		Three months ended March 31, 2008
Decrease in future income tax expense	$	563
Increase in non-controlling interest		(564)
Decrease in net earnings		(1)
Increase in basic and diluted earnings per unit	$	-

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

(b) Section 3064 – Goodwill and intangible assets

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. Section 3064 – Goodwill and intangible assets states that pre-opening costs are to be expensed as incurred and no longer capitalized as an asset. Prior to the adoption of this standard, the Fund was deferring expenditures incurred during the pre-operating period and amortizing the costs over the 24 month period following the commencement of operations. Section 3064 requires the Fund to retrospectively restate prior periods.

The impact of retroactively adopting Section 3064 is as follows:

(expressed in thousands of Canadian dollars)		December 31, 2008 (restated)		December 31, 2008 (as originally presented)
Balance sheet				
Pre-opening costs	$	-	$	1,296
Non-controlling interest		48,013		48,279
Fund Units		309,638		309,730
Cumulative undistributed earnings (excess distributions)		(22,523)		(21,670)

The impact on reported earnings is as follows:

(expressed in thousands of Canadian dollars)		Three months ended March 31, 2008
Decrease in pre-opening cost amortization	$	191
Pre-opening costs expensed during the period		(250)
Decrease in non-controlling interest		12
Decrease in net earnings		(47)
Increase in basic and diluted earnings per unit	$	-

4 Business acquisitions

During the three-month period ended March 31, 2009, the Fund did not acquire any retail liquor stores (2008 – nil). There were adjustments to goodwill for $135,125 (2008 - $207,105) for prior year acquisitions relating to contingent payments and transaction costs and no adjustments to intangible assets (2008 - $7,163). An additional $42,994 (2008 - $106,000) related to prior year acquisitions was reclassified from working capital to goodwill as a result of finalizing third party valuations. Of the goodwill added for prior retail liquor store acquisitions during the three month period ended March 31, 2009, $178,119 (2008 - $101,105) is expected to be deductible for tax purposes.

5 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 (2008 - $0.405) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units were declared by the Fund for the period ended March 31, 2009.

(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, 2009	Feb 13, 2009	$ 2,483	$ 2,483	$ 442	$ 442	$ 114	$ 114	$ 3,039	$ 3,039
Feb 13, 2009	Mar 13, 2009	2,483	2,483	442	442	114	114	3,039	3,039
Mar 13, 2009	Apr 15, 2009	2,484	-	441	-	114	-	3,039	-
		$ 7,450	$ 4,966	$ 1,325	$ 884	$ 342	$ 228	$ 9,117	$ 6,078

6 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 25.0%.

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)	**March 31, 2009**	**December 31, 2008**
Future income tax liabilities:		
Intangible assets	$ 5,708	$ 6,312
Property and equipment	2,393	2,566
Goodwill	2,812	2,627
	10,913	11,505
Future income tax assets:		
Issue costs	514	549
Deferred lease inducements	219	198
Long term incentive plans	66	79
Non-capital losses	300	63
	1,099	889
	$ 9,814	$ 10,616

The above includes a net future income tax asset recorded by a wholly-owned US subsidiary of $103,471 (2008 – $84,528).

Future income taxes of $2,188,561 attributable to the Fund’s exchangeable interests are not recorded. During the period ended March 31, 2009, 8,263 (2008 – 34,012) units were exchanged resulting in an increase to future income taxes of $4,557 (2008 – $21,774).

The Fund has recognized future income taxes related to non-capital losses of $1,249,577 (2008 - $690,663) available in subsidiaries to offset income of future years. Realization of the non-capital losses is considered to be more likely than not. If not utilized, $197,169 will expire in 2027, $580,078 will expire in 2028 and $472,330 will expire in 2029.

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

7 Non-controlling interest

	Liquor Stores Exchangeable LP Units	Series 1 Exchangeable LP Units	Total
Balance – December 31, 2008	# 3,275,914	# 845,409	# 4,121,323
Exchanged for Fund Units	(8,263)	-	(8,263)
Balance – March 31, 2009	# 3,267,651	# 845,409	# 4,113,060

(expressed in thousands of Canadian dollars)	(restated – note 3)
Balance – December 31, 2008	$ 47,755
Earnings	153
Exchanged for Fund Units	(74)
Exchangeable LP Unit conversion	(5)
Distributions declared (note 5)	(1,667)
Balance – March 31, 2009	$ 46,162
Subsidiaries	
Balance – December 31, 2008	$ 258
Earnings	16
Dividends	(183)
Balance – March 31, 2009	$ 91
Total	$ 46,253

Liquor Stores LP Exchangeable LP Units ("Exchangeable LP Units") and Liquor Stores LP Series 1 Exchangeable LP Units ("Series 1 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 8), 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.

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

8 Unitholders' Equity

Fund Units

Units outstanding and capital contributions are as follows:

(expressed in thousands of Canadian dollars)	Number of units	Net capital contributions (restated – note 3)
Balance – December 31, 2008	# 18,356,996	$ 309,638
Issued for Exchangeable Units	8,263	74
Vested Units (note 12 (a))	31,256	674
Forfeited units	3,124	68
Cash distributions on vested Units	-	(40)
Balance – March 31 ,2009	# 18,399,639	$ 310,414

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 March 31, 2009 was recorded at the carrying amount of the Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units.

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.

9 Contributed Surplus

The table below summarizes the changes in contributed surplus:

(expressed in thousands of Canadian dollars)	Amount
Balance – December 31, 2008	$ 1,156
Vested Units (note 12 (a))	(674)
Unit-based compensation expense	73
Balance – March 31, 2009	$ 555

The Fund manages two unit-based incentive plans under which certain senior management receives a portion of their compensation (note 12 (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.

10 Accumulated Other Comprehensive Income

The following table outlines the components of accumulated other comprehensive income as at March 31, 2009:

(expressed in thousands of Canadian dollars)		Amount
Balance – December 31, 2008	$	1,404
Foreign currency translation adjustment (i)		1,067
Balance – March 31, 2009	$	2,471

(i) Net of income tax expense of $nil.

11 Earnings per Unit

	Three months ended			
(expressed in thousands of Canadian dollars, except per unit amounts)		March 31, 2009		March 31, 2008 (restated – note 3)
Net earnings (loss) (numerator utilized in basic Earnings per Unit)	$	1,486	$	(1,258)
Non-controlling interest		153		-
Earnings (loss) (numerator utilized in diluted Earnings per Unit)	$	1,639	$	(1,258)
Units outstanding, beginning of period	#	18,356,996	#	18,294,278
Weighted average of Units issued less treasury Units acquired		34,719		32,747
Denominator utilized in basic earnings per unit		18,391,715		18,327,025
Exchangeable Units		4,117,641		-
Potential units under unit-based compensation plans (note 12 (a))		2,314		1,426
Denominator utilized in diluted earnings per unit	#	22,511,670	#	18,328,451
Earnings per Unit – Basic	$	0.08	$	(0.07)
Earnings per Unit – Diluted	$	0.07	$	(0.07)

Due to their anti-dilutive effect, 2008 and 2009 potential units for convertible debentures and 2008 exchangeable units and non-controlling interest charge associated with those units have been excluded from the diluted earnings per unit calculation.

12 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		Total
Unvested Units, December 31, 2008	#	50,109	#	28,541	#	78,650
Vested Units transferred to participants		(16,985)		(14,271)		(31,256)
Forfeited units		(2,086)		(1,038)		(3,124)
Unvested Units, March 31, 2009	#	31,038	#	13,232	#	44,270

In January 2009, 2,086 forfeited LTIP Units and 1,038 forfeited 2007 Plan Units were sold on the market resulting in a reduction to compensation expense of $30,714. 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 period ended March 31, 2009 was $76,738 (2008 - $54,633). Compensation expense of $26,541 (2008 - $71,178) was recorded for the 2007 Plan for the period ended March 31, 2009.

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

During the period ended March 31, 2009, awards accruing to DSU Plan participants totalled $118,054 (2008 – $10,956), which was recorded as compensation expense in the period. As at March 31, 2009 participants have accumulated an entitlement to the equivalent cash value of 30,594 Units under the DSU Plan (December 31, 2008 – 26,938).

13 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 period ended March 31, 2009 of $65,761 (2008 - $108,894). Rent paid to companies controlled by the Executive Chairman of the GP amounted to $152,384 (2008 - $122,926) for the period ended March 31, 2009. 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 were no amounts included in accounts payable and accrued liabilities (2008 - $35,042) relating to these transactions.

14 Supplemental disclosure of cash flow information

Changes in non-cash working capital items:

(expressed in thousands of Canadian dollars)	2009	2008
Accounts receivable	$ 1,091	$ 1,094
Inventory	14,424	(2,072)
Prepaid expenses and deposits	204	(512)
Accounts payable and accrued liabilities	(4,229)	564
	$ 11,490	$ (926)

	Three months ended	
(expressed in thousands of Canadian dollars)	March 31, 2009	March 31, 2008
Interest paid	$ 527	$ 284
Income taxes paid	4	203

15 Segmented information

The Fund identifies operating segments based on business activities and management responsibility. The Fund operates within a single operating segment, being the operation of retail liquor stores in Canada and the United States.

(expressed in thousands of Canadian dollars)	Canada	US	Total
Total external sales (i)	$ 88,003	$ 18,349	$ 106,352
Goodwill	260,174	11,948	272,122
Property and equipment	41,733	4,028	45,761

(i) Sales are allocated to countries based on location of store.

16 Economic dependence

Under Alberta provincial legislation the Fund is required to purchase liquor and related products from the Alberta Gaming and Liquor Commission. As the Fund's income is derived entirely from the sale of liquor and related products, its ability to continue viable operations is dependent upon maintaining its relationship with this main supplier.

The Fund is dependent on Connect Logistics Services Inc. and Brewers Distributor Ltd. in Alberta and the Liquor Distribution Branch in British Columbia for the substantial majority of its products. Any significant disruption in the operations of these organizations resulting in interruption in supply would have a material adverse effect on liquor store operations including the operations of the Fund.

17 Seasonal nature of the business

The Fund historically experiences higher sales in the third and fourth quarters, while the first and second quarters 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.