



LIQUOR STORES INCOME FUND

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

**For the Three Months Ended March 31, 2009
As of May 5, 2009**

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 months ended March 31, 2009 and the annual consolidated financial statements and accompanying notes of the Fund for the year ended December 31, 2008. 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 18 below under "Non-GAAP Measures".

See also "Risk Factors" on page 14 and "Forward-Looking Statements" on page 23 of this MD&A.

This MD&A is dated May 5, 2009.

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

First quarter 2009 compared with first quarter 2008

- Total sales increased 12.6% to \$106.4 million.
- Adjusted gross margin up 14.6% to \$26.9 million from \$23.4 million.
- Operating margin up 1.9% to \$5.1 million from \$5.0 million.

OUTLOOK

Management expects overall sales to increase for 2009 compared with 2008 due to the increased number of stores; however, same store sales may be impacted by the current economic downturn. The Fund's geographic markets of Alberta, British Columbia and Alaska are all dependent on resource industries such as oil and gas exploration, mining and forestry. The economic downturn has had a negative impact on these industries in early 2009 resulting in increased unemployment in many of the Fund's markets. It is unknown at this time what impact this will have on the Fund's operations for the remainder of the year.

April sales have benefited from the Easter long weekend falling in Q2 2009 compared with Q1 2008. The Easter holiday is a significant driver of liquor sales.

On April 7, 2009 the Alberta Government announced an increase in the government's liquor markup. Retail prices have been adjusted to reflect the higher inventory costs. It is too early to determine what impact this will have, if any, on operating results.

The Fund will continue to focus on its strategy of growth through acquisitions and new store development. The Fund's financial capacity, including proceeds from the issuance of convertible debentures in late 2007 and early 2008 and the Fund's current credit facilities, is sufficient to support growth as well as inventory financing. The Fund currently has access to approximately \$31 million under its credit facilities.

OVERVIEW OF THE FUND

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Alberta. The Fund's trust units ("Units") and 6.75% Convertible Unsecured Subordinated Debentures ("6.75% Debentures") trade on the Toronto Stock Exchange under the symbols LIQ.UN and LIQ.DB, respectively. Through its 82.0% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates or has investments in 224 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 May 5, 2009)

Alberta				British Columbia			Alaska		
	Edmonton ⁽¹⁾	Calgary ⁽¹⁾	Other ⁽²⁾	Lower Mainland	Vancouver Island	Interior	Anchorage	Other	Total
Number of Stores	78	45	46	13	11	11	19	1	224

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 (21), Southern (9), Central (14) and Resort communities (2).

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 169 liquor stores in Alberta where there are approximately 1,117 liquor stores and 88 agency stores as at December 31, 2008 [Source: Alberta Gaming and Liquor Commission].

The Fund operates 35 stores and five small associated pubs in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 666 private stores and 199 government operated stores. There are also approximately 229 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch].

The Fund currently operates 19 stores in the greater Anchorage area. In the state of Alaska there are approximately 380 retail liquor stores with 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 [Source: Alaska's Alcoholic Beverage Control Board].

BUSINESS STRATEGY

Growth

The Fund's strategy is to continue to grow through new store development and acquisitions and by attracting more customers to existing locations. 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.

Competitive Differentiation

Management focuses on differentiating the Fund's stores from the competition by promoting its broad selection of products through emphasis on the in-store customer experience, technology, and marketing and brand development. Many of our stores offer customer education events and merchandise presentations. As well, select stores have controlled dispensing equipment for wine samplings.

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.

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

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, pre-opening costs for new stores, 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 46% of the Fund's sales have occurred in the first half of the year and 54% 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 March 31, 2009 were \$9.1 million or \$0.41 per Unit, consistent with a year earlier. On a weighted average basis, for the three months ended March 31, 2009, distributable cash before non-recurring items was \$4.0 million or \$0.18 per Unit, compared with \$4.3 million or \$0.19 per Unit for 2008. Non-recurring items in 2009 were largely comprised of professional and consulting fees for litigation matters related to the Liquor Barn acquisition.

The shift in timing of Easter from Q1 in 2008 to Q2 in 2009 had an impact on the timing of sales for the first quarter of 2009. Had Easter fallen in the first quarter in 2009, as it did in 2008, distributable cash would have exceeded that of the first quarter of the prior year.

The following table provides a reconciliation of distributable cash to its nearest GAAP measure, which is cash provided by operating activities:

(expressed in thousands of Canadian dollars)	Three months ended March 31,	
	2009	2008 (Restated – note 1)
Cash provided by operating activities	\$ 15,306	\$ 2,688
Net change in non-cash working capital	(11,490)	926
Provision for non-growth property and equipment	(48)	(112)
Provision for pre-opening costs	52	250
Distributable cash	3,820	3,752
Non-recurring items (note 2)	195	500
Distributable cash before non-recurring items	\$ 4,015	\$ 4,252
Weighted average units outstanding	# 22,556,969	# 22,489,571
Distributable cash before non-recurring items per Unit	\$ 0.18	\$ 0.19
Distributable cash per Unit (note 3)	\$ 0.17	\$ 0.17
Distributions declared per Unit	\$ 0.41	\$ 0.41

- (1) *Comparative information from 2008 has been restated in accordance with the adoption of CICA Handbook Section 3064 – Goodwill and intangible assets and the withdrawal of Emerging Issues Committee Abstract #27 – Revenues and Expenditures during the Pre-Operating Period.*
- (2) *Non-recurring items for the three months ended March 31, 2009 and 2008 include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund. As well, non-recurring items for 2008 include recruitment and relocation expenses.*
- (3) *The GAAP measure comparable to distributable cash per unit is earnings per unit. Diluted earnings per Unit for the three months ended March 31, 2009 were \$0.07 compared to a Diluted loss per Unit of \$0.07 in the same period of 2008.*

Distributable cash is a non-GAAP measure. See supplemental liquidity information on page 20 for a detailed discussion of distributable cash.

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 2008, 20% (2007 - 20%) of annual same store sales occurred in the first quarter, 26% (2007 - 26%) in the second quarter, 26% (2007 - 26%) in the third quarter and 28% (2007 - 28%) in the last quarter.

Policy on Same Store Sales 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 and exclude stores which have significant wholesale business. Sales for five existing Liquor Depot stores have also been excluded from same store sales where new Liquor Depot stores were opened within close proximity to existing stores.

During the last half of 2008, the Fund opened five new stores which are located in close proximity to existing Liquor Depot stores. Over the last half of the year, and specifically in the last quarter of 2008, a significant shift occurred as sales from the existing stores migrated to the new stores. As a result, management believes that excluding these five stores provides a better comparison of same store sales performance. It is management's intention to continue to operate both the existing and new locations. Same store sales for this group of existing stores will be included in the same store sales analysis when the new stores qualify as same stores in the latter part of 2009.

For the three months ended March 31, 2009, there were 167 same stores, including: Liquor Depot, Liquor Barn, Grapes 'n Grains and OK Liquor branded stores.

Three Months Ended March 31, 2009 Operating Results

The following table summarizes the operating results for the three months ended March 31, 2009 and 2008.

(expressed in thousands of Canadian dollars)	Three Months ended March 31,			
	2009		2008	
	\$	%	\$	%
	(unaudited)		(unaudited)	
Number of stores at March 31 (note 1)	224		198	
Sales	106,352	100.00%	94,422	100.00%
Adjusted gross margin (note 2)	26,858	25.25%	23,442	24.83%
Adjusted operating and administrative expense (note 3)	21,798	20.49%	18,478	19.57%
Operating margin (note 4)	5,060	4.76%	4,964	5.26%
Non-recurring items (note 5)	195	0.18%	500	0.53%
Operating margin (note 5) before non-recurring items	5,255	4.94%	5,464	5.79%

Notes:

- (1) *The number of stores and corresponding results for the three months ended March 31, 2009 includes partial months of operations for one store (2008 - three) opened or acquired. The results for 2008 also include seven stores which were closed prior to December 31, 2008.*
- (2) *Adjusted gross margin for 2009 excludes \$0.16 million (2008- \$nil) in respect of an inventory fair value adjustment related to the Brown Jug acquisition.*
- (3) *For the three months ended March 31, 2009, adjusted operating and administrative expense excludes \$0.05 million (2008 - \$0.25 million) in pre-opening costs charged to operating and administrative expense as a result of the adoption of CICA Handbook Section 3064 – Goodwill and intangible assets and the withdrawal of Emerging Issues Committee Abstract #27 – Revenues and Expenditures during the Pre-Operating Period.*
- (4) *Operating margin has been calculated as described under "Non-GAAP Measures".*
- (5) *Non-recurring items for the first quarter of 2009 and 2008 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. As well, non-recurring items for 2008 include recruitment and relocation expenses.*

First Quarter 2009 Operating Results Compared to First Quarter 2008 Operating Results

Sales

For the three months ended March 31, 2009 sales were \$106.4 million, up 12.6% from \$94.4 million in the same period last year. The sales increase comprises:

- Stores opened or acquired subsequent to March 31, 2008, including 19 Brown Jug stores in Alaska, accounted for a \$22.0 million increase. Sales for stores that were opened or acquired in the first quarter of 2008 comprised \$0.3 million of the sales increase.
- Wholesale business sales were \$12.8 million, down 14.6% from \$14.9 million for the first quarter of the prior year. Sales to wholesale customers generate significantly lower margins than retail, and have higher administrative and credit risk costs associated with them. As a result, the Fund plans to curtail growth of this business line and expects to further reduce its wholesale business sales in 2009.

- During the fourth quarter of 2008, the Fund closed seven stores. First quarter sales in 2008 for these stores were \$1.1 million.
- Sales for stores excluded from same store sales due to their close proximity to new stores were \$2.3 million, down \$0.7 million or 24.2% from \$3.0 million for the three months ended March 31, 2009 compared with the same period in 2008.
- The remaining decrease in sales of \$6.4 million pertains to same store sales as explained below.

Same Store Sales

Same store sales for the three months ended March 31, 2009 were impacted by the shift in Easter to Q2 in 2009 as well as 2009 having one less selling day in February due to 2008 being a leap year. These events together resulted in a decrease in same store sales of approximately 6.0%.

- Total same store sales were \$68.6 million, down 8.5% from \$75.0 million from the three months ended March 31, 2008.
- Calendar related issues impacting same store sales are as follows (prioritized by their impact):
 - The Easter long weekend, a significant driver of liquor sales, fell in Q2 in 2009 compared with Q1 in 2008, which caused sales to shift to the second quarter of 2009; and
 - In February 2009 there was one less selling day than in February 2008, due to the 2008 leap year, for which the extra day was a Friday.
- Current economic conditions have impacted resource industries in Alberta and British Columbia including oil and gas exploration and extraction, mining and forestry. The downturn in these industries has resulted in a general decline in same store sales.

Adjusted Gross Margin

For the three months ended March 31, 2009, adjusted gross margin was \$26.9 million, up 14.6% from \$23.4 million for the same period last year.

Adjusted gross margin was up 0.5% as a percentage of sales from 25.3% for Q1 2009 compared with 24.8% for Q1 2008.

Adjusted Operating and Administrative Expense

There was an increase of 28 stores operated compared to the first quarter of 2008. Adjusted operating and administrative expense for the three months ended March 31, 2009 was \$21.8 million, up 18.0% from \$18.5 million a year earlier. For the three months ended March 31, 2009, operating and administrative expenses included \$0.2 million in non-recurring consulting and professional fees for litigation related to the acquisition of Liquor Barn Income Fund made in 2007. For the three months ended March 31, 2008, operating and administrative expense included \$0.5 million in non-recurring items including consulting and professional fees for Liquor Barn litigation as well as recruitment and relocation expenses.

As a percentage of sales, adjusted operating and administrative expense is consistent with the prior year at approximately 20%.

Operating Margin

Operating margin was \$5.1 million for the first quarter of 2009, up 1.9% from \$5.0 million in 2008. As a percentage of sales, operating margin was 4.8% for Q1 2009 compared with 5.3% for Q1 2008. The 2009 operating margin percentage is impacted by lower margins experienced in the US operations. In the US, product unit sales prices are lower which requires a higher turnover of product units in order to achieve the same sales dollars. To achieve that turnover, more operating expenses including labour are incurred resulting in lower operating margins. Overall return on investment is comparable between Canadian and US operations.

Operating margin before non-recurring items for the three months ended March 31, 2009 was 4.9% or \$5.3 million, down from 5.8% for the same period last year due to the same reason as discussed above with respect to US margins.

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. For a detailed discussion of the SIFT Rules, see page 17. Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property, plant and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable in various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

In the quarter ended March 31, 2009, 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 decrease in future income taxes of \$0.8 million. Changes to future income tax estimates represent a non-cash charge against net earnings.

Net Earnings before Non-controlling Interest and Net Earnings

Net earnings before non-controlling interest increased to \$1.7 million for the three months ended March 31, 2009, up from a net loss of \$0.9 million for the same period in 2008. Net earnings for the three months ended March 31, 2009 included a non-cash future income tax recovery of \$0.8 million. Included in net loss for the three months ended March 31, 2008 was a \$2.5 million future income tax expense charge.

For the quarter ended March 31, 2009, net earnings were \$1.5 million, up \$2.8 million from a net loss of \$1.3 million in 2008. The change is mainly due to the non-cash future income tax recovery recorded in Q1 2009 and the future income tax expense recorded in Q1 2008 as described above.

Condensed Quarterly Information

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

	2009	2008				2007		
	Mar 31	Dec 31 (restated) (note 1)	Sep 30 (restated) (note 1)	Jun 30 (restated) (note 1)	Mar 31 (restated) (note 1)	Dec 31 (restated) (note 1)	Sep 30 (restated) (note 1)	Jun 30 (restated) (note 1)
Balance Sheet								
Cash and cash equivalents	\$ 2,139	\$ 3,530	\$ 810	\$ 754	\$ 768	\$ 19,498	\$ 6,891	\$ 3,391
Total assets	470,646	488,256	442,460	438,993	434,006	449,006	427,301	411,651
Bank indebtedness	24,159	31,172	13,298	9,902	-	-	37,198	35,107
Total current liabilities	72,600	83,240	39,962	36,812	14,098	14,062	55,403	54,916
Long-term debt	52,056	51,742	51,425	51,108	65,859	74,014	15,562	562
Statement of Earnings								
# stores	224	223	208	204	198	195	193	188
Sales	\$ 106,352	\$ 143,013	\$ 123,913	\$ 121,567	\$ 94,422	\$ 125,920	\$ 122,097	\$ 83,236
Future tax expense (recovery)	(803)	(1,387)	587	493	2,499	(2,607)	685	9,909
Earnings (loss) before non-controlling interest	1,655	11,090	8,329	5,493	(916)	11,547	7,505	(5,925)
Net earnings (loss) for the period	1,486	9,187	6,619	4,310	(1,258)	9,525	5,651	(6,946)
Basic earnings (loss) per Unit	\$ 0.08	\$ 0.50	\$ 0.36	\$ 0.24	\$ (0.07)	\$ 0.52	\$ 0.31	\$ (0.58)
Diluted earnings (loss) per Unit	\$ 0.07	\$ 0.50	\$ 0.36	\$ 0.24	\$ (0.07)	\$ 0.52	\$ 0.31	\$ (0.58)
Distributable cash per Unit	\$ 0.17	\$ 0.69	\$ 0.49	\$ 0.41	\$ 0.17	\$ 0.48	\$ 0.49	\$ 0.41
Distributable cash before non-recurring items per Unit	\$ 0.18	\$ 0.61	\$ 0.50	\$ 0.41	\$ 0.19	\$ 0.50	\$ 0.50	\$ 0.41
Distributions declared per Unit	\$ 0.405	\$ 0.405	\$ 0.405	\$ 0.405	\$ 0.405	\$ 0.385	\$ 0.375	\$ 0.375

(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 and CICA Handbook Section 3064 – Goodwill and intangible assets (see note 3 to the Financial Statements).*

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of May 5, 2009:

	<u>Units</u>
Fund Units ⁽¹⁾	18,506,243
Liquor Stores LP Exchangeable LP Units	3,205,317
Liquor Stores LP Series 1 Exchangeable LP Units	845,409
	<hr/>
	22,556,969

Note:

(1) *Includes 44,270 Treasury Units held in respect of long-term incentive plans*

The Liquor Stores Limited Partnership Exchangeable and Series 1 Exchangeable LP Units represent a non-controlling interest in the Fund. 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 an Exchange Agreement. Each Exchangeable LP Unit and Series 1 Exchangeable LP Unit entitles the holder to receive distributions pro rata with distributions made on Fund Units.

Capital Expenditures

During the three months ended March 31, 2009, the Fund opened one new store. The new store was funded with proceeds from convertible debenture issues that were temporarily used to repay bank indebtedness during 2008.

The Fund will continue to pursue acquisition opportunities and to open new stores in the remainder of 2009.

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 25% (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 “Risk Factors”.

The Fund's market capitalization, including that of Liquor Barn Income 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.

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. Under the “safe harbour” guidelines, the Fund could issue new equity of \$221.3 million and still be within the “safe harbour” limits. See Tax Related Risks; SIFT Legislation on page 17. The long-term effect of the SIFT Rules on the Fund is yet to be determined.

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 \$5 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. The Fund also has a \$7.5 million USD facility with a US bank, which was reduced to \$5 million subsequent to March 31, 2009.

There was \$28 million drawn on the long-term Capital/Acquisition facility and \$30 million outstanding on the operating line as at May 4, 2009, both with terms expiring May 31, 2009. Based on negotiations with the credit syndicate, management believes that the agreement will be renewed on or before May 31, 2009.

Management believes that as the bank's prime lending rate falls, interest rate spreads will increase in 2009, but the net cost of borrowing will be reasonably consistent with rates experienced in 2008.

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 March 31, 2009, 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 \$0.5 million in 8.00% Debentures maturing on December 31, 2011. Proceeds of the 6.75% Debentures were temporarily used to pay down amounts outstanding on credit facilities with the intent of redrawing on the facilities to finance the Fund's growth objectives as acquisition opportunities were identified and new stores developed. The Fund currently has access to approximately \$31 million under its facilities.

Liquidity Risk

The Fund has a variety of alternatives available to fund acquisitions, new store development and ongoing operations, which includes cash provided by operations, bank indebtedness, issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependant upon capital market conditions and interest rate levels. The degree to which the Fund is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

To manage liquidity risk, the Fund has maintained financial ratios that are in compliance with financial covenants within the credit facility agreement. In addition, a portion of the Fund's credit facilities remain undrawn. Management measures liquidity risk through a comparison of current financial ratios with financial covenants contained in the credit facility agreement. Management believes the Fund has the resources to meet obligations as they come due in 2009.

Interest Rate Risk and Sensitivity

The Fund's indebtedness in respect of its credit facility bears interest at floating rates, which may be negatively impacted by increases in interest rates. If interest rates decrease, interest expense would be reduced. The Fund manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund as at March 31, 2009, assuming a combined outstanding bank indebtedness and long-term debt balance of \$52.2 million.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	\$ 522	\$ (522)
Increase (decrease) in net earnings before income tax and non-controlling interest	(522)	522

Credit Risk

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 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 industry. There was approximately \$20,000 in bad debts recorded for the three months ended March 31, 2009.

Foreign Exchange Risk

The Fund is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results.

The Fund's US subsidiary is considered to be a self-sustaining operation and the assets and liabilities of the foreign subsidiary are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiary's accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiary operates 19 stores out of the Fund's 224 stores.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

Contractual Obligations

The table below sets forth, as of March 31, 2009, 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	\$ 12,134	\$ 14,554	\$ 12,306	\$ 10,535	\$ 8,632	\$ 18,543
Long-term debt	28,000	-	-	-	-	-
Debentures	-	-	500	57,500	-	-
Total	\$ 40,134	\$ 14,554	\$ 12,806	\$ 68,035	\$ 8,632	\$ 18,543

The Fund's credit facilities agreement is currently in the process of being renewed. It is management's intention to negotiate a non-current maturity for the \$28 million long-term debt obligation noted above.

OFF BALANCE SHEET ARRANGEMENTS

As at May 5, 2009, 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 valuers 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

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, was withdrawn. This has resulted in a change to the Fund's accounting for store pre-opening costs as these costs will no longer be capitalized as an asset.

Effective January 1, 2009, the Fund retrospectively applied Section 3064 with restatement of prior periods. The cumulative impact of the restatement resulted in a decrease of \$0.9 million to unitholders' equity (see note 3 to the Financial Statements).

Future Income Taxes

Effective September 30, 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 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

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. See “Liquidity Risk”.

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 months ended March 31, 2009, the Fund incurred professional fees of \$65,761 to a law firm of which a director of Liquor Stores GP Inc. (“Liquor Stores GP”), a subsidiary of the Fund, is a partner. Rent paid to a partnership owned 50% by the Executive Chairman for head office was \$127,198 for the three months ended March 31, 2009. Rent for other premises paid to a partnership owned 50% by the Executive Chairman of Liquor Stores GP amounted to \$25,186. (See note 13 to the Financial Statements).

INTERNAL CONTROLS AND PROCESSES

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Fund’s disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Fund is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal control over financial reporting (“ICFR”) is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate ICFR, as such term is defined in NI 52-109 to provide reasonable, but not absolute, assurance regarding the reliability of the Fund’s financial reporting. A material weakness in ICFR exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Fund’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management limited the scope of the design of disclosure controls and procedures and ICFR to exclude controls, policies and procedures of a business acquired by the Fund during the fourth quarter of 2008. Summary financial information for the Fund’s

Alaska subsidiary for the three months ended March 31, 2009 that has been consolidated in the Fund's financial statements is provided below.

(expressed in thousands of Canadian dollars)	As at and for the three months ended March 31, 2009
Current assets	\$ 12,538
Total assets	38,660
Current liabilities	7,894
Sales	18,349

The chief executive and chief financial officers certified that disclosure controls and procedures and internal controls over financial reporting were effective for the year ended December 31, 2008. There have been no changes in the design of the Fund's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Fund's disclosure controls and procedures or internal control 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. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Fund's Annual Information Form, which is available at www.sedar.com and the documents incorporated by reference herein. Unitholders and potential Unitholders should consider carefully the information contained herein and, in particular, the following risk factors.

These risks and uncertainties are not the only ones facing the Fund. Additional risks and uncertainties not currently known to the Fund, or that the Fund currently considers immaterial, may also impair the operations of the Fund. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Fund, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

State of Economy

The Fund's success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. The Fund recognizes that the current economic events are unprecedented and can provide no assurance that consumer spending patterns will not change. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and EBITDA, which in turn could adversely affect the availability of distributable cash.

Unpredictability and Volatility of Unit Price

A publicly traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in the market environment and in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield of other financial instruments may also influence the price of Units in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Units.

In addition, the securities markets are experiencing significant market wide and sectoral price and volume fluctuations that have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Units.

Growth Strategy Restriction

The Fund presently has capital and unused credit facilities available for growth in the amount of approximately \$31 million at March 31, 2009, which Management believes will provide it with sufficient funds to complete additional acquisitions and/or new store development and have sufficient financing available for inventory.

However, the ability of the Fund to make acquisitions beyond the amount of its current excess capital and unused credit facilities depends on the Fund being able to raise additional financing in the future through equity and/or debt capital markets. If the Fund is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to complete additional acquisitions, which could have an adverse effect on the future growth prospects of the Fund.

Current Cash Distributions

Although the Fund intends to distribute the cash it receives, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Fund. The actual amounts of distributions paid by the Fund to the Unitholder will depend upon numerous factors, including profitability, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, deductibility for tax purposes of interest payments on the Liquor Stores Operating Trusts Notes and the Liquor Barn Operating Trust Notes (“Operating Trust Notes”), applicable law and other factors beyond the control of the Fund. Cash distributions are not guaranteed and will fluctuate with the Fund’s performance. There can be no assurance as to the levels of cash distributions to be paid by the Fund, if any. The market value of the Units may deteriorate if the Fund is unable to maintain current distribution levels in the future, and such deterioration may be material.

Government Regulation

The Fund operates primarily in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the State of Alaska. Decisions by the Alberta Gaming and Liquor Commission (“AGLC”), British Columbia Liquor Control and Licensing Branch (“BCLCLB”) or Alcohol Beverage Control Board (“ABCB”) or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of Liquor Stores LP both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of the AGLC, the BCLCLB or ABCB will not adversely affect the operations or distributable cash of the Fund.

All of the Fund’s Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Since its inception in 2004, the Fund has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked.

In British Columbia to operate a retail liquor store, an operator must have a LRS license, which must be associated with a primary license. The status of this LRS license is contingent upon the associated primary license being maintained, which in certain circumstances may be controlled by arms length interests. In order to mitigate this risk, where possible, the Fund has negotiated the right to self help with the primary license holders.

All of the Fund’s Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually.

The AGLC, the BCLCLB, and the ABCB have certain discretion in the granting or revocation of a license to operate a liquor store.

Excise Taxes

Changes in tax rates, and their corresponding effect on product pricing, could affect sales and or earnings. If taxes increase and the Fund raises prices by the full amount of the tax, sales volumes could be adversely impacted. If the Fund is not able to pass the full amount of the tax increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax rates in the future.

Competition

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia is competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location and convenience and to a lesser degree price and service.

In Alberta, the Fund competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. Certain of these competitors have greater financial resources than the Fund. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Any change in this regulatory regime could materially adversely affect the Fund’s business and the results of its operations.

In British Columbia, the Fund competes with government owned and operated liquor stores, local independent stores, and wine stores. Under the current regulatory environment, a LRS store cannot operate without an associated primary liquor license being

in place. In order to establish a liquor store, an operator must enter into an arrangement with an eligible primary liquor license holder to obtain the associated LRS. This arrangement limits the number of entrants who are able to enter into the market.

In Alaska, the Fund competes with local single store operators, other local and regional chain operators and liquor stores associated with US national grocery store chains. Under the Alaska regulatory environment, stores purchase product directly from distributors and are able to negotiate volume discounts with suppliers. Organizations with greater financial resources are able to maintain a competitive advantage over smaller operators.

Acquisition and Development Risks

Acquisitions have been a significant part of the Fund's growth strategy. The Fund expects to continue to selectively seek strategic acquisitions in Canada and the US. The Fund's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Fund's resources and, to the extent necessary, the Fund's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose the Fund to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms, difficulties in maintaining uniform standards, controls, procedures and policies through all of the Fund's stores; entry into markets in which the Fund has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Fund's ongoing business; and diversion of management time and resources.

The Fund expects that new store development will also continue to be a significant part of the Fund's growth strategy. The development of new stores is subject to many of the same risks as acquisitions including limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on the Fund's resources. The rate of new store developments may be impacted by factors outside of the Fund's control such as the availability of suitable site locations if real estate development declines or the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital based on Management's projections of future store performance, which may prove to be incorrect.

Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of the Fund's liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where the Fund's liquor stores are located could decline in the future including as a result of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that the Fund enters into long-term leases for its store locations, the Fund's ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Key Personnel

The Fund's success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of the Fund's key employees could significantly weaken the Fund's management expertise and its ability to deliver its services efficiently and profitably.

Labour Costs and Shortages and Labour Relations

The success of the Fund's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of the Fund to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on the Fund's results of operations.

The Fund does not currently have any unionized staff however, there is no assurance that some or all of the employees of the Fund will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on the Fund's results of operations.

Supply Interruption or Delay

Liquor store operators in Alberta are dependent on Connect Logistics Services ("CLS") warehouse and Brewers Distributor Ltd. ("BDL") for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. Any significant disruption in the operations of these companies, for example as a result of an organized work stoppage, and resulting interruption in supply may have a material adverse effect on liquor store operations including the operations of the Fund and its subsidiaries.

Importance of Information and Control Systems

Information and control systems play an important role in the support of the Fund's core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. The Fund's ability to maintain and upgrade its information systems capabilities is important to its future performance.

Tax Related Risks; SIFT Legislation

The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax consequences could materially and adversely affect Unitholders. Further, interest on the Operating Trust Notes and other debt accrues at the Fund level for income tax purposes whether or not actually paid. The amended and restated declaration of trust dated August 10, 2004 pursuant to which the Fund was established ("Declaration of Trust") provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income and provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans and RESPs ("Exempt Plans"). The Fund will endeavour to ensure that the Units continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments in such plans and there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. If the Fund ceases to qualify as a mutual fund trust for purposes of the Tax Act, the Fund may be required to pay tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund will affect the amount of cash available for distribution by the Fund and may have adverse consequences for Unitholders.

The SIFT Rules, first announced on October 31, 2006, have been enacted and may significantly change the taxation of most publicly traded trusts and partnerships, including income trusts such as the Fund, and distributions and allocations from these entities to their investors. Existing trusts, such as the Fund, will have a transition period and, subject to the qualification below, will not be subject to the new rules until January 1, 2011. No assurance can be given that Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Fund and its Unitholders. The SIFT Rules apply an entity level tax on certain income (other than taxable dividends) earned by a SIFT trust, and treats the distributions of such income received by unitholders of a SIFT trust as taxable dividends received from a taxable Canadian corporation. Unitholders subject to the highest marginal rate of tax would receive an after-tax return approximately equal to the after-tax return if pre-tax distributions had been distributed directly to and taxed in the hands of the Unitholders. However, the incidence of entity level tax will be a cost to other types of Unitholders including but not limited to, pension funds and non-residents who would not benefit from the characterization of distributions as eligible dividends.

The Fund will constitute a SIFT trust and, as a result, the Fund and its Unitholders will be subject to the SIFT Rules commencing in 2011.

On December 15, 2006, the Department of Finance issued the Normal Growth Guidelines (the "**Guidelines**"). The Guidelines indicate that the 2011 date will continue to apply in respect of any SIFT trust or partnership whose equity capital grows as a result of issuances of new equity (which includes trust units and debt that is convertible into trust units and may include other substitutes for such equity) before 2011, by an amount that does not exceed the greater of \$50 million annually and a "safe harbour" amount that is a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a SIFT's issued and outstanding publicly-traded units, not including debt, options or other interests that were convertible into SIFT units). For the period from November 1, 2006 to the end of 2007, the Guidelines provide that a SIFT's safe harbour will be 40% of the October 31, 2006 benchmark. If the Fund issues additional Units, convertible debt or other equity substitutes on or before 2011, it may become subject to the SIFT Rules prior to 2011. No assurance can be provided that the SIFT Rules will not apply to the Fund prior to 2011. On December 4, 2008, the Department of Finance announced changes to the Guidelines to allow a SIFT Trust to accelerate the utilization of the SIFT Trust's annual safe harbour amount for each of 2009 and 2010 so that the aggregate safe harbour amount for 2009 and 2010 is available on and after December 4, 2008. This change does not alter the maximum permitted expansion for a SIFT Trust, but allows a SIFT Trust to use its normal growth room remaining as of December 4, 2008 in a single year, rather than staging a portion of the normal growth room over the 2009 and 2010 years.

It is expected that the SIFT Rules will subject the Fund to trust level taxation beginning on January 1, 2011, which will reduce the amount of cash available for distributions to Unitholders. The Fund estimates that the SIFT Rules will, commencing on January 1,

2011, reduce the amount of cash available to the Fund to distribute to its Unitholders by an amount equal to 25.0% of the pre-tax income available for distribution by the Fund. A reduction in distributions could adversely affect the value of the Units. A reduction in the value of the Units would be expected to increase the cost to the Fund of raising capital in the public capital markets. There can be no assurance that the Fund will be able to reorganize its legal and tax structure to reduce the expected impact of the SIFT Legislation. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under the SIFT Legislation until 2011. The Fund does not expect to exceed "normal growth" in the transition period. If the Fund exceeds "normal growth" during the transitional period from October 31, 2006 to December 31, 2010, the SIFT Legislation would become effective on a date earlier than January 1, 2011. Loss of grandfathered status could have a material and adverse effect on the value of the Units.

On February 26, 2008, the Minister of Finance announced (the "**Provincial SIFT Tax Proposal**") that instead of basing the provincial component of the SIFT tax on a flat rate of 13%, the provincial component will instead be based on the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment. For purposes of calculating this component of the tax, the general corporate taxable income allocation formula will be used. Specifically, the Fund's taxable distributions will be allocated to provinces by taking half of the aggregate of:

- that proportion of the Fund's taxable distributions for the year that the Fund's wages and salaries in the province are of its total wages and salaries in Canada; and
- that proportion of the Fund's taxable distributions for the year that the Fund's gross revenues in the province are of its total gross revenues in Canada.

Under the Provincial SIFT Tax Proposal the Fund would be considered to have permanent establishments in Alberta and British Columbia. As proposed in recent provincial budgets, the Alberta provincial tax rate in 2011 is expected to be 10% and the British Columbia provincial tax rate in 2011 is expected to be 10%. Taxable distributions that are not allocated to any province would instead be subject to a 10% rate constituting the provincial component. The Provincial SIFT Tax Proposal was enacted on March 4, 2009.

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.

Leverage and Restrictive Covenants

The Fund has third party debt service obligations under the Credit Facility and any replacement or other credit facilities and the 6.75% Debentures and the 8.00% Debentures. The degree to which the Fund is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Fund's cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for distribution; (ii) certain of the Fund's borrowings are at variable rates of interest, which exposes the Fund to the risk of increased interest rates. The Fund's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facility contains certain customary operating covenants that limit the discretion of Management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Fund to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the Fund's assets would be sufficient to repay in full that indebtedness.

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)".

Adjusted gross margin has been derived by adding back an inventory fair value adjustment to gross margin as per GAAP.

Operating margin for purposes of disclosure under "Operating Results" has been derived by adding interest expense, amortization of inventory fair value adjustments, pre-opening cost expense and amortization of property and equipment and intangibles 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.

Same store sales include sales for stores that have been open 12 full months at the beginning of the reporting period and exclude stores which have significant wholesale business. Sales for five existing Liquor Depot stores have also been excluded from same store sales where new Liquor Depot stores were opened within close proximity to existing stores.

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

SUPPLEMENTAL LIQUIDITY INFORMATION

Distributable cash is a non-GAAP measure that provides an indication of the Fund's ability to sustain distributions while maintaining productive capacity. In addition to comparing distributable cash to its nearest GAAP measure, cash provided by operating activities, a comparison can be made to earnings before non-controlling interest. The following table compares cash provided by operating activities, earnings before non-controlling interest and distributable cash before non-recurring items to cash distributions declared on Units combined with cash distributions in respect of non-controlling interests in the Fund's subsidiaries.

	Three months ended March 31,	Year ended December 31,	
	2009	2008 (restated – note 1)	2007 (restated – note 1)
(expressed in thousands of Canadian dollars)			
Cash flow provided by operating activities	\$ 15,306	\$ 35,747	\$ 15,151
Earnings before non-controlling interest	1,655	23,994	15,544
Distributable cash before non-recurring items	4,015	38,673	31,796
Actual cash distributions declared relating to the period	(9,301)	(36,806)	(28,332)
Excess (deficiency) of cash provided by operating activities over cash distributions declared	\$ 6,005	\$ (1,059)	\$ (13,181)
Excess (deficiency) of earnings before non-controlling interest over cash distributions declared	\$ (7,646)	\$ (12,812)	\$ (12,788)
Excess (deficiency) of distributable cash before non-recurring items over cash distributions declared	\$ (5,286)	\$ 1,867	\$ 3,464

(1) *Comparative information for 2007 and 2008 has been restated in accordance with the adoption of CICA Handbook Section 3064 – Goodwill and intangible assets.*

Approximately 20% of annual sales occur in the first quarter of the year and 26% in the second quarter. Sales are generally stronger in the latter part of the year making up approximately 54% of annual sales. Consequently in the first quarter, the Fund typically reduces inventory levels resulting in an increase in cash flow provided by operating activities. As sales increase throughout the year and inventory levels are increased accordingly, cash flow provided by operating activities would decline.

On an annualized basis and subsequent to the 2007 enactment of legislation concerning the taxation of income trusts, the Fund's cash distributions have exceeded both cash flow from operating activities and earnings before non-controlling interest. Taking into consideration the Fund's distribution policies and assuming continued growth of the Fund's operations, it is unlikely that cash flow from operating activities or earnings before non-controlling interest would exceed its cash distributions in the foreseeable future.

Excess or Deficiency of Cash Flow from Operating Activities Over Cash Distributions

For the reasons explained below, the Fund believes distributable cash before non-recurring items provides a better indication of the Fund's ability to sustain cash distributions while maintaining its productive capacity than does the GAAP measure cash provided by operating activities.

Net Change in Non-Cash Working Capital

The Fund's investments in working capital relate to the Fund's growth, commercial terms with the Fund's suppliers of alcoholic beverages and seasonal fluctuations in inventory levels.

Between January 1, 2006 and March 31, 2009, the Fund developed 25 stores. Under GAAP, the purchases of inventory to open these stores are treated as uses of cash from operating activities rather than as expenditures necessary for the Fund's growth.

Under GAAP, significant investments in inventory following the acquisition of stores are also treated as a use of cash from operating activities rather than as expenditures necessary for the Fund's growth. Between January 1, 2006 and March 31, 2009 the Fund acquired 132 stores. With the exception of the Brown Jug stores, the majority of the stores acquired did not have sufficient inventory to meet the Fund's operating standards related to selection and profitability.

The Fund's major suppliers of alcoholic beverages in Canada require payment prior to delivery of inventory. As a consequence the Fund has a strategy of financing inventory with the use of its credit facilities. Under GAAP, the use of the credit facilities to finance inventory is treated as a financing activity.

Inventory levels are subject to fluctuations related to the timing of opportunities to purchase inventory when favourable buying conditions arise. Historically, these opportunities have followed a seasonal pattern where inventory levels increase in the final quarter of the year and decrease in the first quarter of the year.

The acquisition of the Brown Jug stores in Alaska is a departure from the Fund's historic experience. When the Brown Jug stores were acquired no liabilities were assumed and no additional investment in inventory was required. In Alaska trade terms are available and accounts payable finance a portion of inventory. Subsequent to the acquisition, there was an increase in accounts payable related to the Brown Jug operation. The Fund believes that its determination of distributable cash before non-recurring items is more indicative of its first quarter 2009 results.

Provisions for Non-Growth Property and Equipment

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 may be 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:

(expressed in thousands of Canadian dollars)	Three months ended March 31,	
	2009	2008
Purchase of property and equipment	\$ 339	\$ 1,433
Growth expenditures including amounts relating to developed stores	(291)	(1,221)
Purchase of non-growth property and equipment	48	212
Provision for further non-growth property and equipment expenditures	-	(100)
Total provision for non-growth property and equipment	\$ 48	\$ 112

Provision for Pre-Opening Costs

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. For GAAP, effective January 1, 2009, these expenditures are treated as uses of cash from operating activities rather than as investments in store growth. The Fund views these costs as necessary for growth and has added them back for purposes of distributable cash.

The following table provides an analysis of the total expenditures on pre-opening costs:

(expressed in thousands of Canadian dollars)	Three months ended March 31,	
	2009	2008
Pre-opening cost expenditures	\$ 52	\$ 288
Pre-opening cost expenditures for subsequently abandoned transactions	-	(38)
Total provision for pre-opening costs	\$ 52	\$ 250

Excess of Distributions Over Earnings Before Non-Controlling Interest

Earnings before non-controlling interest includes a number of non-cash charges which result in distributions exceeding earnings before non-controlling interest. Non-cash charges include: vesting of awards under unit-based compensation plans, amortization of property and equipment, intangible assets, inventory fair value adjustments, non-cash interest and future income tax expense. These non-cash charges are added back in the determination of cash provided by operating activities.

Unit Based Compensation Plans

In 2008, the Fund adopted a new incentive plan, the Unit Award Incentive Plan (“UAIP”) to replace its existing long term incentive plans. In determining distributable cash the Fund’s practice was to provide for the cost of awards under the former plans when the amount of the awards and the conditions under which the awards would vest were reasonably determinable. Under GAAP, the expense related to the awards is recognized over the vesting period.

No new Unit awards are being granted under the former plans and there are currently 44,270 Units scheduled to vest in 2010 and 2011. Once the remaining Units vest management intends to eliminate these 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 and has taken into consideration awards under Unit based compensation plans in its determination of distributable cash. When the amount of the award and the conditions under which the awards will vest were reasonably determinable, the Fund deducted the full amount of the award from distributable cash. As a consequence, the recognition of this expense for financial statement purposes had already been taken into consideration in the determination of distributable cash.

Under the UAIP, the Compensation Committee of the Board of Directors of Liquor Stores GP Inc. has complete discretion over the granting of Units, the timing of any and all awards as well as the circumstances under which the Units granted will vest. The Compensation Committee has authority to grant restricted Units which vest only as to time and performance awards for which performance criteria and scalable multipliers can be designed to reward plan participants for the Fund’s performance. The Compensation Committee did not grant any awards under the UAIP for 2008.

Inventory Fair Value Adjustments

Inventory fair value adjustments arise from acquisitions. Valuation principles require that the element of profit related to inventory buying and associated activities be recognized in the cost of inventory at the date of acquisition. The Fund amortizes inventory fair value adjustments over a three-month period, which represents the average time it takes for inventory to turn over. The amortization of the inventory adjustment has no impact on future cash flows of the Fund as they are part of the purchase price allocation done at the time of acquisition.

Amortization of Property and Equipment

The Fund does not believe that amortization of property and equipment, namely leasehold improvements, as reflected in its GAAP financial statements reflects the economic cost to sustain its operations. This belief is based on the results of independent appraisals conducted at the time the Fund acquires stores. Generally, the result of these appraisals is that the values assigned to leasehold improvements at the time of acquisition exceed the carrying value of these assets in the accounts of the acquired business, indicating that amortization provided on a GAAP basis exceeds the economic cost of the assets consumed.

The principal reasons that amortization of property and equipment exceeds maintenance capital is that amortization of leasehold improvements is determined based on the initial term of the lease plus one lease renewal period. Leasehold improvements generally have an economic life longer than this period. Amortization of leasehold improvements represented a substantial portion of the Fund’s amortization of property and equipment during the period from January 1, 2006 to March 31, 2009.

Leases and Licenses

These items relate to fair value adjustments at the time the Fund's completes acquisitions.

Favourable and unfavourable leases represent market value rents for the term of the leases assumed by the Fund. While rent escalations on renewal or for an option period have an impact on Fund's earnings and cash flow from operations, the amortization of these items does not. The Fund leases the locations for virtually all of its stores and lease renewals are staggered.

At the time of a store acquisition a fair value is assigned to the licenses acquired. The cost of definite life licenses is amortized over the life of the lease and all renewal terms.

Given the life of the favourable and unfavourable leases and the licenses, the amortization of these items has limited impact on the sustainability of current distributions and no impact on the Fund's productive capacity in the foreseeable future.

Non-cash Interest

The non-cash interest relates to the Fund's convertible subordinated debentures and primarily to the \$57.5 million principal amount 6.75% Debentures issued by the Fund in December 2007 and January 2008. The amount of the liability initially recorded in the Fund's accounts with respect to the 6.75% Debentures was approximately \$50 million. The issue costs and the value of the conversion feature comprise the difference between the amount recorded in the Fund's accounts and the principal amount of the debentures. The non-cash interest represents the accretion of the debt balance to the amount owing at maturity.

The contractual requirement to repay the principal amount of the debentures is reflected in the table on page 11.

Future Income Taxes

The provisions for future income taxes in the Fund's accounts are to provide an estimate of what the future tax liability may be on January 1, 2011. These provisions do not result in cash taxes payable in the periods presented as current legislation will not result in the Fund being taxable until 2011.

It is expected that the foregoing non-cash charges will continue to cause distributions to exceed net earnings for the foreseeable future. The non-cash non-recurring items include: professional and consulting costs related to the Liquor Barn acquisition, store closure costs rent obligations, amortization, a goodwill adjustment, foreign exchange gains resulting from the acquisition of Brown Jug stores, and other non-significant charges.

Non-recurring Items

In 2009, non-recurring items reduced earnings before non-controlling interest by approximately \$0.2 million. The Fund does not believe that this reduction is meaningful in evaluating the sustainability of its cash distributions.

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. 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, the anticipated renewal of the Fund's credit facility, the Fund's expectations regarding net borrowing costs in 2009, and management's expectations that the Fund will have sufficient funds to complete store acquisitions and development and finance inventory.

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.

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)

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

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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	\$ -

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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).

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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

	(restated – note 3)
(expressed in thousands of Canadian dollars)	
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.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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

(expressed in thousands of Canadian dollars, except per unit amounts)	Three months ended	
	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.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2009

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)

(expressed in thousands of Canadian dollars)	Three months ended 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.