Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

September 30, 2009
(expressed in thousands of Canadian dollars)

Liquor Stores Income Fund

Consolidated Balance Sheets

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

	September 30, 2009	December 31, 2008 (restated) (note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 9,078	$ 3,530
Accounts receivable	1,957	1,928
Inventory (at cost)	100,910	114,072
Prepaid expenses and deposits	1,485	1,932
	113,430	121,462
Deposits on future acquisitions (note 5)	1,073	10
Note receivable	-	310
Property and equipment	44,658	46,743
Intangible assets	44,629	48,198
Goodwill	270,793	271,533
	$ 474,583	$ 488,256
Liabilities		
Current liabilities		
Bank indebtedness (note 7 (a))	$ 26,427	$ 31,172
Accounts payable and accrued liabilities	17,763	21,033
Distributions payable to unitholders (note 8)	2,493	2,478
Distributions payable to non-controlling interest (note 8)	546	557
Current portion of long-term debt (note 7 (b))	-	28,000
	47,229	83,240
Long-term debt (note 7 (b))	85,563	51,742
Future income tax liability (note 9)	10,852	10,616
Non-controlling interest (note 10)	45,697	48,013
	189,341	193,611
Unitholders' Equity		
Fund Units (note 11)	311,034	309,638
Equity component of convertible debentures	4,970	4,970
Contributed surplus (note 12)	756	1,156
Accumulated other comprehensive income (note 13)	(2,097)	1,404
Cumulative undistributed earnings (excess distributions)	(29,421)	(22,523)
	285,242	294,645
	$ 474,583	$ 488,256

Liquor Stores Income Fund

Consolidated Statements of Earnings and Comprehensive Income

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

Consolidated Statements of Earnings	**Three months ended September 30, 2009**	**2008 (restated) (note 3)**	**Nine months ended September 30, 2009**	**2008 (restated) (note 3)**
Sales	$ 138,915	$ 123,913	$ 385,520	$ 339,902
Cost of sales	104,796	92,357	287,886	255,627
Gross margin	34,119	31,556	97,634	84,275
Operating and administrative expense	21,953	19,245	65,837	57,556
Operating earnings before amortization, interest and other	12,166	12,311	31,797	26,719
Amortization				
Property and equipment	1,542	1,434	4,628	3,808
Intangible assets	723	796	2,222	2,341
	2,265	2,230	6,850	6,149
	9,901	10,081	24,947	20,570
Interest expense and other				
Bank indebtedness	406	432	942	604
Long-term debt	307	45	740	474
Convertible debentures	1,332	1,297	3,920	3,791
Loss (gain) on foreign exchange	146	(609)	116	(784)
Gain on sale of investment (note 6)	(179)	-	(179)	-
	2,012	1,165	5,539	4,085
Earnings before income tax and non-controlling interest	7,889	8,916	19,408	16,485
Future income tax expense	423	587	196	3,580
Earnings before non-controlling interest	7,466	8,329	19,212	12,905
Non-controlling interest (note 10)	1,515	1,710	3,703	3,234
Net earnings for the period	$ 5,951	$ 6,619	$ 15,509	$ 9,671
Earnings per Unit (note 14)				
Basic	$ 0.32	$ 0.36	$ 0.84	$ 0.53
Diluted	$ 0.32	$ 0.36	$ 0.84	$ 0.53

Consolidated Statements of Comprehensive Income				
Net earnings for the period	$ 5,951	$ 6,619	$ 15,509	$ 9,671
Other comprehensive loss				
Net loss on translation of self-sustaining foreign operations (note 13)	(2,193)	-	(3,501)	-
Comprehensive income for the period	$ 3,758	$ 6,619	$ 12,008	$ 9,671

Liquor Stores Income Fund

Consolidated Statements of Changes in Unitholders' Equity

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

	Three months ended September 30, 2009	Three months ended September 30, 2008 (restated) (note 3)	Nine months ended September 30, 2009	Nine months ended September 30, 2008 (restated) (note 3)
Fund Units (note 11)	$ 311,034	$ 309,549	$ 311,034	$ 309,549
Equity component of convertible debentures	4,970	4,970	4,970	4,970
Contributed surplus (note 12)	756	889	756	889
Accumulated other comprehensive income, beginning of period	96	-	1,404	-
Cumulative translation adjustments	(2,193)	-	(3,501)	-
Accumulated other comprehensive income, end of period (note 13)	(2,097)	-	(2,097)	-
Cumulative undistributed earnings (excess distributions), beginning of period	(27,893)	(23,308)	(21,670)	(11,307)
Change in accounting policy (note 3 (a))	-	-	-	95
Change in accounting policy (note 3 (b))	-	(156)	(853)	(450)
Cumulative undistributed earnings (excess distributions), as restated	(27,893)	(23,464)	(22,523)	(11,662)
Net earnings for the period	5,951	6,619	15,509	9,671
Distributions declared on Fund Units (note 8)	(7,479)	(7,431)	(22,407)	(22,285)
Cumulative undistributed earnings (excess distributions), end of period	(29,421)	(24,276)	(29,421)	(24,276)
Unitholders' equity, end of period	$ 285,242	$ 291,132	$ 285,242	$ 291,132

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

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

	Three months ended September 30, 2009	2008 (restated) (note 3)	Nine months ended September 30, 2009	2008 (restated) (note 3)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	$ 5,951	$ 6,619	$ 15,509	$ 9,671
Items not affecting cash				
Amortization	2,265	2,230	6,850	6,149
Amortization of inventory fair value adjustment	-	-	155	-
Amortization of financing charges	108	-	108	-
Non-cash interest on convertible debentures	351	317	979	856
Future income tax expense	423	587	196	3,580
Unrealized gain on currency forward contract	-	(616)	-	(696)
Gain on sale of investment (note 6)	(179)	-	(179)	-
Non-controlling interest	1,515	1,710	3,703	3,234
Unit-based compensation (note 15)	220	255	555	677
Loss on sale of forfeited incentive plan units	-	-	30	-
	10,654	11,102	27,906	23,471
Net change in non-cash working capital items (note 17)	7,232	(1,035)	9,057	(7,989)
	17,886	10,067	36,963	15,482
Financing activities				
Increase (decrease) in bank indebtedness	481	3,397	(4,772)	13,298
Proceeds of long-term debt	-	-	4,818	7,185
Repayment of long-term debt	-	-	-	(15,000)
Distributions paid to unitholders (note 8)	(7,479)	(7,431)	(22,392)	(22,277)
Distributions paid to non-controlling interest (note 8)	(1,638)	(1,672)	(4,955)	(5,563)
Dividends paid to non-controlling interest by subsidiaries (note 10)	(84)	(79)	(338)	(321)
Net distributions and proceeds on long-term incentive plan units	(18)	-	(20)	(12)
	(8,738)	(5,785)	(27,659)	(22,690)
Investing activities				
Business acquisitions (note 4)	(953)	(2,363)	(1,087)	(4,478)
Proceeds from sale of investments (note 6)	966	-	966	-
Net deposits on future acquisitions	-	(1,064)	(1,155)	(3,064)
Note receivable (note 6)	234	(4)	234	(306)
Purchase of property and equipment	(1,720)	(795)	(2,807)	(3,727)
Proceeds on currency forward contract	-	-	-	95
	(1,473)	(4,226)	(3,849)	(11,480)
Foreign exchange loss on cash held in foreign currency	65	-	93	-
Increase (decrease) in cash and cash equivalents	7,740	56	5,548	(18,688)
Cash and cash equivalents balance, beginning of period	1,338	754	3,530	19,498
Cash and cash equivalents balance, end of period	$ 9,078	$ 810	$ 9,078	$ 810

1 Nature of operations and organization

Liquor Stores Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated August 10, 2004.

As at September 30, 2009, the Fund operated 225 retail liquor stores, of which 171 (2008 – 174) were in Alberta, 35 (2008 - 33) were in British Columbia and 19 (2008 – nil) were in Alaska. Of the stores operated, 197 (2008 – 183) were acquired by the Fund and 28 (2008 - 24) were developed by the Fund.

2 Significant accounting policies and basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2008, except as noted below. However, these interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto, for the year ended December 31, 2008.

Adoption of new accounting standards

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

3 Changes in accounting policies

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

On August 28, 2008, the Fund adopted CICA Emerging Issues Committee Abstract #171 ("EIC-171") Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion. The Fund has retrospectively applied EIC-171 with restatement of prior periods as required by the standard's transitional provisions.

The 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 retrospectively 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	$ -	$ 1,297
Non-controlling interest	48,013	48,279
Fund Units	309,638	309,730

The cumulative impact of the changes to December 31, 2008 is a decrease of $852,533 to unitholders' equity.

The impact on reported earnings is as follows:

(expressed in thousands of Canadian dollars)	**Three months ended September 30, 2008**	**Nine months ended September 30, 2008**
Decrease in pre-opening cost amortization	$ 578	$ 1,056
Pre-opening costs expensed during the period	(99)	(826)
Increase in non-controlling interest	(88)	(42)
Increase in net earnings	391	188
Increase in basic and diluted earnings per unit	$ 0.02	$ 0.01

4 Business acquisition

During the three and nine month periods ended September 30, 2009, the Fund acquired one (2008 – 5) retail liquor store. The operating results of the acquisition are included in the results of the Fund from the acquisition date.

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

There were no adjustments to goodwill relating to prior period acquisitions for the three months ended September 30, 2009 (2008 - $18,402). During the nine months ended September 30, 2009, there were adjustments to goodwill for $134,858 (2008 - $240,852) for prior year acquisitions relating to contingent payments and transaction costs. An additional $42,994 (2008 – reduction to goodwill of $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 acquired or adjusted during the three and nine month periods ended September 30, 2009, $517,407 and $695,259, respectively are expected to be deductible for tax purposes.

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

(expressed in thousands of Canadian dollars)	Three months ended September 30, 2009	Nine months ended September 30, 2009
Purchase price:		
Cash paid during period	$ 953	$ 1,087
Net assets acquired:		
Working capital	259	215
Property and equipment	177	177
Goodwill	517	695
	$ 953	$ 1,087

5 Deposits on future acquisitions

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

Current period activity is as follows:

(expressed in thousands of Canadian dollars)	Non-current Deposits	Current Deposits
Balance – December 31, 2008	$ 10	$ 222
Deposits tendered	1,165	12
Holdback released and refunds received	(10)	(1)
Foreign currency translation	(92)	-
Balance – September 30, 2009	$ 1,073	$ 233

6 Sale of investment

During the three months ended September 30, 2009, the Fund sold its 80% interest in one store. The Fund received proceeds of $965,983 for the sale. In connection with this transaction, the Fund also sold its note receivable for proceeds of $234,000. The net gain on the sale was $179,493.

7 Bank indebtedness and long-term debt

The Fund concluded an amended and restated credit agreement effective June 30, 2009, with significant terms as described below.

a) Bank indebtedness

The Fund's credit facilities with a syndicate of Canadian banks comprise an extendible revolving $95 million operating facility ("Operating Facility") and a $48 million extendible revolving term loan facility ("Term Loan Facility"). The Fund also has a $5 million USD operating facility with a US bank ("US operating facility").

Interest on bank indebtedness related to the Operating Facility is payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Interest on amounts outstanding on the Term Loan Facility is payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Standby fees for the Operating Facility and Term Loan Facility are charged at an annual rate of 0.50% payable monthly on undrawn portions of the facilities. Interest on the US operating facility is payable at three month LIBOR + 2.00%. Financing fees relating to the Operating Facility have been capitalized and are being amortized over the term of the credit facility.

The bank indebtedness and long-term debt are collateralized by a general security agreement covering all present and after-acquired property of Liquor Stores LP and its affiliates and subsidiaries, a floating charge over all of Liquor Stores LP's and its direct and indirect subsidiaries present and after acquired real property, and an assignment of Liquor Stores LP's insurance. Further, Liquor Stores LP's direct and indirect subsidiaries have provided the syndicate with unlimited guarantees of the credit facilities. The assets of Liquor Stores LP and its subsidiaries represent substantially all of the Fund's assets.

As at September 30, 2009, $27 million was advanced under the Operating Facility as banker's acceptances and $33 million under the Term Loan Facility. No principal amounts are due on the Term Loan Facility until maturity at June 30, 2011. As at September 30, 2009, there were no amounts outstanding on the US operating facility.

At September 30, 2009, the Fund had issued $3.7 million (2008 - $3.7 million) in letters of guarantee for day-to-day inventory purchases in Canada and $0.6 million (2008 -$nil) for the United States.

The Fund's credit facility agreements contain both objectively determinable and subjective covenants which, if the Fund fails to comply, could accelerate repayment requirements.

b) Long-term debt

Long-term debt comprises the following:

(expressed in thousands of Canadian dollars)	Maturity Date	2009 Effective Rate	September 30, 2009	December 31, 2008
Term Loan Facility advance	June 30, 2011	4.03%	$ 33,000	$ 28,000
Unamortized financing charges (i)			(159)	-
			32,841	28,000
Convertible unsecured subordinated debentures:				
6.75% Debenture	December 31, 2012	10.13%	52,188	51,198
8.00% Debenture	December 31, 2011	4.85%	534	544
			85,563	79,742
Less: current portion of long-term debt			-	28,000
			$ 85,563	$ 51,742

(i) Financing fees related to the Term Loan Facility have been capitalized and are being amortized over the term of the facility.

8 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 three month period ended September 30, 2009.

(expressed in thousands of Canadian dollars)		Fund Units		Liquor Stores Exchangeable LP Units		Liquor Stores Series 1 Exchangeable LP Units		Total	
Date distribution declared	Date distribution paid	Declared	Paid	Declared	Paid	Declared	Paid	Declared	Paid
Jan 15, 2009	Feb 13, 2009	$ 2,483	$ 2,483	$ 442	$ 442	$ 114	$ 114	$ 3,039	$ 3,039
Feb 13, 2009	Mar 13, 2009	2,483	2,483	442	442	114	114	3,039	3,039
Mar 13, 2009	Apr 15, 2009	2,484	2,484	441	441	114	114	3,039	3,039
Apr 15, 2009	May 15, 2009	2,492	2,492	433	433	114	114	3,039	3,039
May 15, 2009	Jun 15, 2009	2,493	2,493	432	432	114	114	3,039	3,039
Jun 15, 2009	Jul 15, 2009	2,493	2,493	432	432	114	114	3,039	3,039
Jul 15, 2009	Aug 14, 2009	2,493	2,493	432	432	114	114	3,039	3,039
Aug 14, 2009	Sep 15, 2009	2,493	2,493	432	432	114	114	3,039	3,039
Sep 15, 2009		2,493		432		114		3,039	
		$ 22,407	$ 19,914	$ 3,918	$ 3,486	$ 1,026	$ 912	$ 27,351	$ 24,312

9 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 substantively enacted tax rates for 2011 and 2012 are 26.5% and 25.0% respectively.

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

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

(expressed in thousands of Canadian dollars)	September 30, 2009	December 31, 2008
Future income tax liabilities:		
Intangible assets	$ 5,828	$ 6,312
Property and equipment	2,594	2,566
Goodwill	3,690	2,627
	12,112	11,505
Future income tax assets:		
Issue and financing costs	541	549
Deferred lease inducements	231	198
Long term incentive plans	66	79
Non-capital losses	422	63
	1,260	889
	$ 10,852	$ 10,616

The above includes a net future income tax liability recorded by a wholly-owned US subsidiary of $14,945 (2008 – $84,528).

Future income taxes of $2,370,237 attributable to the Fund’s exchangeable interests are not recorded. During the three months ended September 30, 2009, 5,788 (2008 – nil) units were exchanged resulting in an increase to future taxes of $3,311 (2008 - $nil). During the nine month period ended September 30, 2009, 77,853 (2008 – 37,456) units were exchanged which increased future income taxes by $42,150 (2008 – $23,863).

The Fund has recognized future income taxes related to non-capital losses of $1,610,673 (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, $17,748 will expire in 2027, $582,266 will expire in 2028 and $1,010,659 will expire in 2029.

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

10 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	(77,853)	-	(77,853)
Balance – September 30, 2009	# 3,198,061	# 845,409	# 4,043,470

(expressed in thousands of Canadian dollars)	(restated – note 3)
Balance – December 31, 2008	$ 47,755
Earnings	3,446
Exchanged for Fund Units	(712)
Exchangeable LP Unit conversion	(42)
Distributions declared (note 8)	(4,944)
Balance – September 30, 2009	$ 45,503
Subsidiaries	
Balance – December 31, 2008	$ 258
Earnings	257
Sale of investment	17
Dividends	(338)
Balance – September 30, 2009	$ 194
Total	$ 45,697

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 11), 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.

11 Unitholders' equity

Units outstanding and capital contributions are as follows:

(expressed in thousands of Canadian dollars)	Number of units	Net capital contributions
Balance – December 31, 2008 (restated – note 3)	# 18,356,996	$ 309,638
Issued for Exchangeable Units	77,853	712
Vested Units (note 15 (a))	31,256	674
Forfeited units	3,124	68
Cash distributions on vested Units	-	(58)
Balance – September 30 ,2009	# 18,469,229	$ 311,034

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 three and nine month periods ended September 30, 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.

12 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 15 (a))	(674)
Unit-based compensation expense (note 15 (a))	274
Balance – September 30, 2009	$ 756

The Fund manages two unit-based incentive plans under which certain senior management receives a portion of their compensation (note 15 (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.

13 Accumulated Other Comprehensive Income

The following table outlines the components of accumulated other comprehensive income as at September 30, 2009:

(expressed in thousands of Canadian dollars)	**Amount**
Balance – December 31, 2008	$ 1,404
Foreign currency translation adjustment (i)	(3,501)
Balance – September 30, 2009	$ (2,097)

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

14 Earnings per Unit

	Three months ended September 30,		**Nine months ended September 30,**	
(expressed in thousands of Canadian dollars, except per unit amounts)	**2009**	**2008 (restated – note 3)**	**2009**	**2008 (restated – note 3)**
Net earnings (numerator utilized in basic and diluted Earnings per Unit)	$ 5,951	$ 6,619	$ 15,509	$ 9,671
Units outstanding, beginning of period	# 18,463,440	# 18,347,730	# 18,356,996	# 18,294,278
Weighted average of Units issued less treasury Units acquired	3,649	-	80,526	45,864
Denominator utilized in basic earnings per unit	# 18,467,089	# 18,347,730	# 18,437,522	# 18,340,142
Potential units under unit-based compensation plans (note 15 (a))	4,844	1,294	15,115	14,838
Denominator utilized in diluted earnings per unit	# 18,471,933	# 18,349,024	# 18,452,637	# 18,354,980
Earnings per Unit – Basic	$ 0.32	$ 0.36	$ 0.84	$ 0.53
Earnings per Unit – Diluted	$ 0.32	$ 0.36	$ 0.84	$ 0.53

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

15 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 - September 30, 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 three months ended September 30, 2009 was $74,906 (2008 - $195,927) and $226,550 (2008 - $458,713) for the nine month period ended September 30, 2009. Compensation expense of $25,800 (2008 - $71,178) was recorded for the 2007 Plan for the period ended September 30, 2009 and $78,140 (2008 - $213,534) for the nine month period ended September 30, 2009.

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

Awards accruing to DSU Plan participants for the three and nine months ended September 30, 2009 totalled $119,490 (2008 – reduce compensation expense by $12,118) and $281,111 (2008 - $4,413), respectively, which was recorded as compensation expense in the period. As at September 30, 2009 participants have accumulated an entitlement to the equivalent cash value of 37,063 Units under the DSU Plan (December 31, 2008 – 26,938).

16 Related party transactions

A director of a subsidiary of the Fund is a partner in a law firm to which the Fund incurred professional fees during the three and nine month periods ended September 30, 2009 of $60,708 (2008 - $92,177) and $191,923 (2008 - $274,298), respectively. Further, the Fund paid fees and expenses to a company controlled by the Executive Chairman of the Fund in the amount of $2,427 (2008 - $38,461) for consulting services during the nine months ended September 30, 2009. Rent paid to companies controlled by a director of the GP amounted to $140,633 (2008 - $99,613) and $447,222 (2008 - $329,404) respectively for the three and nine months ended September 30, 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 was $20,863 included in accounts payable and accrued liabilities (December 31, 2008 - $15,000) relating to these transactions.

17 Supplemental disclosure of cash flow information

Changes in non-cash working capital items:

(expressed in thousands of Canadian dollars)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Accounts receivable	$ (888)	$ 1,203	$ (89)	$ 1,170
Inventory	5,124	(1,134)	11,412	(6,195)
Prepaid expenses and deposits	153	(333)	431	(553)
Accounts payable and accrued liabilities	2,843	(771)	(2,697)	(2,411)
	$ 7,232	$ (1,035)	$ 9,057	$ (7,989)

(expressed in thousands of Canadian dollars)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Interest paid	$ 641	$ 475	$ 3,577	$ 3,166
Income taxes paid	4	4	43	234

18 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.

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
(expressed in thousands of Canadian dollars)	Canada	US	Total	Canada	US	Total
Total sales (i)	$ 119,289	$ 19,626	$ 138,915	$ 327,308	$ 58,212	$ 385,520
Goodwill	260,651	10,142	270,793	260,651	10,142	270,793
Property and equipment	41,231	3,427	44,658	41,231	3,427	44,658

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

19 Economic dependence

Under Alberta provincial legislation the Fund is required to purchase liquor and related products sold in Alberta from the Alberta Gaming and Liquor Commission. As the Fund's income in Alberta is derived entirely from the sale of liquor and related products, its ability to continue viable operations is largely 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 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.

20 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.

21 Subsequent event

On October 22, 2009, the Fund completed the acquisition of eight retail liquor stores located in Kentucky, USA. The stores are located in the cities of Lexington and Louisville. The aggregate purchase price (including inventory) was approximately $28.6 million and was financed with existing credit facilities. Management is in the process of allocating the purchase price to the net assets acquired, and this allocation will be reflected in the Fund’s fourth quarter results.