LIQUOR DEPOT

LIQUOR STORES INCOME FUND

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

For the Three Months Ended March 31, 2010
As of May 6, 2010

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, 2010. 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 23 below under "Non-GAAP Measures".

See also "Risk Factors" on page 17, "Financial Outlook" on page 28 and "Forward-Looking Statements" on page 28 of this MD&A.

This MD&A is dated May 6, 2010.

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.

RESULTS

Sales and gross margin for the first quarter of 2010 were up from a year earlier, with the addition of Liquor Barn (Kentucky) in the fourth quarter of 2009.

Customer counts in Canadian same stores for the first quarter of 2010 were consistent year-over-year, but customers purchased fewer items per visit, which contributed to a same store sales decline of 1.3% for the Fund's Canadian same stores. For the US, same store sales (in US dollars) for the first quarter of 2010 were consistent with a year earlier. Gross margin as a percentage of sales was down 1.0% for the first quarter primarily due to the lingering effects resulting from the Government of Alberta's liquor mark-up increase and subsequent reversal in 2009. Wholesale price fluctuations as a result of the Government of Alberta's liquor mark-up increase and subsequent reversal caused significant sales and gross margin fluctuations in 2009. During the period of April 7 to July, 2009 in Alberta, the Fund increased its retail prices and realized significant inventory holding gains related to inventory on hand prior to April 7. Following the Government's mark-up increase, inventory was purchased at higher costs. Coincident with the reversal of the mark-up increase on July 7, 2009, retail prices were reduced and the holding gains experienced in the second quarter reversed in the last half of 2009 and the first quarter of 2010. Gross margin was also impacted by more aggressive promotional pricing during the first quarter of 2010. Operating margin before non-recurring items declined $1.2 million and distributable cash before non-recurring items declined by $2.0 million or $0.09 per unit.

As expected, increased interest expense related to the acquisition of Liquor Barn stores in Kentucky in the fourth quarter of 2009 had a negative impact on distributable cash for the first quarter. However, this US subsidiary still made a positive contribution to operating margin and distributable cash in the first quarter. It is expected that the US subsidiary's contribution to operating margin and distributable cash will increase in the remainder of 2010 as liquor retail sales generally rise throughout the year, with the highest sales occurring in the fourth quarter.

OUTLOOK

The Fund does not expect the first quarter results to be indicative of what the results will be for the full 2010 year. As a result, for the year ended December 31, 2010, the Fund is providing guidance that it expects distributable cash before non-recurring items per Unit to be in the range of $1.70 to $1.80, not including any growth that would occur as a result of potential acquisitions that may arise in 2010. This range compares to $1.81 distributable cash before non-recurring items per Unit achieved in 2009. See "Financial Outlook" relating to this guidance on page 28.

The Fund's undrawn credit facilities remained relatively constant throughout the quarter. Management believes the current credit facilities will be sufficient to fund operational commitments and expansion throughout 2010.

With the January 1, 2011 effective date of legislation concerning the taxation of income trusts approaching, the Fund expects to announce its plans for 2011 later in the year.

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 82.2% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates 236 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 6, 2010)

	Alberta			**British Columbia**			**Alaska**	**Kentucky**		**Total**
	Edmonton(1)	**Calgary**(1)	**Other**(2)	**Lower Mainland**	**Vancouver Island**	**Interior**	**Anchorage**	**Lexington**	**Louisville**	
Number of Stores	80	45	48	13	11	11	20	5	3	236

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 (22), 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 173 liquor stores in Alberta where there are approximately 1,165 liquor stores and 92 agency stores [Source: Alberta Gaming and Liquor Commission].

The Fund operates 35 stores and two small associated pubs in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 674 private stores and 197 government operated stores. There are also approximately 224 private agency stores that service small communities. [Source: British Columbia Liquor Distribution Branch].

The Fund currently operates 20 stores in the greater Anchorage area. In the state of Alaska there are approximately 380 retail liquor stores with 93 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].

In the state of Kentucky there are no government owned or operated liquor stores. Liquor licenses are permitted based on the alcoholic status of each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell beer, wine and spirits. There are approximately 730 package retail license stores in Kentucky with 207 in Jefferson County and 68 in Fayette County [Source: Kentucky's Alcoholic Beverage Control Board]. The Fund currently operates five stores in Lexington (Fayette County) and three stores in Louisville (Jefferson County).

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 and by increasing sales per customer. 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 by emphasizing the in-store customer experience, and marketing and brand development. Many of our stores offer customer education events and merchandise presentations.

Management will continue to concentrate marketing efforts on the Fund's current brand structure: Liquor Depot, Liquor Barn (Canada and US) and Brown Jug full service stores, as well as Grapes & Grains specialty 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 adjusted for 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 annualized distributable cash flow; 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, 2010 were $9.1 million or $0.405 per Unit, consistent with 2009. For the three months ended March 31, 2010, distributable cash before non-recurring items was $2.0 million or $0.09 per Unit, compared with $4.0 million or $0.18 per Unit for the same period in 2009. Non-recurring items in 2010 and 2009 were comprised of professional and consulting fees for litigation matters related to the Liquor Barn Income Fund acquisition in 2007. For the first quarter of 2010, the non-recurring consulting and professional fees were offset by a $0.3 million settlement related to a GST appeal.

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

	Three months ended March 31,			
(expressed in thousands of Canadian dollars)		2010		2009
Cash provided by operating activities	$	6,797	$	15,306
Net change in non-cash working capital		(4,560)		(11,490)
Provision for financing charges		(108)		-
Provision for non-growth property and equipment		(39)		(48)
Pre-opening and acquisition costs		18		52
Distributable cash		2,108		3,820
Non-recurring items (note 1)		(95)		195
Distributable cash before non-recurring items	$	2,013	$	4,015
Weighted average units outstanding	#	22,556,969	#	22,556,969
Distributable cash before non-recurring items per Unit	$	0.09	$	0.18
Distributable cash per Unit (note 2)	$	0.09	$	0.17
Distributions declared per Unit	$	0.41	$	0.41

(1) *Non-recurring items for the three months ended March 31, 2010 and 2009 include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund. For the first quarter of 2010, the non-recurring consulting and professional fees were offset by a $0.3 million refund settlement related to a GST appeal.*

(2) *The GAAP measure comparable to distributable cash per unit is earnings per unit. Diluted earnings per Unit for the three months ended March 31, 2010 was $0.00 compared to diluted earnings per Unit of $0.07 in the same period of 2009.*

Distributable cash is a non-GAAP measure. See supplemental liquidity information on page 24 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 2009, 20% (2008 - 20%) of annual same store sales occurred in the first quarter, 26% (2008 - 26%) in the second quarter, 26% (2008 - 26%) in the third quarter and 28% (2008 - 28%) in the last quarter.

Policy on Same Store Sales Comparisons

Comparable same store sales includes sales for stores that have been open 12 full months at the beginning of the reporting period. Stores which have significant wholesale business have been excluded.

Three Months Ended March 31, 2010 Operating Results

The following table summarizes the operating results for the three months ended March 31, 2010 and 2009.

	Three months ended March 31,			
	2010		2009	
	$	%	$	%
	(unaudited)		(unaudited)	
Sales (note 1)				
Canadian same stores (CAD$)	73,918	63.8%	74,903	70.4%
Canadian wholesale operations (CAD$)	11,007	9.5%	12,492	11.7%
Other Canadian stores (CAD$)	1,463	1.3%	608	0.6%
Total Canadian store sales (CAD$)	86,388	74.6%	88,003	82.7%
US same stores (US$)	14,756	12.7%	14,743	13.9%
Other US stores (US$)	13,520	11.7%	-	-
Foreign exchange gain on US store sales (note 2)	1,134	1.0%	3,606	3.4%
Total US store sales (CAD$)	29,410	25.4%	18,349	17.3%
Total sales (CAD$)	115,798	100%	106,352	100.0%
Adjusted gross margin (note 3) (CAD$)	28,110	24.3%	26,858	25.3%
Adjusted operating and administrative expense (CAD$) (note 4)	23,994	20.7%	21,798	20.5%
Adjusted operating margin (CAD$) (note 5)	4,116	3.6%	5,060	4.8%
Non-recurring items (CAD$) (note 6)	(95)	-0.1%	195	0.2%
Operating margin before non-recurring items (CAD$)	4,021	3.5%	5,255	5.0%

Notes:

(1) *The number of stores and corresponding results for the three months ended March 31, 2010 includes partial months of operations for one store (2009 - one) opened or acquired and one store closed during the period. Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.*

(2) *Sales for US stores are expressed in US dollars. Foreign exchange on US sales is based on the average exchange rate for the three months ended March 31.*

(3) *Adjusted gross margin for 2009 excludes $0.16 million in respect of inventory fair value adjustments related to acquisitions.*

(4) *For the three months ended March 31, 2010, adjusted operating and administrative expense excludes $0.02 million (2009 - $0.05 million) in pre-opening and acquisition costs charged to operating and administrative expense.*

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

(6) *Non-recurring items for the three months ended March 31, 2010 and 2009 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. For the first quarter of 2010, the non-recurring consulting and professional fees were offset by a $0.3 million settlement related to a GST appeal.*

First quarter 2010 Operating Results Compared to First Quarter 2009 Operating Results

Sales

For the three months ended March 31, 2010 sales were $115.8 million, up 8.8% from $106.4 million in the same period last year. Sales growth was mainly attributable to the Fund's US acquisitions late in 2009, which more than offset a decline in Canadian sales.

- Same Store Sales
  - Canadian same store sales – down $1.0 million or 1.3%.
    - Generally, customer count has remained consistent throughout the last year at the Fund's same stores, but customers purchased fewer items per visit.
    - Same store sales for natural resource-dependent markets in Alberta and British Columbia including Fort McMurray, Grande Prairie, Edson, Slave Lake, Red Deer, and parts of Vancouver Island were down an average of 4.5%. In total, same store sales for these communities were down $0.6 million from 2009.
  - US same store sales – constant at US$14.7 million.
- Other Sales
  - Wholesale business sales for the three months ended March 31, 2010 were $11.0 million, down $1.5 million or 12.0% from $12.5 million a year earlier. The Fund continued to strategically reduce its business in this area due to lower margins and higher administrative and credit risk costs associated with wholesale customers. Most wholesale stores also have a retail component, and sales for these stores in resource-dependent markets were significantly impacted by the weakened economy, accounting for approximately 19% of the decrease in this category in 2010.
  - Other Canadian stores include stores that were opened or acquired after January 1, 2009 and stores that have been closed. Stores in this category had sales of $1.5 million in 2010 compared with $0.6 in 2009.
  - Other US stores include stores that were opened or acquired after January 1, 2009, including one store opened in Alaska and eight stores acquired in Kentucky in the fourth quarter of 2009. These stores accounted for US$13.5 million in sales for the first quarter of 2010 with no comparable figures for 2009.

Adjusted Gross Margin

For the three months ended March 31, 2010, adjusted gross margin was $28.1 million, up 4.5% from $26.9 million for the same period last year. Gross margin is up overall due to the addition of stores in the fourth quarter of 2009 including eight stores in Kentucky and one store in Alaska.

Gross margin as a percentage of sales was down 1.0% to 24.3% from 25.3% in 2009. The primary factors for the decrease were:

- The Government of Alberta's 2009 liquor mark-up increase in April and subsequent reversal in July left the Fund with higher cost inventory for the latter part of 2009 and into 2010. At March 31, 2010 an insignificant amount of higher cost inventory purchased during the liquor mark-up period remained and the Fund does not expect this inventory to have a significant impact on gross margin for the remainder of the year.

- The combination of reduced same store sales and the cost of featuring items in more aggressive promotional pricing.

- With the addition of the Kentucky stores in the fourth quarter of 2009, the US contributed 25% of overall sales for the first quarter of 2010 compared with 17% for the first quarter of 2009. The US stores have lower margins than Canadian stores. As the proportional share of US stores grows, the Fund's overall margins will reflect the impact of lower US margins accordingly.

Adjusted Operating and Administrative Expense

Adjusted operating and administrative expense for the three months ended March 31, 2010 was $24.0 million, up 10.1% from $21.8 million a year earlier mainly due to an increase in the number of stores operated. In Canada, operating and administrative costs were up 0.1%, mainly due to the timing of certain head office administration expenditures. In the US, administrative and operating expense was up 59.7%, representing the addition of operations for the Fund's Kentucky stores purchased in late 2009. Following the Kentucky acquisition in late 2009 and into 2010, the Fund incurred expenses in Kentucky related to the set up of inventory management controls and procedures and staff training.

For the three months ended March 31, 2010 and 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 in 2007. For the first quarter of 2010, the non-recurring consulting and professional fees were offset by a $0.3 million refund settlement related to a GST appeal matter from 2007.

As a percentage of sales, adjusted operating and administrative expense for the period was consistent with the prior year at approximately 21.0%.

Operating Margin

Adjusted operating margin was $4.1 million for the quarter ended March 31, 2010, down 19.6% from $5.1 million in 2009. As a percentage of sales, operating margin was 3.6%, down 1.2% from a year earlier.

Adjusted operating margin for Canadian stores for the first quarter of 2010 was $3.1 million or 3.5% as a percentage of sales compared with $4.4 million and 5.0% as a percentage of sales for 2009. In Canada, adjusted operating margin as a percentage of sales was down 1.5% due to reduced same store sales, the lingering effect of the Government of Alberta's liquor mark-up increase period and more aggressive promotional pricing as discussed above.

The US adjusted operating margin for 2010 was $1.0 million or 3.4% as a percentage of sales compared with $0.7 million and 3.8% as a percentage of sales for 2009. Adjusted operating margin was down 0.4% due to additional expenses incurred with respect to the integration of Kentucky store operations following the acquisition as discussed under operating and administrative expense.

Operating margin before non-recurring items for the quarter ended March 31, 2010 was $4.0 million, down $1.2 million or 24.5% for the same period last year due to the reasons discussed above.

Future Income Taxes

The Fund, in accordance with GAAP, follows the asset and liability method of accounting. With the substantive enactment of Bill C-52 in 2007, including the provisions related to the taxation of income trusts (the "SIFT Rules"), 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 pages 10 and 21. 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 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, 2010, the Fund updated its estimate of temporary differences pertaining primarily to certain goodwill, property and equipment, and intangible assets, which resulted in a net increase in future income taxes of $0.1 million, compared with a net decrease of $0.8 million for the same period in 2009. Changes to future income tax estimates represent a non-cash charge against net earnings.

Net Earnings

Net earnings for the three months ended March 31, 2010 were $0.1 million, down from earnings of $1.7 million for the same period in 2009. Net earnings were down following a decrease in same store sales and gross margins for Canadian stores. In addition to this, interest expense increased $0.4 million related to financing for the acquisition of stores in Kentucky in late 2009 and increased amortization of $0.2 million for new stores opened in 2009. Net earnings for the three months ended March 31, 2010 included a non-cash future income tax expense of $0.1 million compared with a $0.8 million future income tax recovery for the first quarter of 2009.

Condensed Quarterly Information

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

	2010	2009				2008		
	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) (notes 1, 2)**	**Sep 30 (restated) (notes 1, 2)**	**Jun 30 (restated) (notes 1, 2)**
Balance Sheet								
Cash and cash equivalents	$ 1,236	$ 5,288	$ 9,078	$ 1,338	$ 2,139	$ 3,530	$ 810	$ 754
Total assets	493,407	509,809	474,583	474,963	470,646	488,256	442,460	438,993
Bank indebtedness	40,430	41,094	26,427	25,862	24,159	31,172	13,298	9,902
Total current liabilities	63,519	68,688	47,229	44,571	72,600	83,240	39,962	36,812
Long-term debt	100,022	100,126	85,563	85,188	52,056	51,742	51,425	51,108
Statement of Earnings								
# stores, end of period	236	236	225	224	224	223	208	204
Sales	$ 115,798	$ 155,529	$ 138,915	$ 140,253	$ 106,352	$ 143,015	$ 123,913	$ 121,567
Future tax expense (recovery)	79	(1,600)	423	576	(803)	(1,387)	587	493
Net earnings for the period	54	9,836	7,466	10,091	1,655	11,090	8,329	5,493
Basic earnings per Unit	$ 0.00	$ 0.45	$ 0.32	$ 0.44	$ 0.08	$ 0.50	$ 0.36	$ 0.24
Diluted earnings per Unit	$ 0.00	$ 0.43	$ 0.32	$ 0.44	$ 0.07	$ 0.50	$ 0.36	$ 0.24
Distributable cash per Unit	$ 0.09	$ 0.53	$ 0.47	$ 0.59	$ 0.17	$ 0.69	$ 0.49	$ 0.41
Distributable cash before non-recurring items per Unit	$ 0.09	$ 0.56	$ 0.47	$ 0.60	$ 0.18	$ 0.61	$ 0.50	$ 0.41
Distributions declared per Unit	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405

(1) *Net earnings have been restated in accordance with the adoption of CICA Handbook sections 1601 Consolidated Financial Statements and 1602 Non-Controlling Interests.*

(2) *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).*

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of May 6, 2010:

	Units
Fund Units [(1)]	18,542,439
Liquor Stores LP Exchangeable LP Units	3,192,454
Liquor Stores LP Series 1 Exchangeable LP Units	822,076
	22,556,969

Note:
(1) *Includes 14,867 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

The Fund has two types of capital expenditures: growth and maintenance. Growth capital represents expenditures made to acquire or develop new stores or to add capacity to existing stores. Historically, growth capital has been financed by proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Fund believes existing credit facilities are adequate to finance developments and acquisitions expected to occur in 2010. The Fund would require additional capital or financing for a larger acquisition. Maintenance capital is provided by cash from operating activities and used for store renovations or for other capital assets used in the operation of existing stores. The Fund may reserve cash from operations for planned renovations.

During the quarter ended March 31, 2010, the Fund opened one new store. The new store was funded with existing credit facilities.

The Fund will continue to pursue acquisition opportunities and to open new stores in the remainder of 2010.

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, in 2011 earnings of the Fund distributed to unitholders will be subject to tax at a rate of 26.5% (currently zero). In 2012 the tax rate decreases to 25%. 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, based on only 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 21. The long-term effect of the SIFT Rules on the Fund is yet to be determined.

Credit Facilities

The Fund has a credit facility with a syndicate of banks, which is effective until June 30, 2011. There is a total of $143 million available under the facility, consisting of an available $95 million extendible revolving operating loan (the "Operating Line Facility") and a $48 million extendible revolving term loan (the "Term Loan Facility"). The Fund also has a $5 million USD facility with a US bank.

At May 5, 2010 there was $43.4 million drawn on the Operating Line Facility, and $46.9 million drawn on the Term Loan Facility, both available until June 30, 2011. The Fund had $7.2 million in letters of credit issued against the Operating Line Facility.

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. Unused 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 are identified and new stores are developed.

The Fund's indebtedness is subject to a number of financial covenants. Under the terms of the Fund's credit facility, the following ratios are monitored: current ratio, funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. As at May 6, 2010 the Fund continues to be in compliance with all covenants as described below.

Current ratio

Current ratio is the ratio of current assets to the current liabilities. Current ratio is to be maintained in a ratio greater than or equal to 1.10 to 1.00.

Funded debt to EBITDA ratio

Funded debt is all the Fund's obligations, liabilities and indebtedness which would, in accordance with GAAP, be classified on a consolidated balance sheet of the Fund as indebtedness for borrowed money of the Fund, but exclude subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Fund's business. EBITDA is defined as the net income of the Fund plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, extraordinary and non-recurring losses to a maximum of $2.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, amortization of inventory fair value adjustments, and non-controlling interest. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Adjusted debt to EBITDAR

Adjusted debt is defined as the Fund's debt plus seven times rent. EBITDAR is defined as EBITDA described above plus rent.

Fixed charge coverage ratio

Fixed charge coverage ratio is the ratio of EBITDAR less the aggregate amount of unfunded capital expenditures and cash taxes divided by the sum of all interest expense and scheduled repayment of debt for the relevant period, cash distributions and rent.

Ratio	**Covenant**	**Fund at March 31, 2010**
Current	> or = 1.10:1.00	1.85:1.00
Funded debt to EBITDA	< 2.75:1.00	1.79:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.66:1.00
Fixed charge coverage	> or = 1.00:1.00	1.07:1.00

The funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed of the Fund including acquired stores.

Liquidity Risk

Liquidity ensures the Fund has sufficient financial resources available at all times to meet its obligations. The Fund manages liquidity risk by ensuring it has a variety of alternatives available to fund acquisitions, new store development and ongoing operations, which include 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.

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Fund has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Fund from being able to fund current operating and liquidity needs in the near term. Taking into consideration seasonal working capital requirements, the Fund believes it has available credit of approximately $32.7 million to finance growth opportunities.

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, 2010, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $86.7 million.

(expressed in thousands of Canadian dollars)	**+ 1.00%**	**- 1.00%**
Increase (decrease) in interest expense	$ 867	$ (867)
Increase (decrease) in net earnings before income tax	(867)	867

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Fund's net earnings before income tax of $0.04 on a per unit basis.

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 less than 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 businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

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 foreign exchange exposure is limited to US dollar denominated debt in the amount of US$20.5 million and intercompany management fees and interest payments which totalled approximately US$1.5 million for the quarter ended March 31, 2010.

The Fund's US subsidiaries are considered to be self-sustaining operations and the assets and liabilities of the foreign subsidiaries 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 subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiaries currently operate 28 stores out of the Fund's 236 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, 2010, 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)	2010	2011	2012	2013	2014	2015 and thereafter
Operating leases	$ 14,323	$ 16,972	$ 15,029	$ 12,679	$ 9,530	$ 21,520
Long-term debt	-	46,713	-	-	-	-
Debentures	-	500	57,500	-	-	-
Total	$ 14,323	$ 64,185	$ 72,529	$ 12,679	$ 9,530	$ 21,520

OFF BALANCE SHEET ARRANGEMENTS

As at May 6, 2010, the Fund does not have any off balance sheet arrangements.

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, foreign exchange currency contracts, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest, and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as available for sale, held to maturity, held for trading, or loans and receivables. Financial liabilities are classified as other financial liabilities.

TRANSACTIONS WITH RELATED PARTIES

The Fund has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the three months ended March 31, 2010, the Fund incurred professional fees of $65,104 to a law firm of which a director of Liquor Stores GP Inc. (the "Liquor Stores GP"), a subsidiary of the Fund, is a partner. Rent paid to companies controlled by the Executive Chairman of the Fund amounted to $133,938 for the three months ended March 31, 2010. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (see note 11 to the Financial Statements).

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.

The Fund performed its annual goodwill impairment test as at September 30, 2009 using the discounted cash flow method of assessing fair value. Some of the key assumptions used in the discounted cash flow model included a discount rate of 9.6%, a five year sales projection, tax impacts, and projections of maintenance capital expenditures. The sales projection was based on flat sales for 2010 for existing stores with a slight increase for stores added in the latter part of 2009 and included a 2% annual inflationary increase for 2011 and beyond. Beginning in 2011, the Fund is expected to become a taxable entity. The discounted cash flow model included expected impact based on tax rates currently enacted. Maintenance capital expenditure projections were based on historical experience of the Fund.

Based on the goodwill impairment test performed, the Fund concluded that the fair value of reporting units exceeded the carrying value and there was no impairment of goodwill. The Fund will perform its 2010 annual goodwill impairment test as at September 30, 2010 unless a triggering event occurs requiring the Fund to test goodwill at an earlier time.

Amortization Policies and Useful Lives

The Fund amortizes property, equipment and intangible assets over the estimated useful service lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Fund takes into account industry trends and Fund-specific factors, including changing technologies and expectation for the in-service period of these assets. The Fund assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Fund determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

Purchase Price Allocations

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. The Fund uses independent valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are determined based on a calculation of fair values by management. A discounted cash flow analysis is typically 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 acquired.

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

Business combinations

The CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and IFRS. The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of this standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, early application is permitted. The Fund adopted the revised standard effective January 1, 2010. The adoption of the standard was applied prospectively and; therefore, there is no impact on opening unitholders' equity. The early adoption of the standard resulted in approximately $6,000 in legal and professional costs related to business acquisitions being recorded in operating and administrative expense for the three months ended March 31, 2010. Prior to the adoption of Section 1582, these costs would have been capitalized to goodwill.

Consolidated Financial Statements and Non-controlling Interests

The CICA issued Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests, which together replace the former consolidated financial statements standard. Under the revised standards, non-controlling interests are be classified as a component of equity, and earnings and comprehensive income will be attributed to both the parent and non-controlling interest. The revised standards are effective January 1, 2011; however early application is permitted. The Fund adopted the revised standard effective January 1, 2010. The adoption of these standards was applied retrospectively, but only the presentation of certain items within the financial statements has been affected. There was no impact on opening unitholders' equity.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in accounting policies that must be evaluated.

The Fund's IFRS implementation plan consists of three phases:

Phase 1 – Diagnostic

This phase includes an assessment of the differences between current Canadian GAAP and IFRS, with focus on areas that may have a significant impact on the Fund.

Phase 2 - Evaluation and Design

This phase includes a detailed review of all relevant IFRSs to identify differences with current accounting policies and practices under Canadian GAAP and development of solutions to address the differences identified. This includes detailed analysis of alternatives available for the first-time adoption of IFRS ("IFRS 1") and policy choices available following the implementation of IFRS. During this phase information systems, business processes and internal controls over financial reporting were analyzed to ensure they can adequately support required disclosures under IFRS.

Phase 3 - Implementation

This is the final phase of the implementation plan and includes the execution of changes to information systems and business processes identified in Phase 2, formal approval of accounting policies including exemptions under IFRS 1, and the development of training programs for impacted areas.

Phases 1 and 2 are complete with the exception of areas for which IFRSs are expected to change prior to 2011. As part of Phase 3, management has completed the assessment of information system changes required to support information requirements under IFRSs and is in the process of executing appropriate system and business process changes as well as assessing the impact on internal controls over financial reporting. Dual reporting requirements have been evaluated and processes are in place to deal with processing parallel transactions in 2010. Finance personnel have received training with respect to changes in accounting policies and ongoing training is being provided as necessary.

The transition to IFRS from Canadian GAAP is a significant change which may materially affect the Fund's reported financial position and results of operations. Based on the analysis performed to date, management expects the most significant impacts of IFRS conversion to relate to the assessment of alternatives available under IFRS 1, business combinations, property and equipment, and asset impairment. This list is not a complete list of changes that may result from transition to IFRS.

IFRS 1

This standard provides guidance for the initial adoption of IFRS and allows certain optional exemptions from retrospective application of certain standards as well as requires certain mandatory exceptions. The following are the IFRS 1 components applicable to the Fund and the Fund's elections as approved by the Audit Committee.

Election	Election Description	Fund's Position
Business combinations	A first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to past business combinations. If an entity elects to not restate prior period acquisitions, the carrying value of assets and liabilities acquired and recorded under Canadian GAAP is the deemed cost under IFRS on transition date.	The Fund will take the election and will not restate prior business acquisitions.
Cumulative translation differences	A first-time adopter does not need to identify cumulative translation differences at the date of transition to IFRS. If the election is taken, any cumulative translation differences are deemed to be zero at the date	The Fund's current accounting treatment for cumulative translation differences under Canadian GAAP is consistent with IFRS. The Fund will not take the election. There will be no impact on the financial statements.

	of transition.	
Fair value or revaluation as deemed cost of property and equipment	Under IFRS 1, an entity can elect to use fair value or revaluation as deemed cost for property, plant and equipment, investment property and certain intangible assets. An entity may elect to use a previous GAAP revaluation of an item of property and equipment at, or before, the date of transition to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: 1. fair value; or 2. cost or depreciated cost in accordance with IFRS.	The Fund will take the election and use previous GAAP revaluations of fixed assets as deemed cost for assets acquired through business combinations. The Fund will use historic cost as deemed cost for all other property and equipment.
Non-controlling interest	Under International Accounting Standard (IAS) 27, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests.	The Fund will apply the mandatory exemption. The Fund early adopted CICA Handbook section 1602 Non-Controlling Interests at January 1, 2010 which is converged with IFRS. As a result, the exemption should not have an impact on the Fund upon conversion to IFRS.

Business Combinations

There are a few significant differences in accounting for business combinations under IFRS compared with Canadian GAAP. Under IFRS, the Fund will no longer be able to capitalize acquisition costs or contingent consideration paid after the business acquisition. IFRS requires acquisition costs, such as legal and other professional fees, to be expensed. Contingent consideration must be recorded at fair value at the time of acquisition, regardless of likelihood of payment. Any adjustments to the contingent amount actually paid or not paid, are to be recorded in profit and loss. As well, under Canadian GAAP, the Fund had the ability to prospectively adjust a business combination purchase price allocation if the final allocation differed from a preliminary allocation disclosed in an earlier period. Under IFRS, the purchase price allocation must be recorded retrospectively with restatement of comparative figures.

The Fund early adopted CICA Handbook section 1582 Business Combinations effective January 1, 2010. This standard is converged with IFRS 3 Business Combinations. The early adoption of this standard in conjunction with the Fund's decision regarding the IFRS 1 business combination election is expected to eliminate any opening balance sheet differences for business combinations between Canadian GAAP and IFRS at January 1, 2010 as well as any differences during the 2010 comparative year.

Property and Equipment

Under Canadian GAAP, property and equipment is recorded at cost, which is amortized over the estimated useful lives of assets on a straight-line basis. IFRS allows an entity adopting IFRS to use either the cost method or revaluation method for asset valuation. IFRS also requires each component of property and equipment with a significant cost in relation to the total cost of asset to be evaluated with respect to useful life and, if appropriate, be depreciated separately, referred to as asset componentization. The Fund has selected the cost method of asset valuation under IFRS. This, in conjunction with the fair value or revaluation as deemed cost election under IFRS 1, will minimize IFRS transition adjustments with respect to property and equipment for the Fund.

Asset Impairment

Under IFRS, the impairment of assets, excluding financial assets, is tested and measured by comparing the carrying value of an asset or cash generating unit to its recoverable amount. Recoverable amount is measured as the higher of fair value less costs to sell or value-in-use based upon discounted cash flow methodology. Canadian GAAP uses a two step approach to first test for, and then subsequently measure, an impairment loss. Unlike Canadian GAAP, IFRS requires impairment reversals for assets, with the exception of goodwill. As a result, IFRS treatment has the potential to increase income statement volatility due to the potential for increased write-downs and reversals of write-downs. IFRS requires goodwill to be allocated to the cash generating units ("CGUs") that benefit from the expected synergies of the related business combination and tests that goodwill for impairment at the CGU or group of CGUs level. More than one CGU can be aggregated when allocating the goodwill from a business combination. This allocation under IFRS may be at a lower level than the allocation of goodwill under Canadian GAAP and as a result, some operating segments may have increased potential for impairment losses. The Fund will be performing asset impairment testing as at January 1, 2010. It is unknown at this time if there will be any significant differences in the results from this test compared to testing performed with respect to the year ended December 31, 2009 under Canadian GAAP.

The AcSB may continue to issue Canadian accounting standards that are converged with IFRS prior to 2011, thus reducing the impact of adopting IFRS at the changeover date. As well, the Internal Accounting Standards Board ("IASB") is also expected to issue new accounting standards during the conversion period. Because of this, not all transition date financial statement adjustments are determinable at this time and the quantification of the impact of adoption of IFRS on the financial statements and operating performance measures cannot be finalized until closer to the changeover date.

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 National Instrument 52-109. 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 2009. Summary financial information for the Fund's Kentucky subsidiary for the three months ended March 31, 2010 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, 2010**
Current assets	$ 12,851
Total assets	30,498
Current liabilities	2,956
Sales	13,774

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, 2009. 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, 2010 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 have experienced 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 and inventory in the amount of approximately $32.7 million as at March 31, 2010, which Management believes will provide it with sufficient funds to complete additional acquisitions and/or new store development and financing for inventory.

However, the ability of the Fund to make acquisitions beyond the amount of the 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. The Fund has the discretion to establish cash reserves for the proper conduct of its business. Adding to these reserves in any year would reduce the amount of cash available for distribution by the Fund in that year. 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 primarily operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky. Decisions by the Alberta Gaming and Liquor Commission ("AGLC"), British Columbia Liquor Control and Licensing Branch ("BCLCLB"), Alaska Alcoholic Beverage Control Board ("ABCB"), or Kentucky Department of Alcoholic Beverage Control ("KYABC") or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of the Fund both favourably and unfavourably. There is no assurance that new legislation, regulations or changes to existing legislation, new interpretations of existing legislation, or regulations or decisions of the AGLC, the BCLCLB, the ABCB, or the KYABC will not adversely affect the licensing, operations or distributable cash of Liquor Stores.

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.

Prior to December 2009, in order to operate a retail liquor store in British Columbia an operator was required to have a LRS license that was associated with a primary license (both licenses are issued by the BCLCLB). Following certain regulation changes implemented by the BCLCLB in December 2009, the status of an LRS License is no longer contingent upon the associated primary license being maintained and LRS Licenses and liquor primary licenses may now be held independent of each other. In addition to the recent "severing" of LRS Licenses and liquor primary licenses, the BCLCLB has provided notice to certain industry participants of its interpretation of certain licensing provisions which will require all liquor store operators to own the associated LRS License (effectively prohibiting a long-recognized industry practice in which liquor store operators had the option of "leasing" a LRS License from a third-party licenseholder). Although Liquor Stores owns many of its LRS Licenses, in certain instances it holds its license via this aforementioned "lease" scenario and there is no assurance that this interpretation of applicable licensing regulations will not adversely affect the licensing and operations of certain British Columbia stores.

All of the Fund's Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually, and its Kentucky stores are operated pursuant to licenses issued by the KYABC, which are due for renewal on an annual basis.

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

Commodity Taxes

Changes in tax rates, and their corresponding effect on product pricing, could affect sales and or earnings. If taxes increase and the Fund increases 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 and the States of Alaska and Kentucky is both competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location, convenience, 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. In December 2009, the British Columbia government amended certain liquor control and licensing regulations which eliminated the requirement that a retail liquor store licensee also own and operate the related liquor-primary establishment. This amendment was followed by an amendment in February 2010 which increased the relocation distance such that a retail liquor store is not permitted to be relocated anywhere within 1.0 kilometre of an existing retail liquor store (or the site of an application to license a new retail liquor store). This arrangement limits the number of entrants who are able to enter into the market.

In each of Alaska and Kentucky, the Fund competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains (and in some instances in Kentucky, with U.S. national drug store chains who also offer alcoholic products for sale). Under the Alaska and Kentucky regulatory environments, stores purchase product directly from distributors and are able to negotiate large 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 both 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. With respect to its US operations, any significant disruptions in the operations or product supply of major distributors may also have a material adverse effect on the operations of the Fund.

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 Rules

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 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, TFSAs 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 investments that are not 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 relating to trusts and partnerships, first announced on October 31, 2006, has 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 utilizing portions of the permitted normal growth 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 approximately 26.5% in 2011 and 25.0% in 2012, depending on jurisdiction, 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 Rules. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under the SIFT Rules 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 Rules 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.

The SIFT Rules provide that the federal tax rate will be the federal general corporate tax rate, which is expected to be 16.5% in 2011 and 15% in 2012, plus the provincial component. The provincial component of the SIFT tax will be equal to 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.

The Fund would be considered to have permanent establishments in Alberta and British Columbia. The Alberta and British Columbia provincial tax rates are expected to be 10% in 2011. Taxable distributions that are not allocated to any province would instead be subject to a 10% rate constituting the provincial component.

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 inventory fair value adjustments to gross margin as required under Canadian 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. 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.

Non-recurring items include expenses incurred by the Fund for expenses that are not part of on-going operations and that are not expected to recur. These include professional fees paid in respect of law suits that originated with regards to the Fund’s acquisition of Liquor Barn Income Fund in 2007, non-ordinary severance expenses and acquisition related foreign exchange gains and losses.

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

Comparable same store sales includes sales for stores that have been open 12 full months at the beginning of the reporting period. Stores which have significant wholesale business have been excluded.

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 net earnings. The following table compares cash provided by operating activities, net earnings 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.

(expressed in thousands of Canadian dollars)	Three months ended March 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008 (restated – note 1)
Cash flow provided by operating activities	$ 6,797	$ 45,633	$ 35,747
Net earnings	54	29,048	23,995
Distributable cash before non-recurring items	2,013	40,911	38,673
Actual cash distributions declared relating to the period	(9,321)	(36,894)	(36,806)
Excess (deficiency) of cash provided by operating activities over cash distributions declared	$ (2,524)	$ 8,739	$ (1,059)
Excess (deficiency) of net earnings over cash distributions declared	$ (9,267)	$ (7,846)	$ (12,811)
Excess (deficiency) of distributable cash before non-recurring items over cash distributions declared	$ (7,308)	$ 4,017	$ 1,867

(1) *Comparative information for 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 increased cash flow provided by operating activities. As sales increase throughout the year and inventory levels rise accordingly, cash flow provided by operating activities typically declines.

Subsequent to the 2007 enactment of legislation concerning the taxation of income trusts, the Fund's cash distributions have exceeded the GAAP measures of cash flow from operating activities and net earnings, with the exception of 2009. Taking into consideration the Fund's continuing distribution policies and assuming future growth, cash distributions may exceed cash flow from operating activities and will exceed earnings before non-controlling interest on an annualized basis.

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, 2010, the Fund developed 30 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 141 stores. With the exception of the Brown Jug and Kentucky 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 acquisitions of the Brown Jug stores in Alaska in 2008 and the Kentucky stores in 2009 are a departure from the Fund's historic experience. When the Brown Jug and Kentucky stores were acquired, no liabilities were assumed and no additional investment in inventory was required. In both Alaska and Kentucky trade terms are available and accounts payable finance a portion of inventory. Subsequent to the acquisitions, there was an increase in accounts payable related to the US operations. The Fund believes that its determination of distributable cash before non-recurring items is more indicative of its annual results.

Provision for Financing Charges

Financing fees represent charges incurred upon the renewal of the credit facility agreement. For GAAP, the fees relating to the Operating Facility and Term Loan Facility were netted against bank indebtedness and long-term debt respectively and the expense is recognized over the remaining credit facility term as a non-cash amortization charge under operating activities. The Fund views these charges as cash costs and has deducted them from distributable cash.

The following table provides an analysis of the total expenditures on financing charges:

	Three months ended March 31,	
(expressed in thousands of Canadian dollars)	**2010**	**2009**
Amortization of financing charges related to:		
Operating Line Facility	$ 85	$ -
Term Loan Facility	23	-
Total provision for financing charges	$ 108	$ -

Provision 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:

	Three months ended March 31,	
(expressed in thousands of Canadian dollars)	**2010**	**2009**
Purchase of property and equipment	$ 355	$ 339
Growth expenditures including amounts relating to developed stores	(316)	(291)
Purchase of non-growth property and equipment	39	48
Provision for further non-growth property and equipment expenditures	-	-
Total provision for non-growth property and equipment	$ 39	$ 48

Pre-Opening and Acquisition Costs

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. Acquisition costs represent advisory and legal fees incurred to effect a business combination. For GAAP, effective January 1, 2009, pre-opening costs are treated as uses of cash from operating activities rather than as investments in store growth. Effective January 1, 2010, acquisition costs are also treated as uses of cash from operating activities rather than as investments in store growth under GAAP. 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 and acquisition costs:

	Three months ended March 31,	
(expressed in thousands of Canadian dollars)	**2010**	**2009**
Pre-opening cost expenditures	$ 12	$ 52
Acquisition cost expenditures	6	-
Total provision for pre-opening and acquisition costs	$ 18	$ 52

Excess of Distributions Over Net Earnings

Net earnings includes a number of non-cash charges which result in distributions exceeding net earnings. 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 14,867 Units scheduled to vest in 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. No awards have been granted to date under the UAIP.

On June 16, 2009 the Unitholders of the Fund approved the adoption of the Unit Option Plan ("UOP") which is intended to aid in attracting, retaining and motivating officers, employees, directors and other eligible service providers of the Fund and its subsidiaries, and to provide such persons with an incentive to continue in the long term service of the Fund and its subsidiaries, and to create in such persons a direct interest in the future success of the operations of the Fund and its subsidiaries by tying incentive compensation to increases in the value of the Trust Units of the Fund. Options granted pursuant to the UOP will have a term not exceeding five years and vest in such manner as determined by the Board. The exercise price of options granted will be determined by the Board at the time of grant, provided that in no event shall the exercise price be less than the last closing price of the Trust Units on the TSX preceding the time of grant. No awards have been granted to date under the UOP.

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, 2010.

Leases and Licenses

These items relate to fair value adjustments at the time the Fund 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 $50.0 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 13.

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 2010, non-recurring items increased net earnings by approximately $0.1 million. The Fund does not believe that this reduction is meaningful in evaluating the sustainability of its cash distributions.

FINANCIAL OUTLOOK

The purpose of this Financial Outlook is to provide Unitholders, prospective investors and other readers of this MD&A with management's expectations with respect to distributable cash for the year ending December 31, 2010. This outlook has been prepared for this purpose only and readers are cautioned that it may not be appropriate for any other purpose.

In this MD&A management has made an estimate of distributable cash before non-recurring items per Unit for the year ending December 31, 2010 to be in the range of $1.70 to $1.80, not including any potential acquisitions that may arise in 2010.

The following table sets forth management's outlook, the material assumptions related to the outlook and the material risk factors that may cause actual performance to differ materially from management's current expectations.

Outlook	Material Assumptions	Material Risk Factors
Distributable cash before non-recurring items per Unit in the range of $1.70 to $1.80 for the year ending December 31, 2010	• Same store sales ranging from a decrease of 0.8% to an increase of 1.5% based on a modest improvement in economic conditions and, in the fourth quarter of 2010, a return to the Fund's historic promotional pricing practices. • Adjusted gross margin as a percentage of sales ranging from 24.55% to 24.85%. • No regulatory changes to the liquor retail industry.	• Sales and gross margin may be negatively impacted by increased competition. • Sales may be impacted by changes in customer buying patterns. • Economic conditions may not improve as expected which may result in same store sales declines. • Regulatory changes could have a negative impact on sales.

The Fund's results of operations are subject to a number of additional risks that could have an effect on the financial outlook provided in this MD&A – See Risk Factors.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed therein.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements or information. All statements and information other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and performance, cash distributions, distributable cash before non-recurring items, distributable cash before non-recurring items per Unit and the components thereof, 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. All information under the heading "Financial Outlook" is forward-looking information. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "forecasts' 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 is no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur and such forward-looking statements included in this MD&A

should not be unduly relied upon. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this MD&A. There is 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 MD&A include, among others, distributable cash before non-recurring items per Unit in the range of $1.70 to $1.80 for the year, the range of estimates related to sales, adjusted gross margin, provision for non-growth property and equipment, and management’s expectations that the Fund will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

The information contained in this MD&A, including the information set forth under “Risk Factors” and under “Financial Outlook”, 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 MD&A is made as of the date of this MD&A 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.