Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

June 30, 2010
(expressed in thousands of Canadian dollars)

Liquor Stores Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	June 30, 2010	December 31, 2009 (restated – note 2)
Assets		
Current assets		
Cash and cash equivalents	$ 919	$ 5,288
Accounts receivable	940	1,846
Inventory (at cost)	122,596	122,571
Prepaid expenses and deposits	1,720	2,031
	126,175	131,736
Property and equipment	44,776	47,013
Intangible assets	47,452	47,963
Goodwill	283,661	283,097
	$ 502,064	$ 509,809
Liabilities		
Current liabilities		
Bank indebtedness	$ 49,962	$ 41,094
Accounts payable and accrued liabilities	20,105	24,554
Distributions payable to unitholders (note 5)	2,501	2,493
Distributions payable to non-controlling interest (note 5)	542	547
	73,110	68,688
Long-term debt (note 6)	100,278	100,126
Future income tax liability (note 7)	10,062	9,254
	183,450	178,068
Unitholders' Equity		
Equity attributable to Unitholders (note 8 (a))	275,822	286,165
Non-controlling interest (note 8 (b))	42,792	45,576
	318,614	331,741
	$ 502,064	$ 509,809

Liquor Stores Income Fund

Consolidated Statements of Earnings and Comprehensive Income

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

	Three months ended June 30, 2010	Three months ended June 30, 2009 (restated – note 2)	Six months ended June 30, 2010	Six months ended June 30, 2009 (restated – note 2)
Sales	$ 148,742	$ 140,253	$ 264,539	$ 246,605
Cost of sales	112,154	103,442	199,842	183,091
Gross margin	36,588	36,811	64,697	63,514
Operating and administrative expense	25,619	22,033	49,629	43,883
Operating earnings before amortization, interest and other	10,969	14,778	15,068	19,631
Amortization				
Property and equipment	2,443	1,570	4,241	3,085
Intangible assets	491	740	1,132	1,499
	2,934	2,310	5,373	4,584
	8,035	12,468	9,695	15,047
Interest expense and other				
Bank indebtedness	516	271	973	536
Long-term debt	458	176	896	434
Convertible debentures	1,328	1,294	2,657	2,588
Loss (gain) on foreign exchange	274	60	(422)	(30)
	2,576	1,801	4,104	3,528
Earnings before income tax	5,459	10,667	5,591	11,519
Future income tax expense (recovery)	705	576	784	(227)
Net earnings for the period	4,754	10,091	4,807	11,746
Other comprehensive gain (loss)				
Net gain (loss) on translation of self-sustaining foreign operations	2,520	(2,375)	661	(1,308)
Comprehensive income for the period	$ 7,274	$ 7,716	$ 5,468	$ 10,438
Net earnings attributable to:				
Unitholders of the Fund	$ 3,693	$ 8,072	$ 3,687	$ 9,558
Non-controlling interest	1,061	2,019	1,120	2,188
	$ 4,754	$ 10,091	$ 4,807	$ 11,746
Comprehensive income attributable to:				
Unitholders of the Fund	$ 5,763	$ 5,697	$ 4,230	$ 8,250
Non-controlling interest	1,511	2,019	1,238	2,188
	$ 7,274	$ 7,716	$ 5,468	$ 10,438
Earnings per Unit (note 9)				
Basic	$ 0.20	$ 0.44	$ 0.20	$ 0.52
Diluted	$ 0.20	$ 0.44	$ 0.20	$ 0.51

Liquor Stores Income Fund

Consolidated Statements of Changes in Unitholders' Equity

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

(restated – note 2)	**Fund Units**	**Equity component of convertible debentures**	**Contributed surplus**	**Accumulated other comprehensive income**	**Cumulative undistributed earnings (excess distributions)**	**Total**	**Non-controlling interest**	**Total Unitholders' equity**
	Attributable to Unitholders of the Fund							
Opening balance – January 1, 2009	$ 309,638	$ 4,970	$ 1,156	$ 1,404	$ (22,523)	$ 294,645	$ 48,013	$ 342,658
Units issued for exchangeable units	659	-	-	-	-	659	(698)	(39)
Vested long-term incentive plan units	674	-	(674)	-	-	-	-	-
Forfeited long-term incentive plan units	68	-	-	-	-	68	-	68
Cash distributions on vested units	(40)	-	-	-	-	(40)	-	(40)
Unit-based compensation expense	-	-	173	-	-	173	-	173
Foreign currency translation adjustment	-	-	-	(1,308)	-	(1,308)	-	(1,308)
Net earnings for the period	-	-	-	-	9,558	9,558	2,188	11,746
Distributions declared	-	-	-	-	(14,928)	(14,928)	(3,306)	(18,234)
Dividends declared	-	-	-	-	-	-	(254)	(254)
Balance – June 30, 2009	$ 310,999	$ 4,970	$ 655	$ 96	$ (27,893)	$ 288,827	$ 45,943	$ 334,770
Opening balance – January 1, 2010	$ 311,044	$ 4,970	$ 857	$ (2,025)	$ (28,681)	$ 286,165	$ 45,576	$ 331,741
Units issued for exchangeable units	502	-	-	-	(14)	488	(502)	(14)
Vested long-term incentive plan units	635	-	(635)	-	-	-	-	-
Cash distributions on vested units	(112)	-	-	-	-	(112)	-	(112)
Forfeited long-term incentive plan units	25	-	-	-	-	25	-	25
Unit-based compensation expense (note 10)	-	-	30	-	-	30	-	30
Foreign currency translation adjustment	-	-	-	543	-	543	118	661
Net earnings for the period	-	-	-	-	3,687	3,687	1,120	4,807
Distributions declared (note 5)	-	-	-	-	(15,004)	(15,004)	(3,254)	(18,258)
Dividends declared	-	-	-	-	-	-	(266)	(266)
Balance – June 30, 2010	$ 312,094	$ 4,970	$ 252	$ (1,482)	$ (40,012)	$ 275,822	$ 42,792	$ 318,614

Liquor Stores Income Fund

Consolidated Statements of Cash Flows

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

	Three months ended June 30, 2010	Three months ended June 30, 2009 (restated – note 2)	Six months ended June 30, 2010	Six months ended June 30, 2009 (restated – note 2)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	$ 4,754	$ 10,091	$ 4,807	$ 11,746
Items not affecting cash				
Amortization	2,934	2,310	5,373	4,584
Amortization of inventory fair value adjustment	-	-	-	155
Amortization of financing charges	108	-	216	-
Non-cash interest on convertible debentures	348	314	696	628
Future income tax expense (recovery)	705	576	784	(227)
Unrealized loss (gain) on foreign currency	565	-	(252)	-
Unit-based compensation (note 10 (a))	3	144	30	335
Loss on sale of forfeited incentive plan units	7	-	7	30
	9,424	13,435	11,661	17,251
Net change in non-cash working capital items (note 12)	(7,530)	(9,663)	(2,970)	1,827
	1,894	3,772	8,691	19,078
Financing activities				
Increase (decrease) in bank indebtedness	9,118	1,759	8,776	(5,253)
(Repayment of) proceeds from long-term debt	(426)	4,818	(426)	4,818
Distributions paid to unitholders	(7,503)	(7,469)	(14,996)	(14,913)
Distributions paid to non-controlling interest	(1,626)	(1,648)	(3,259)	(3,317)
Dividends paid to non-controlling interest by subsidiaries	(74)	(70)	(266)	(254)
Net distributions and proceeds on long-term incentive plan units	18	-	(94)	(2)
	(493)	(2,610)	(10,265)	(18,921)
Investing activities				
Business acquisitions, including contingent consideration paid (note 3)	(378)	-	(578)	(135)
Net deposits on future acquisitions	-	(1,165)	(20)	(1,155)
Purchase of property and equipment	(1,340)	(748)	(1,695)	(1,087)
Purchase of intangible assets	(31)	-	(481)	-
	(1,749)	(1,913)	(2,774)	(2,377)
Foreign exchange gain (loss) on cash held in foreign currency	31	(50)	(21)	28
Decrease in cash and cash equivalents	(317)	(801)	(4,369)	(2,192)
Cash and cash equivalents balance, beginning of period	1,236	2,139	5,288	3,530
Cash and cash equivalents balance, end of period	$ 919	$ 1,338	$ 919	$ 1,338

1 Nature of operations and organization

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

As at June 30, 2010, the Fund operated 237 retail liquor stores, of which 174 (2009 – 169) were in Alberta, 35 (2009 - 35) were in British Columbia, 20 (2009 – 19) were in Alaska and 8 (2009 – nil) were in Kentucky. Of the stores operated, 203 (2009 – 196) were acquired by the Fund and 34 (2009 - 27) were developed by the Fund.

2 Significant accounting policies and basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2009, except as noted below. However, these interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto, for the year ended December 31, 2009.

Adoption of new accounting standards

Business combinations

Effective January 1, 2010, the Fund adopted CICA Handbook Section 1582, *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and International Financial Reporting Standards ("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. This standard was applied prospectively as required by the transitional provisions of the standard and past business combinations have not been restated.

Consolidated Financial Statements and Non-controlling Interests

Effective January 1, 2010, the Fund adopted CICA Handbook Sections 1601, *Consolidated Financial Statements* and 1602, *Non-controlling Interests*, which together replace the former consolidated financial statements standard. Section 1602 introduces the following changes:

- In the consolidated balance sheets and consolidated statements of unitholders' equity, non-controlling interest is now presented as a separate component of unitholders' equity, rather than as a liability;
- Non-controlling interest is no longer recorded as a deduction from net earnings;
- Net earnings and other comprehensive income are attributed to the Unitholders of the Fund and non-controlling interest based on their respective ownership interests.

The Fund elected to early adopt these standards effective January 1, 2010 in order to more closely align its accounting treatment of those items with IFRS at the changeover date. These standards have been applied prospectively, except for the presentation requirements for non-controlling interest, which were applied retrospectively as required by the transitional provisions of the standards.

3 Business acquisitions

During the three and six month periods ended June 30, 2010, the Fund acquired one (2009 – nil) retail liquor store. The operating results of the acquisition are included in the results of the Fund from May 26, 2010.

The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the identifiable assets acquired and liabilities assumed at the effective date of the purchase.

There were no adjustments to goodwill relating to prior period acquisitions for the three months ended June 30, 2010 (2009 - $nil). During the six month period ended June 30, 2010, there were adjustments to goodwill for $200,000 (2009 - $nil) for contingent payments relating to prior year acquisitions.

The goodwill is attributable to the acquired geographic location, customer base and economies of scale expected from combining the operations of the store acquired with the Fund's operations. For the three and six month periods ended June 30, 2010, $73,705 and $273,705, respectively, of acquired goodwill qualifies as eligible capital property of which 75 percent is expected to be deductible for tax purposes.

The purchase price allocated to the assets acquired and liabilities assumed is as follows:

(expressed in thousands of Canadian dollars)		**Three and six months ended June 30, 2010**
Purchase price:		
Cash paid during period	$	378
Cash paid during period ended March 31, 2010		20
	$	398
Net assets acquired:		
Working Capital		123
Property and equipment		201
Goodwill		74
	$	398

4 Store and pub closures

The Fund closed two retail liquor stores during the three month period ended June 30, 2010 and three retail liquor stores during the six month period ended June 30, 2010 due to lease expirations. During the three and six month periods ended June 30, 2010, the Fund accelerated amortization for property and equipment for these stores of $184,843 and $295,798, respectively. Additional costs of $13,709 and $20,504 related to equipment removal were included in operating and administrative expense for the three and six month periods ended June 30, 2010.

During the three month period ended June 30, 2010, the Fund closed three pubs in British Columbia, accelerated amortization for property and equipment for the pubs of $572,090 and recorded additional costs of $53,873 related to net rent obligations, which were included in operating and administrative expense.

5 Distributions

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization and adjusted by capital expenditures. Distributions totalling $0.405 (2009 - $0.405) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units were declared by the Fund for the three month period ended June 30, 2010.

(expressed in thousands of Canadian dollars)		Fund Units		Liquor Stores Exchangeable LP Units		Liquor Stores Series 1 Exchangeable LP		Total	
Date distribution declared	**Date distribution paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Jan 15, 2010	Feb 15, 2010	$ 2,500	$ 2,500	$ 432	$ 432	$ 111	$ 111	$ 3,043	$ 3,043
Feb 15, 2010	Mar 15, 2010	2,500	2,500	432	432	111	111	3,043	3,043
Mar 15, 2010	Apr 15, 2010	2,501	2,501	431	431	111	111	3,043	3,043
Apr 15, 2010	May 14, 2010	2,501	2,501	431	431	111	111	3,043	3,043
May 14, 2010	Jun 15, 2010	2,501	2,501	431	431	111	111	3,043	3,043
Jun 15, 2010		2,501		431		111		3,043	
		$ 15,004	$ 12,503	$ 2,588	$ 2,157	$ 666	$ 555	$ 18,258	$ 15,215

6 Long-term debt

On June 29, 2010, the Fund concluded an amended and restated credit agreement which is effective until June 26, 2012. The Fund's credit facilities are with a syndicate of Canadian banks and are comprised of an available $95 million extendible revolving operating facility and a $48 million extendible revolving term facility. During the three month period ended June 30, 2010, financing fees of $382,500 related to the amendment of the credit agreement have been capitalized and are being amortized over the term of the credit facilities.

7 Future income taxes

Prior to June 12, 2007, the Fund provided for current and future income taxes only for its incorporated subsidiaries. On June 22, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), received Royal Assent. As a consequence, Canadian income trusts are required to provide for future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011. The substantively enacted tax rates for 2011 and 2012 are 26.5% and 25.0% respectively.

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

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

(expressed in thousands of Canadian dollars)	**June 30, 2010**	**December 31, 2009**
Future income tax liabilities:		
Intangible assets	$ 6,036	$ 5,806
Property and equipment	2,354	2,081
Goodwill	4,191	3,263
	12,581	11,150
Future income tax assets:		
Issue and financing costs	712	696
Deferred lease inducements	592	237
Long term incentive plans	179	67
Non-capital losses	1,036	896
	2,519	1,896
	$ 10,062	$ 9,254

The above includes a net future income tax liability recorded by wholly-owned US subsidiaries of $139,439 (2009 – net future income tax asset of $184,979).

Future income taxes of $2,178,368 attributable to the Fund’s exchangeable interests are not recorded. During the three month period ended June 30, 2010, 4,388 (2009 – 63,802) units were exchanged resulting in an increase to future income taxes of $2,250 (2009 – $34,282). During the six month period ended June 30, 2010, 27,721 (2009 – 72,065) units were exchanged which increased future income taxes by $13,936 (2009 - $38,839).

The Fund has recognized future income taxes related to non-capital losses of $3,452,037 (2009 - $2,748,407) available in subsidiaries to offset income of future years. Realization of the non-capital losses is considered to be more likely than not. If not utilized, $480,347 will expire in 2028, $2,132,258 will expire in 2029 and $839,432 will expire in 2030.

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

8 Unitholders' equity

(a) Equity attributable to Unitholders

Units outstanding are as follows:

	Number of units
Balance – December 31, 2009	# 18,470,448
Issued for Exchangeable Units	27,721
Vested Units (note 10 (a))	29,403
Forfeited Units (note 10 (a))	1,159
Balance – June 30, 2010	# 18,528,731

An unlimited number of Fund Units may be created and issued pursuant to the Declaration of Trust. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. All Fund Units entitle the holder thereof to one vote and each Fund Unit has equal voting rights and privileges.

Consideration for units issued on exchange of Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units during the three and six month periods ended June 30, 2010 was recorded at the carrying amount of the Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units.

(b) Non-controlling interest

Units outstanding are as follows:

	Liquor Stores Exchangeable LP Units	Series 1 Exchangeable LP Units	Total
Balance – December 31, 2009	# 3,196,842	# 845,409	# 4,042,251
Exchanged for Fund Units	(4,388)	(23,333)	(27,721)
Balance – June 30, 2010	# 3,192,454	# 822,076	# 4,014,530

Liquor Stores LP Exchangeable LP Units ("Exchangeable LP Units") and Liquor Stores LP Series 1 Exchangeable LP Units ("Series 1 Exchangeable LP Units")

The Exchangeable LP Units and Series 1 Exchangeable LP Units issued by Liquor Stores LP have economic and voting rights equivalent to the Fund Units, except in connection with the exchangeability terms as described below. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units are not required to be exchanged for Fund Units before transferring to third parties. Exchangeable LP Units and Series 1 Exchangeable Units have been treated as non-controlling interest.

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

9 Earnings per Unit

(expressed in thousands of Canadian dollars, except per unit amounts)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net earnings attributable to Unitholders of the Fund (numerator utilized in basic Earnings per Unit)	$ 3,693	$ 8,072	$ 3,687	$ 9,558
Net earnings attributable to non-controlling interest	-	1,897	-	2,049
Net earnings (numerator utilized in diluted Earnings per Unit)	$ 3,693	$ 9,969	$ 3,687	$ 11,607
Units outstanding, beginning of period	# 18,523,183	# 18,399,638	# 18,470,448	# 18,356,996
Weighted average of Units issued less treasury Units acquired	3,874	53,293	50,883	65,496
Denominator utilized in basic earnings per unit	# 18,527,057	# 18,452,931	# 18,521,331	# 18,422,492
Exchangeable units	-	4,062,072	-	4,115,333
Potential units under unit-based compensation plans (note 10 (a))	9,352	7,957	9,352	10,271
Denominator utilized in diluted earnings per unit	# 18,536,409	# 22,522,960	# 18,530,683	# 22,548,096
Earnings per Unit – Basic	$ 0.20	$ 0.44	$ 0.20	$ 0.52
Earnings per Unit – Diluted	$ 0.20	$ 0.44	$ 0.20	$ 0.51

Due to their anti-dilutive effect, 2010 and 2009 potential units for convertible debentures and 2010 exchangeable units and the net earnings attributable to those units have been excluded from the diluted earnings per unit calculation.

10 Unit-based compensation plans

(a) Long-term incentive plan ("LTIP") and 2007 Incentive Plan ("2007 Plan")

The following table summarizes the status of the plans:

	LTIP	2007 Plan	Total
Unvested Units – December 31, 2009	# 31,038	# 13,232	# 44,270
Vested Units transferred to participants	(16,171)	(13,232)	(29,403)
Forfeited Units	(1,159)	-	(1,159)
Unvested Units – June 30, 2010	# 13,708	# -	# 13,708

In June 2010, 1,159 forfeited LTIP Units were sold on the market resulting in a reduction to compensation expense of $18,785.

Compensation expense for the LTIP for the three month period ended June 30, 2010 was $21,799 (2009 - $74,906) and $47,070 (2009 – $151,644) for the six month period ended June 30, 2010. No compensation expense was recorded for the 2007 Plan for the three month period ended June 30, 2010 (2009 - $25,800) and $1,292 (2009 - $52,341) was recorded for the six month period ended June 30, 2010.

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

The following table summarizes the status of the plan:

		Total
Unvested Units – December 31, 2009	#	39,180
Vested Units (settled in cash)		(7,834)
Awards		6,810
Unvested Units – June 30, 2010	#	38,156

During the three month period ended June 30, 2010, awards accruing to DSU Plan participants were reduced by $23,322 (2009 – recorded a compensation expense of $43,567), which was recorded as a reduction to compensation expense in the period. For the six months ended June 30, 2010, the total compensation expense related to the DSU Plan was $89,164 (2009 - $161,621).

11 Related party transactions

A director of a subsidiary of the Fund is a partner in a law firm to which the Fund incurred professional fees during the three and six month periods ended June 30, 2010 of $54,848 (2009 - $65,455) and $119,952 (2009 - $131,216), respectively. Rent paid to companies controlled by a director of the GP amounted to $136,215 (2009 - $154,555) and $270,153 (2009 - $306,588), respectively for the three and six month periods ended June 30, 2010. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount. There was $4,445 included in accounts payable and accrued liabilities (December 31, 2009 - $17,294) relating to these transactions.

12 Supplemental disclosure of cash flow information

Changes in non-cash working capital items:

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands of Canadian dollars)	2010	2009	2010	2009
Accounts receivable	$ 155	$ (292)	$ 907	$ 799
Inventory	(7,820)	(8,136)	420	6,288
Prepaid expenses and deposits	109	75	315	279
Accounts payable and accrued liabilities	26	(1,310)	(4,612)	(5,539)
	$ (7,530)	$ (9,663)	$ (2,970)	$ 1,827

	Three months ended June 30,		Six months ended June 30,	
(expressed in thousands of Canadian dollars)	2010	2009	2010	2009
Interest paid	$ 2,833	$ 2,409	$ 3,619	$ 2,936
Income taxes paid	12	36	55	39

13 Segmented information

The Fund's reportable segments are Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions. The following segmented information is regularly reported to the Fund's President and Chief Executive Officer (the Fund's chief operating decision maker).

(expressed in thousands of Canadian dollars)								Three months ended June 30, 2010
		Canadian		**US**		**Intersegment Eliminations**		**Consolidated**
Sales to external customers	$	113,552	$	35,190	$	-	$	148,742
Intersegment revenue [(i)]		1,176		-		(1,176)		-
	$	114,728	$	35,190	$	(1,176)	$	148,742
Operating earnings before amortization, interest and other	$	10,017	$	952	$	-	$	10,969
Property & equipment amortization	$	2,279	$	164	$	-	$	2,443
Intangible asset amortization		464		27		-		491
Interest income [(i)]		(666)		-		666		-
Interest expense		2,269		699		(666)		2,302
Gain on foreign exchange		274		-		-		274
Earnings before income tax and non-controlling interest	$	5,397	$	62	$	-	$	5,459
Future income tax expense		386		319		-		705
Net earnings (loss)	$	5,011	$	(257)	$	-	$	4,754
Other information								
Expenditures for additions to:								
Property and equipment	$	1,183	$	157	$	-	$	1,340
Goodwill		74		-		-		74
Total assets		435,899		66,165		-		502,064

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements
June 30, 2010

(expressed in thousands of Canadian dollars)	Three months ended June 30, 2009			
	Canadian	US	Intersegment Eliminations	Consolidated
Sales to external customers	$ 120,016	$ 20,237	$ -	$ 140,253
Intersegment revenue [i]	402	-	(402)	-
	$ 120,418	$ 20,237	$ (402)	$ 140,253
Operating earnings before amortization, interest and other	$ 13,970	$ 808	$ -	$ 14,778
Property & equipment amortization	$ 1,439	$ 131	$ -	$ 1,570
Intangible assets amortization	735	5	-	740
Interest income [i]	(395)	-	395	-
Interest expense	1,734	402	(395)	1,741
Gain on foreign exchange	60	-	-	60
Earnings before income tax and non-controlling interest	$ 10,397	$ 270	$ -	$ 10,667
Future income tax expense	325	251	-	576
Net earnings	$ 10,072	$ 19	$ -	$ 10,091
Other information				
Expenditures for additions to:				
Property and equipment	$ 739	$ 9	$ -	$ 748
Total assets – December 31, 2009	443,274	66,535	-	509,809

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

(expressed in thousands of Canadian dollars)								Six months ended June 30, 2010
		Canadian		**US**		**Intersegment Eliminations**		**Consolidated**
Sales to external customers	$	199,939	$	64,600	$	-	$	264,539
Intersegment revenue [(i)]		2,113		-		(2,113)		-
	$	202,052	$	64,600	$	(2,113)	$	264,539
Operating earnings before amortization, interest and other	$	14,001	$	1,067	$	-	$	15,068
Property & equipment amortization	$	3,916	$	325	$	-	$	4,241
Intangible asset amortization		1,072		60		-		1,132
Interest income [(i)]		(1,343)		-		1,343		-
Interest expense		4,458		1,411		(1,343)		4,526
Gain on foreign exchange		(422)		-		-		(422)
Earnings (loss) before income tax and non-controlling interest	$	6,320	$	(729)	$	-	$	5,591
Future income tax expense		399		385		-		784
Net earnings (loss)	$	5,921	$	(1,114)	$	-	$	4,807
Other information								
Expenditures for additions to:								
Property and equipment	$	1,497	$	198	$	-	$	1,695
Goodwill		274		-		-		274
Total assets		435,899		66,165		-		502,064

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

(expressed in thousands of Canadian dollars)	Six months ended June 30, 2009			
	Canadian	**US**	**Intersegment Eliminations**	**Consolidated**
Sales to external customers	$ 208,019	$ 38,586	$ -	$ 246,605
Intersegment revenue (i)	773	-	(773)	-
	$ 208,792	$ 38,586	$ (773)	$ 246,605
Operating earnings before amortization, interest and other	$ 18,653	$ 978	$ -	$ 19,631
Property & equipment amortization	$ 2,847	$ 238	$ -	$ 3,085
Intangible assets amortization	1,489	10	-	1,499
Interest income (i)	(813)	-	813	-
Interest expense	3,542	829	(813)	3,558
Gain on foreign exchange	(30)	-	-	(30)
Earnings (loss) before income tax and non-controlling interest	$ 11,618	$ (99)	$ -	$ 11,519
Future income tax (recovery) expense	(440)	213	-	(227)
Net earnings (loss)	$ 12,058	$ (312)	$ -	$ 11,746
Other information				
Expenditures for additions to:				
Property and equipment	$ 881	$ 206	$ -	$ 1,087
Goodwill	100	35	-	135
Total assets – December 31, 2009	443,274	66,535	-	509,809

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

14 Economic dependence

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

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

15 Seasonal nature of the business

The Fund historically experiences higher sales in the third and fourth quarters, while the first and second quarters typically experience lower sales levels due to seasonal shopping patterns. Occupancy related expenses, operating and administrative expense and amortization remain relatively steady throughout the year.