LIQUOR STORES INCOME FUND

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

For the three and nine months ended September 30, 2005

As of November 10, 2005

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

This management's discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes (the "Interim Financial Statements") of Liquor Stores Income Fund (the "Fund") for the three and nine month periods ended September 30, 2005 and the audited consolidated financial statements and accompanying notes of the Fund for the initial period from August 10, 2004 to December 31, 2004, which include business operations from September 28, 2004 to December 31, 2004. 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 the notes to the Interim Financial Statements of the Fund unless otherwise stated.

This Management Discussion and Analysis is dated November 10, 2005.

OVERVIEW OF THE FUND

Issuance of Fund Units and Acquisition

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.

The Fund commenced business operations on September 28, 2004, when it completed an initial public offering (the "IPO") of 4,300,000 trust units ("Fund Units"), at a price of $10 per unit, for aggregate gross proceeds of $43,000,000. The costs of issuance of the units were $5,185,828 resulting in an addition to Unitholders Equity of $37,814,172. Concurrent with the closing of the IPO, the Fund used the proceeds from the IPO to acquire a 50.6% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP") and Liquor Stores LP used such net proceeds and funds from the new credit facilities to acquire the net assets (the "Acquired Business") of The Liquor Depot Corporation ("Liquor Depot") and Liquor World Group Inc. ("Liquor World") and other wholly owned subsidiaries or companies that were under common control (collectively, the "Vendors"). The capital contributed by the Vendors is represented by the Subordinated LP Units and Exchangeable LP Units more fully described in Note 13 of the December 31, 2004 audited consolidated Financial Statements of the Fund.

On March 2, 2005, the Fund completed a private placement of 1,830,000 Fund Units at $16.40 per unit for gross proceeds of $30,012,000 (note 3) and increased its interest in Liquor Stores LP to 59.34%. The cost of the new issue was $1,341,536, and the net proceeds of $28,670,464 were used to repay bank indebtedness, to acquire 14 retail liquor store businesses and for general corporate purposes. The purchase price of the assets of the 14 stores was allocated as follows and is subject to adjustments as indicated in note 4:

Property and equipment	$ 3,195,665
Goodwill	8,307,423
	11,503,088
Working capital	$ 3,696,245
Cash Paid	$15,199,333

During the three month period ended June 30, 2005 two additional stores were developed in British Columbia for an aggregate cost of approximately $847,000 and subsequent to September 30, 2005, the Fund completed the acquisitions of four additional retail liquor stores businesses for $9,048,000 as described in Note 13 and as a result the Fund currently operates seventy retail liquor stores.

The Fund Units trade on the Toronto Stock Exchange under the symbol LIQ.UN.

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 cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes are a useful supplemental measures of performance. Specifically, management believes that EBITDA is the appropriate measure from which to make adjustments to determine the distributable cash of the Fund. 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 prospective investors is the cash distributed by the Fund relative to the price of the Fund Units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund.

EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that EBITDA and distributable cash should not replace net income 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 methods of calculating EBITDA and distributable cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and distributable cash may not be comparable to similar measures presented by other issuers.

Earnings from operations for purposes of disclosure under “Third Quarter Operating Results” has been calculated as described below. In the case of the Fund, earnings from operations have been derived by adding interest expense, income tax expense, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest to net earnings for the period. In the case of Liquor Depot and Liquor World, earnings from operations have been derived by adding amortization expense, charitable donations, management salaries to directors, officers and shareholders, interest expense, income tax expense and non-controlling interest to the net income for the period and subtracting from the resulting total income taxes recovered and income arising from subsidiaries accounted for on an equity basis.

Earnings from operations as so calculated is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Investors are cautioned that earnings from operations as so calculated should not replace net income 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 earnings from operations as so calculated may differ from the methods used by other issuers. Therefore, the Fund's earnings from operations as so calculated may not be comparable to similar measures presented by other issuers.

Basis of Management’s Discussion and Analysis (“MD & A”)

To provide more meaningful information, the following MD & A refers to the third quarter and year to date operating results of the Fund compared to the results for the Vendors for similar operating accounts combined for the third quarter 2004 and year to date for 2004 (See “Non-GAAP Measures” above). It is management’s belief that charitable donations and management salaries and bonuses incurred by Liquor Depot and Liquor World are not relevant when compared to the Fund’s operations because of differences between the structure and policies of the Fund and those of the Vendors.

The Business of the Fund

The Fund is the largest liquor store retailer in Alberta by number of stores and the second largest by revenue. The Fund currently operates 70 stores, 52 of which are located in or near the urban centres of Calgary and Edmonton, and five of which are located in British Columbia.

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Province of British Columbia's model for liquor distribution is a blend of private and government operated retail outlets.

Distributable Cash and Cash Distributions

The Fund's policy is to distribute annually to unitholders available cash from operations after cash required for capital expenditures, working capital reserve, growth capital reserve and other reserves considered advisable by the Trustees of the Fund. The policy allows the Fund to make stable monthly distributions to its Unitholders based on its estimate of distributable cash for the year. 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 following table summarizes the distributions for the nine month period ended September 30, 2005:

		Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
Record date	**Payment date**	**Declared $**	**Paid $**	**Declared $**	**Paid $**	**Declared $**	**Paid $**
January 31, 2005	February 15, 2005	358,190	358,190	172,848	172,848	531,038	531,038
February 28, 2005	March 15, 2005	358,190	358,190	172,847	172,847	531,037	531,037
March 31, 2005	April 15, 2005	510,629	510,629	703,885	703,885	1,214,514	1,214,514
April 29, 2005	May 16, 2005	510,629	510,629	172,848	172,848	683,477	683,477
May 31, 2005	June 15, 2005	549,126	549,126	185,878	185,878	735,004	735,004
June 30, 2005	July 15, 2005	549,125	549,125	743,606	743,606	1,292,731	1,292,731
July 29, 2005	August 15, 2005	549,126	549,126	185,878	185,878	735,004	735,004
August 31, 2005	September 15, 2005	549,126	549,126	185,878	185,878	735,004	735,004
September 30, 2005	October 17, 2005	552,425	-	753,652	-	1,306,077	-
		4,486,566	3,934,141	3,277,320	2,523,668	7,763,886	6,457,809

Distributions are paid on Fund Units, Liquor Stores LP Exchangeable LP Units and Liquor Stores LP Subordinated LP Units. As of September 30, 2005 the following number of units were outstanding:

Fund Units (note 8)	6,166,824
Liquor Stores LP Exchangeable LP Units (note 9)	2,038,176
Liquor Stores LP Subordinated LP Units (note 9)	2,125,000
	10,330,000

During the nine month period ended September 30, 2005, the Fund declared distributions of $0.78110 per Fund Unit to Unitholders. The distributions in the third quarter of 2005 were funded from cash flow generated from operations. The Fund's IPO prospectus contemplated monthly distributions of $0.0833 per unit or $1.00 per year in aggregate. The Fund increased its annual distribution rate by $0.075 per unit from $1.00 to $1.075 ($0.08958 per month), commencing with the distribution paid on June 15, 2005 to Unitholders of record on May 31, 2005.

The Fund reviews its distribution policy on a periodic basis.

Management estimates that the portion of distributions that will be tax-deferred to Unitholders in calendar 2005 is approximately 25% to 30%.

Distributable cash per unit (Fund Units, Exchangeable and Subordinated LP Units)

The following table summarizes the distributable cash of the Fund for 2005 and from the inception of the Fund on August 10, 2004, which includes the results of operations from September 28, 2004 to September 30, 2005. The Fund views distributable cash as an operating performance measure. The Fund's purchases of property and equipment required to maintain its existing stores are minimal and the Fund distributes a significant portion of its earnings on an annual basis, once adjusted for non-cash items. Therefore the Fund has selected net earnings as the basis for the calculation of distributable cash.

	July 1, 2005 to Sept 30, 2005	Jan 1, 2005 to Sept 30, 2005	Sept 28, 2004 to Dec. 31, 2004	From Inception to Sept 30, 2005
Net earnings for the period	$1,763,798	$3,896,210	$1,495,705	$5,391,915
Add: Interest expense	168,375	520,946	257,538	778,484
Add: Amortization of property & equipment	325,510	883,294	249,728	1,133,022
Add: Amortization of intangible assets	21,450	64,350	22,534	86,884
Add: Amortization of pre-opening costs	28,045	45,353	- 0 -	45,353
Add: Future income taxes	13,300	23,100	6,000	29,100
EBITDA	2,320,478	5,433,253	2,031,505	7,464,758
Add: Non-controlling interest	1,202,077	2,739,683	1,460,921	4,200,604
Add: Proceeds on disposal of property and equipment	-	-	1,350	1,350
Less: Interest paid	(142,664)	(390,224)	(135,321)	(525,545)
Less: Purchase of non-growth property and equipment (see table below)	(411,123)	(628,805)	(115,786)	(744,591)
Distributable cash	$2,968,768	$7,153,907	$3,242,669	$10,396,576
Weighted average units outstanding during the period	10,330,000	9,921,099	8,500,000	9,554,239
Distributable Cash per Unit (weighted average*)	$0.287	$0.721	$0.381	$1.088
Distributions declared	$2,776,085	$7,763,886	$2,194,709	$9,958,595
Distributions declared per unit	$0.26874	$0.78110	$0.25820	$1.03930
Distributable cash less distributions declared as of September 30, 2005				$437,981
Distributable cash less distributions per Unit (weighted average*)				$0.0458
Basic earnings per Unit	$0.29	$0.68	$0.35	
Diluted earnings per unit	$0.29	$0.67	$0.35	

(*) Weighted average number of units x number of days outstanding / number of days in the period.

For the quarter ended September 30, 2005 the Fund had distributable cash of $0.285 per weighted average number of units outstanding during the period. Basic and diluted earnings were $0.29 per unit for the quarter ended September 30, 2005.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of property and equipment as calculated in the distributable cash calculation above:

	July 1, 2005 to Sept 30, 2005	Jan 1, 2005 to Sept 30, 2005	Sept 28, 2004 to Dec. 31, 2004	From Inception to Sept 30, 2005
Purchase of property and equipment from the Statement of Cash Flows	$722,757	$1,707,943	$115,786	$1,823,729
Less: Amounts relating to developed and acquired stores	(311,634)	(1,079,138)	-	(1,079,138)
Purchase of non-growth property and equipment per above calculation of distributable cash	$411,123	$628,805	$115,786	$744,591

Amounts relating to developed and acquired stores are considered growth expenditures. Growth expenditures are discretionary and represent cash outlays intended to provide additional future cash flows. Growth expenditures will provide benefit in future periods and they have been excluded from the calculation of distributable cash.

Additional details on the purchases of the components of the non-growth property and equipment are as follows:

	July 1, 2005 to Sept 30, 2005	Jan 1, 2005 to Sept 30, 2005	Sept 28, 2004 to Dec. 31, 2004	From Inception to Sept 30, 2005
Leasehold improvements and fixtures	$183,786	$302,436	$17,268	$319,704
Equipment	149,972	234,147	1,155	235,302
Vehicles	77,365	92,222	97,363	189,585
Total property and equipment	$411,123	$628,805	$115,786	$744,591

Included in the purchases of non-growth property and equipment for the third quarter 2005; are non-reoccurring annual purchases of $292,281. Included in this amount are expenditures of is $95,333 in leasehold improvements and fixtures relating to the installation of new digital camera systems, $150,595 relating to the upgrading of the computer system in head office and a $46,353 delivery truck. The installation of the new head office computer system has resulted in significant improvements in management reporting and staffing requirements.

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred is as follows:

	July 1, 2005 to Sept 30, 2005	Jan 1, 2005 to Sept 30, 2005	Sept 28, 2004 to Dec. 31, 2004	From Inception to Sept 30, 2005
Repairs and maintenance	$54,045	$159,457	$35,512	$194,969

Unitholders' Equity and Non-controlling Interest

Fund Units outstanding as of September 30, 2005 is as follows:

	Units	Issue Costs	Unitholders' Equity	Non-controlling Interest
Fund Units	6,166,824	$6,527,364	$66,852,876	-
Special Voting Units	4,163,176	-	-	-
Non-controlling Interest	4,163,176	-	-	$41,497,839

On March 2, 2005, the Fund issued 1,830,000 Fund Units at $16.40 per Fund Unit for gross proceeds of $30,012,000. The gross proceeds less issuance costs of $1,341,536 are recorded as unitholder's equity (note 6). During the three months ended September 2005, 36,824 Liquor Stores LP Exchangeable LP Units were exchanged for Fund Units resulting in an increase in Unitholders' Equity of $368,240.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

Third Quarter Operating Results

The following table shows the unaudited results of the Fund from July 1, 2005 to September 30, 2005 as well as the year to date results, and the combined unaudited results for Liquor Depot and Liquor World (the "Vendors") for the period from July 1, 2004 to September 27, 2004 and the Fund for the period from September 28, 2004 to September 30, 2004, as well as the 2004 year to date results. Combined sales, cost of sales and administrative and operating expenses of Liquor Depot and Liquor World for the period from July 1, 2004 to September 30, 2004 as well as the year to date results, have been derived from the unaudited combined consolidated financial statements of Liquor World and the unaudited consolidated financial statements of Liquor Depot. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given period.

	Fund 3rd Quarter 2005	Vendors/Fund 3rd Quarter 2004	Fund Year to Date 2005	Vendors/Fund Year to Date 2004
Sales	$41,434,078	$32,085,540	$106,758,276	$85,602,391
Cost of Sales	32,168,167	25,372,604	83,025,337	67,738,446
Gross Margin	9,265,911	6,712,936	23,732,939	17,863,945
Administrative, operating, acquisition and store development expenses	5,756,656	5,140,814	15,583,103	12,899,441
Less: income tax expense included in operating expense	13,300	-	23,100	-
	5,743,356	5,140,814	15,560,003	12,899,441
Earnings from operations, as defined*	$3,522,555	$1,572,122	$8,172,936	$4,964,504

*Earnings from operations have been calculated as described under "Non-GAAP Measures" above.

In order to provide more meaningful information to the reader, the following Management's Discussion and Analysis will compare the results of the Fund's operations for the third quarter of 2005 to the combined Vendors' and Fund's third quarter results for 2004 as described above.

Third Quarter Sales

Third quarter sales increased to $41.4 million from $32.1 million when compared to the same period in 2004, although same store sales (stores open for a full year when compared to another quarter) declined from $30.2 million to $29.4 million. Management believes that factors that contributed to the decline in same store sales include the continued effect of a variety of items such as the implementation of a more stringent discount and credit policy, cancellation of a third party customer affinity program and increased competition at some locations.

For the fourth consecutive quarter, same stores are being operated more profitably and are contributing more to distributable cash**.** Over the last nine months same stores have contributed an additional $1 million to gross margin as indicated by the table below.

Same Stores	Fund Total Q4 2004 & Q1-Q3 2005	Vendors Total Q4 2003 & Q1-Q3 2004	Difference
Sales	$110,030,567	$114,015,949	$(3,985,382)
COGS	85,299,895	90,325,929	(5,026,034)
Margin	$24,730,672	$23,690,020	$1,040,652

Third Quarter Cost of Sales and Gross Margin

Gross margin increased by approximately $2.5 million from $6.7 million to $9.3 million or 37%, when compared to the same period in 2004. The gross margin increase was the result of a 29% increase in sales and an increase in gross margin percentage of approximately 1.44%. Factors that contributed to the increase in gross margin included a more stringent credit and discount policy, elimination of a third party affinity program and the harmonization of retail pricing.

Third quarter cost of sales increased from approximately $25.4 million to $32.2 million, when compared to the same quarter in 2004.

New stores and stores that were open for less than 12 months contributed an additional $2.8 million to gross margin on $12.9 million of sales in the third quarter of 2005.

Combined Administrative, Operating and Acquisition and Store Development Expense

Administrative, Operating, and Acquisition and Store Development expenses increased by approximately $0.7 million from approximately $5.1 million to $5.8 million when compared to the same period in 2004.

Administrative expenses increased in the third quarter of 2005 due to an increase in the number of stores operated by the Fund to 66 when compared to the same quarter in 2004 where the Vendors operated 45 stores, public company costs including non-recurring costs relating to acquisitions, bonuses being accrued in 2005 that were not accrued in the comparable period in 2004, increased insurance costs and increases in other operating costs relating to additional stores. Payroll costs also increased as a consequence of annual salary increases and the addition of seven new permanent employee positions in the first quarter of 2005 to support the additional stores and the Fund's growth plans.

Earnings from Operations (as defined)

Earnings from operations (as defined under Non-GAAP Measures above) increased by approximately $1.9 million from $1.6 million to $3.5 million or 118.75%, when compared to the same period in 2004. The increase in earnings from operations resulted from higher gross margin, the addition of new stores, and the savings achieved through synergies on combination of Liquor World and Liquor Depot.

Financial Position and Operating Results

	Sept 30, 2005 (3rd Quarter)	June 30, 2005 (2nd Quarter)	March 31, 2005 (1st quarter)	December 31, 2004 (includes results of operations from Sept 28, 2004)
Cash and cash equivalents	$171,892	$265,785	$10,198,704	$178,672
Total assets	127,114,352	118,425,028	126,039,848	102,080,855
Bank indebtedness	8,993,000	0	7,444,907	11,397,240
Total current liabilities	11,627,892	2,996,258	10,669,395	14,106,849
Long-term debt	7,358,800	7,500,000	7,481,439	7,397,917
Unitholders' equity	66,852,876	66,484,636	66,493,494	37,814,172
Non-controlling interest	41,470,603	41,762,174	41,741,729	42,376,840
Sales	$41,434,078	$38,505,474	$26,818,724	$35,542,909
Gross Margin	9,265,911	8,546,715	5,920,314	7,971,151
Earnings before non-controlling interest	2,965,875	2,759,826	910,192	2,956,626
Net earnings for the period	1,763,798	1,637,049	495,363	1,495,705
Basic earnings per unit	$0.29	$0.27	$0.10	$0.35
Diluted earnings per unit	$0.29	$0.27	$0.10	$0.35
Distributable cash per Unit	$0.29	$0.26	$0.14	$0.38

The third quarter of 2005 showed an improvement over the previous two quarters. The first and second quarters are historically the industry's weakest in terms of sales, earnings and EBITDA and the Fund's results to date follows this pattern. Historically sales, earnings and EBITDA improve each quarter throughout a year with the fourth quarter producing the strongest results and the first and the second quarters being the weakest quarters. Results from stores open at the beginning of the year continue to be slightly better than managements' expectations.

Acquisitions primarily occurred in March, with one acquisition in July, and continue to have a positive impact on cash flow. Two new locations opened in May in British Columbia have begun to have a positive impact on contribution margin. These results are expected for new locations, as they typically require a few months to become established. Subsequent to September 30, 2005, the Fund acquired an additional four retail liquor locations as described in Note 13.

LIQUIDITY AND CAPITAL RESOURCES

Distributable Cash and Cash Distributions

The Fund's policy is to make stable monthly distributions to its Unitholders based on its estimate of distributable cash for the year. It has a policy to pay cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the previous month.

On May 16, 2004, the Fund increased its annual distribution by $0.075 per unit from $1.00 to $1.075 ($0.08958 per month) commencing with the distribution that was paid to unitholders of record on May 31, 2005.

Credit Facilities

The Fund has a $24 million demand operating loan, a $12.5 million committed non-revolving capital loan and a $10 million committed non-revolving acquisition loan with a Canadian chartered bank. The $10 million committed non-revolving acquisition loan was unutilized as of September 30, 2005.

As of September 30, 2005, total indebtedness under all credit facilities has decreased to $16.4 million from $18.8 million as of December 31, 2004, and cash and cash equivalents have decreased to $172,000 from $179,000 as of December 31, 2004.

Capital Expenditures

Between February 18, 2005 and July 12, 2005, the Fund purchased the assets of 14 retail liquor stores (note 3) with cash from existing credit facilities and the proceeds from the issuance of Fund Units (note 6). In addition, two new stores, Liquor Depot Kamloops and Liquor Depot Richmond, opened in British Columbia on May 6, 2005. On October 17, 2005, the Fund purchased the assets of a retail store in Calgary, on October 18, 2005 the Fund acquired two additional retail liquor stores in British Columbia and on November 7, 2005 the Fund purchased the assets of a retail store in Fort McMurray as described in note 13.

Interest Rate Risk and Sensitivity

The Fund is not significantly impacted by interest rate changes. The Fund's bank indebtedness and long-term debt (note 7), bear interest at floating rates based on the bank's prime rate or at short term banker's acceptance rates, thus exposing the Fund to some interest rate fluctuations. As of September 30, 2005, the Fund has total credit facilities of $46.5 million. Excess funds from the March 2, 2005 issue of Fund Units will be used to fund future acquisitions and have temporarily reduced the amount of debt outstanding. A 1.0% increase in interest rates would have an impact of less than $261,000 on distributable cash based on $26.1 million of debt outstanding on average throughout the year. Based on operating 70 stores, management estimates that the Fund would have approximately $26.1 million of debt ($19.6 million of which would be operating debt) on average outstanding throughout a year.

Contractual Obligations

The table below sets forth, as of September 30, 2005, the contractual obligations of the Fund, due in the years indicated, which relate to various premises operating leases and the $7,358,800, non-revolving loan that is repayable in April of 2007.

	2005	**2006**	**2007**	**2008**	**2009 and thereafter**
Operating Leases	$1,087,657	$4,334,243	$4,007,912	$3,763,259	$10,330,768
Long Term Debt	-	-	7,358,800	-	-
Total	$1,087,657	$4,334,243	$11,366,712	$3,763,259	$10,330,768

Off-Balance Sheet Arrangements

The Fund has not entered into any off-balance sheet arrangements.

Critical Accounting Estimates

Because of the nature of the Fund's business and assets, management believes that there are no critical accounting policies that rely on estimates.

Changes in Accounting Policies

Management is not aware of any recent accounting pronouncements or developments that will affect the Fund's financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the financial statements of the Fund as they become available.

Financial Instruments

Due to the nature of its business, the Fund does not engage in activities or hold assets that would require the Fund to acquire financial instruments for hedging or speculative purposes. The financial instruments that are held by the Fund consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable and long-term debt. The financial instruments are held in the normal course of operations and as a result no significant accounting policies need to be adopted or assumptions made in reporting the Fund's financial instruments.

Transactions with Related Parties

During the three and nine months ended September 30, 2005, the Fund incurred professional fees of $17,137 and $118,014 respectively to a law firm where one of the partners is a director of a subsidiary of the Fund. The Fund also leases a warehouse from a company controlled by a director of a subsidiary and one retail location is leased from a company of which two directors of a subsidiary are shareholders. Total lease payments under these agreements were $60,894 (see note 4). During the three and nine month period September 30, 2005, the Fund paid fees and expenses to a company controlled by the President of Liquor Stores GP inc., relating to supervision of the construction of developed stores, in the amount $19,122 and $30,650, respectively. Included in accounts payable and accrued liabilities is $14,214 relating to these transactions.

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 decision making process.

Outlook

Management believes there will continue to be a consolidation trend in the industry. The Fund expects continued sales and earnings growth in 2005 and 2006 due to the accretive nature of acquisitions to date and the Fund's program of acquisition and new store development.

Additional information

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.

RISK FACTORS

As at September 30, 2005, there are no material changes in the Fund's risks or risk management activities since the time of the initial public offering. The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: risks relating to government regulation; competition; Liquor Stores LP's ability to locate and secure acceptable store sites and to adapt to changing market conditions; risks relating to future acquisitions and development of new stores; dependence on key personnel; supply interruption; reliance on information and control systems; absence of an operating history as a public company; dependence on capital markets to fund Liquor Stores LP's growth strategy beyond its available credit facilities; dependence of the Fund on Liquor Stores LP; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores LP; restrictions on the potential growth of Liquor Stores LP as a consequence of the payment by Liquor Stores LP of substantially all of its operating cash flow; income tax related risks; and the Vendors' right to approve certain material transactions. For a discussion of these risks and other risks associated with an investment in Fund Units, see "Risk Factors" detailed the Fund's Annual Information Form, which is available at www.sedar.com.

There is a new risk that regulatory authorities could alter the tax treatment of, “flow-through” entities such as income trusts and limited partnerships, including the distribution of trust income, or the tax on corporations and dividends, which could affect income trusts such as the Fund and their market valuations. The Federal Government has recently stated it intends to review the effect of flow through entities and tax changes may be made, which could adversely affect the tax treatment of income trusts. As of the date of this management discussion and analysis, those changes, if any, are unknown.

FORWARD LOOKING STATEMENTS

This management’s discussion and analysis contains forward-looking statements. All statements other than statements of historical fact contained in this management’s discussion and analysis are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Fund or Liquor Stores LP. You can identify many of these statements by looking for words such as ‘‘believes’’, ‘‘expects’’, ‘‘will’’, ‘‘intends’’, ‘‘projects’’, ‘‘anticipates’’, ‘‘estimates’’, ‘‘continues’’ or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management’s discussion and analysis. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under ‘Risk Factors”.

The information contained in this management’s discussion and analysis, including the information set forth under ‘‘Risk Factors’’, identifies additional factors that could affect the operating results and performance of the Fund and Liquor Stores LP.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this management’s discussion and analysis is made as of the date of this management’s discussion and analysis and the Fund assumes no obligation to update or revise them to reflect new events or circumstances except as required by law.