

May 12, 2005

Attention Business/Financial Editors:

Liquor Stores Income Fund Reports 2005 First Quarter Earnings:

EDMONTON, May 12/CNW - Liquor Stores Income Fund (the "Fund") (TSX: LIQ.UN) announced its first quarter results for 2005. The Fund reported earnings before non-controlling interest of \$910,192 or \$0.10 per (weighted average) unit outstanding as of March 31, 2005. Distributable cash flow for the first quarter of 2005 was \$0.14 per unit. For the fourth quarter of 2004 and the first quarter of 2005 combined, distributable cash was \$0.51 and distributions declared were \$0.50 per unit. Distributions of \$0.25 per unit were declared during the first quarter of 2005. Sales for the period were \$26,818,724 and newly acquired stores contributed \$3,728,282 to sales for the quarter. The first quarter is historically the slowest quarter of the year in the industry and contributes approximately 20% of annual sales.

Same store gross margins were up 1.35% when compared to the same quarter in 2004, resulting in an increase in margin earned from same stores of \$171,510. Operating results from same stores showed a significant improvement for the second consecutive quarter when compared to the same quarters in the previous year. Total gross margin for first quarter of 2005 was \$5,859,861 compared to \$4,922,862 in the first quarter of 2004, an increase of approximately \$937,000.

Irv Kipnes, President and Chief Executive Officer of the Fund stated, "We are pleased with the results for the first quarter of 2005. For the second consecutive quarter the operating results from same stores has improved. During the quarter we acquired 13 stores and during the first week of May, 2005, we opened two additional stores in British Columbia. We have positioned ourselves for further growth and have both the manpower and the financial resources to allow us to continue to execute our growth strategy."

About Liquor Stores Income Fund

The Fund is a publicly traded Canadian Income fund that participates in the retail liquor industry in Alberta and British Columbia through its 59.34% interest in Liquor Stores Limited Partnership ("Liquor Stores LP"). Liquor Stores Income Fund is Canada's only publicly traded entity with interests exclusively in the retailing of liquor products.

The Fund is the largest liquor retailer in Alberta by number of stores. The Fund currently operates 65 stores, 3 of which are located in British Columbia. In the first quarter of 2005, the Fund completed the acquisition of 13 new stores in Alberta, and has recently opened two new liquor stores in British Columbia.

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

Additional information about Liquor Stores Income Fund is available at www.sedar.com and the Fund's website at www.liquorstoresincomefund.ca.

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 period from January 1, 2005 to March 31, 2005 as well as the audited consolidated financial statements and accompanying notes of the Fund for the initial period from August 10, 2004 to December 31, 2004, which includes 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 dollar, while other amounts have been rounded to the nearest 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 May 11, 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 \$1,332,678, and the net proceeds of \$28,679,322 were used to repay existing indebtedness and acquire 13 new stores. The purchase price of the assets of the 13 new stores is allocated as follows:

Property and equipment	\$ 3,034,208
Goodwill	<u>7,473,665</u>
	10,507,873
Working capital	\$ <u>3,518,499</u>
Cash Paid	\$ <u>14,026,372</u>

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 is a useful

supplemental measure of performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes. 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 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 "First 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 and amortization of property and equipment and intangibles 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

The Fund was established on August 10, 2004 and acquired, indirectly, the Acquired Business on September 28, 2004.

To provide more meaningful information, the following MD & A refers to the First Quarter operating results of the Fund compared to the results for the Vendors for similar operating accounts combined for the First Quarter 2004 (See "Non-GAAP Measures"). 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 65 stores, 50 of which are located in or near the urban centres of Calgary and Edmonton, and three 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 expenditure, 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 period:

Date distribution declared	Date distribution paid	Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
		Declared \$	Paid \$	Declared \$	Paid \$	Declared \$	Paid \$
January 18, 2005	February 15, 2005	358,190	358,190	172,848	172,848	531,038	531,038
February 16, 2005	March 15, 2005	358,190	358,190	172,847	172,847	531,037	531,037
March 18, 2005	April 15, 2005	510,629	-	703,885	-	1,214,514	-
		<u>1,227,009</u>	<u>716,380</u>	<u>1,049,580</u>	<u>345,695</u>	<u>2,276,589</u>	<u>1,062,075</u>

Distributions are paid on Fund Units, Liquor Stores LP Exchangeable LP Units and Liquor Stores LP Subordinated LP Units. As of March 31, 2005 the following number of units were outstanding:

Fund Units (note 7)	6,130,000
Liquor Stores LP Exchangeable LP Units (note 8)	2,075,000
Liquor Stores LP Subordinated LP Units (note 8)	2,125,000
	<u>10,330,000</u>

During the period, the Fund approved distributions of \$0.2499 per Fund Unit to Unitholders. The distributions in the current period were funded from cash-flow generated from operations since the Funds' inception. Distributions during the period were consistent with the distributions contemplated in the Fund's IPO prospectus. The prospectus contemplated monthly distributions of \$0.0833 per unit or \$1.00 per year in aggregate. On February 14, 2005, the Fund announced that it intended to increase its annual distribution by \$0.075 per unit from \$1.00 to \$1.075 (\$0.08958 per month), commencing with the distribution to be paid on June 15, 2005 to Unitholders of record on May 31, 2005, subject to the completion of the acquisition of 10 additional stores announced at that time. These acquisitions have now been completed and the Fund intends to proceed with the increase in distributions. Management estimates that the portion of a distribution that will be tax-deferred to a Unitholder in calendar 2005 is approximately 25% to 30%.

It is the Fund's policy to review the monthly distributions on a periodic basis.

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

The following table summarizes the distributable cash of the Fund for its last two reporting periods and from the inception of the Fund on August 10, 2004 which includes the results of operations from September 28, 2004 through to March 31, 2005.

	January 1, 2005 to March 31, 2005	September 28, 2004 to December 31, 2004	From Inception
Earnings from operations	\$1,116,301	\$3,214,164	\$4,330,465
Add: Amortization of property and equipment	274,803	249,728	524,531
Add: Amortization of intangible assets	21,450	22,534	43,984
Add: Future Income taxes	1,100	6,000	7,100
Add: Proceeds on disposal of property and equipment	-	1,350	1,350
Less: Interest paid	(54,163)	(135,321)	(189,484)
Less: Purchase of property and equipment	(52,041)	(115,786)	(167,827)
Distributable cash	<u>\$1,307,450</u>	<u>\$3,242,669</u>	<u>\$4,550,119</u>
Average Units outstanding at end of Period	9,110,000	8,500,000	8,798,370
Distributable Cash per Unit (weighted average*)	\$0.14	\$0.38	\$0.51
Distributions declared	\$2,276,589	\$2,194,709	4,471,298
Distributions declared per unit	0.2499	0.2582	0.5081
Distributable cash less distributions declared as of March 31, 2005			\$78,821
Distributable cash less distributions per Unit (weighted average*)			\$0.0079
Basic and diluted earnings per Unit	\$0.10	\$0.35	

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

For the Quarter ended March 31, 2005, the Fund had distributable cash of \$0.14 per weighted average number of units outstanding during the period. Basic and diluted earnings per unit were \$0.10 per unit for the period.

Unitholders' Equity and Non-controlling Interest

Fund Units outstanding as of March 31, 2005 is as follows:

	Units	Issue Costs	Unitholders' Equity	Non-controlling Interest
Fund Units	6,130,000	\$6,518,506	\$66,493,494	-
Special Voting Units	4,200,000	-	-	-
Non-controlling Interest	4,200,000	-	-	\$41,741,729

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 \$1,332,678 are recorded as unitholder's equity (note 3 and 7).

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

First Quarter Operating Results

The following table shows the unaudited results of the Fund from January 1, 2005 to March 31, 2005, and unaudited results for Liquor Depot and Liquor World for the period from January 1, 2004 to March 31, 2004 as if they have been combined. Combined sales, cost of sales and administrative and operating expenses of Liquor Depot and Liquor World for the period from January 1, 2004 to March 31, 2004, 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.

	Vendors 1st Quarter 2004	Fund 1st Quarter 2005	Change Q1 2005 to Q1 2004
Sales	\$23,746,535	\$26,818,724	\$3,072,189
Cost of Sales	<u>18,823,674</u>	<u>20,898,410</u>	<u>2,074,736</u>
Gross Margin	4,922,861	5,920,314	997,453
Administrative, Operating, Acquisition and store development expenses	<u>3,701,448</u>	<u>4,507,760</u>	<u>806,312</u>
Earnings from operations, as defined*	<u>\$1,221,413</u>	<u>\$1,412,554</u>	<u>\$191,141</u>

*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 First Quarter of 2005 to the Vendors' First Quarter results for 2004.

First Quarter Sales

First Quarter sales increased to \$26.8 from \$23.7 million when compared to the same period in 2004, although same store sales declined from \$23.7 to \$23.1 million. Management believes that the decline in same store sales arose from a variety of factors including: the implementation of a more stringent discount and credit policy resulting in some sales loss but a significant increase in margins; cancellation of a third party customer affinity program; increased competition at some locations; and the impact of no 2004-2005 NHL season.

For the second consecutive quarter, same stores (stores open for a full year when compared to another quarter) are being operated more profitably and contributing more to distributable cash. Over the last six months same stores have contributed an additional \$1,097,000 to distributable cash as indicated by the table below. Management expects this trend to continue throughout the balance of 2005.

Same Stores	Vendors Total Q4 2003 & Q1 2004	Fund Total Q4 2004 & Q1 2005	Difference
Sales	\$56,662,745	\$54,644,725	\$(2,018,020)
COGS	<u>45,015,242</u>	<u>42,415,419</u>	<u>(2,599,823)</u>
Margin	11,647,503	12,229,306	581,803
Operating Costs	<u>6,554,910</u>	<u>6,039,407</u>	<u>(515,503)</u>
Total	<u>\$5,092,593</u>	<u>\$6,189,899</u>	<u>\$1,097,306</u>

First Quarter Cost of Sales and Gross Margin

Gross margin increased by approximately \$997,000 from \$4.9 million to \$5.9 million or 20.3%, when compared to the same period in 2004. The gross margin increase was the result of an 11.3% increase in sales and a 1.15% increase in gross margin percentage. 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.

First Quarter cost of sales increased from approximately \$18.8 million to \$20.9 million, when compared to the same quarter in 2004. New stores and stores that were open for less than 12 months contributed an additional \$765,000 to gross margin on \$3.7 million of sales in the First Quarter of 2005.

Combined Administrative, Operating and Acquisition and store development expense

Administrative, Operating, and Acquisition and store development expenses increased by approximately \$806,000 from \$3.7 million to \$4.5 million when compared to the same period in 2004. The components of the increase administrative and operating costs are as follows:

Additional expenses relating to a store not open for the entire First Quarter of 2004	\$12,000
Savings obtained on same store operating costs	(313,000)
Operating expenses for 17 new locations	542,000
Additional administrative expenses	<u>565,000</u>
Net increase in administrative and operating expenses	<u>\$806,000</u>

Administrative expenses increased in Q1 2005 due to an increase in the number of stores operated by the Fund when compared to the same quarter in 2004, 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 other operating costs relating to additional stores.

In the first quarter of 2004 the vendors operated 45 stores. During the first quarter of 2005 the Fund operated 63 stores (which includes one store which is accounted for on an equity basis) and another two stores opened on May 6, 2005. In order to support current and future growth the Fund added additional employees. Nine of the new positions were added in the first quarter of 2005 and two of these new positions are temporary positions relating to the integration of recent acquisitions. Payroll costs also increased when compared to the previous quarter as a consequence of annual salary increases.

Earnings from Operations (as defined)

Earnings from operations (as defined under Non-GAAP Measures above) increased by approximately \$191,000 from \$1.2 million to \$1.4 million or 15.9%, 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

	December 31, 2004 (includes results of operations from September 28, 2004)	March 31, 2005 (1 st Quarter)
Cash and cash equivalents	\$178,672	\$10,198,704
Total assets	102,080,855	126,039,848
Bank indebtedness	7,444,907	11,397,240
Total current liabilities	14,106,849	10,669,395
Long-term debt	7,397,917	7,481,439
Unitholders' equity	38,199,609	66,493,494
Non-controlling interest	42,376,480	41,741,729
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Sales	\$35,542,909	\$26,818,724
Gross Margin	7,971,151	5,920,314
Earnings before non-controlling interest	2,956,626	910,192
Net earnings for the period	1,495,705	495,363
Basic and diluted earnings per unit	\$0.35	\$0.10
Distributable Cash per Unit	\$0.38	\$0.14

The first quarter is historically the industry's weakest in terms of sales, earnings and EBITDA and the Fund's first quarter followed this pattern. Results from stores existing at the beginning of the quarter were slightly better than managements' expectations. Acquisitions during the quarter primarily occurred in March and had a positive impact on cash flow. Historically sales, earnings and EBITDA improve each quarter throughout a year with the fourth quarter producing the strongest results and the first quarter being the weakest quarter.

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.

During the period, the Fund approved distributions of \$0.2499 per Fund Unit to Unitholders. The total distributions declared on Fund Units for the period was \$2,276,589. These distributions are consistent with the distributions contemplated in the Fund's IPO prospectus. On February 14, 2005 the Fund announced that it intends to increase its annual distribution by \$0.075 per unit from \$1.00 to \$1.075 (\$0.08958 per month) commencing with the distribution to be paid to unitholders of record on May 31, 2005, subject to the completion of the acquisition of 10 additional stores announced at that time. These acquisitions have now been completed and the Fund intends to proceed with the increase in distributions.

Credit Facilities

In September 2004 the Fund established credit facilities with a Canadian chartered bank. These credit facilities consisted of an \$18 million demand revolving operating loan, a \$7.5 million committed non-revolving capital loan (due April 29, 2006) and a \$10 million committed non-revolving acquisition loan. In connection with the various acquisitions the Fund completed in February 2005 the \$18 million demand revolving operating loan was increased to \$24 million.

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 (see Note 7). The amounts borrowed under the acquisition loan in February, and a portion of the operating line was then repaid with the net proceeds received from the issuance of 1,830,000 Fund Units from treasury. As of March 31, 2005, total indebtedness under all credit facilities has decreased to \$14.9 million from \$18.8 million as of December 31, 2004, and cash and cash equivalents have increased to \$10.2 million from \$179,000 as of December 31, 2004.

Capital Expenditures

From February 18, 2005 to March 14, 2005 the Fund purchased the assets of 13 additional retail liquor stores (note 3) with cash from existing credit facilities and the proceeds from the issuance of Fund Units (note 7). In addition, two new stores, Liquor Depot Kamloops and Liquor Depot Richmond commenced retail operations in British Columbia on May 6, 2005.

Interest Rate Risk and Sensitivity

The Fund is not significantly impacted by interest rate changes. The Fund's bank indebtedness and long-term debt (notes 4 and 6), bear interest with floating rates based on bank prime rate or at short term banker's acceptance rates, thus exposing the Fund to some interest rate fluctuations. During the period, in connection with acquisitions, the Fund increased the amount available under its operating line from \$18 million to \$24 million and now has total credit facilities of \$41.5 million. Based on operating 65 stores, management estimates that the Fund would normally have approximately \$24 million of debt (\$16.5 million of which would be operating debt) on average outstanding throughout a year. Excess funds from the March 2, 2005 issue of Fund Units will be used to fund future acquisitions and will temporarily reduce the amount of debt outstanding. A 1.0% increase in interest rates would have an impact of less than \$240,000 on distributable cash based on \$24 million of debt outstanding on average throughout the year.

Contractual Obligations

The table below sets forth the contractual obligations of the Fund as of March 31, 2005 due in the years indicated, which relate to various premises operating leases and the \$7,500,000, non-revolving loan that is repayable in April of 2006.

	2005	2006	2007	2008	2009 and thereafter
Operating Leases	3,130,619	4,132,619	3,821,821	3,594,047	9,482,814
Long Term Debt	-	7,500,000	-	-	-
Total	3,130,619	11,632,619	3,821,821	3,594,047	9,482,814

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 does believe that there are 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 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

Transactions with related parties include Liquor Stores LP's purchase of the assets of the business from the Vendors. As of March 31, 2005, \$331,186 was due to the Vendors. This amount arose as a result of the difference between the September 17, 2004 estimated amount of working capital that would be purchased by the Fund as of September 28, 2004 and the actual amount of working capital purchased, and will be paid in May 2005.

During the period the Fund incurred professional fees of \$9,400 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 that two directors of a subsidiary are shareholders. Total lease payments under these agreements are \$6,300 per month (see note 9).

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 due to the accretive nature of acquisitions to date and the Fund's program of acquisition and new store development. To this end, the Fund has added additional staff to focus on acquisitions 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 March 31, 2004, 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.

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 are 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.

For further information, please contact:

Irv Kipnes
Chief Executive Officer
Liquor Stores GP Inc.
(780) 944-9994 ext 6

Tom Orysiuk, CA
Chief Financial Officer
Liquor Stores GP Inc.
(780) 917-4179

Liquor Stores Income Fund

Consolidated Financial Statements
March 31, 2005

Liquor Stores Income Fund

Consolidated Balance Sheet

	March 31, 2005 (unaudited)	December 31, 2004
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	10,198,704	178,672
Accounts receivable	658,611	666,130
Inventory	23,686,807	20,676,416
Prepaid expenses and deposits	421,774	413,585
	<u>34,965,896</u>	<u>21,934,803</u>
Pre-opening costs	244,129	164,954
Equity investment	392,145	432,728
Property and equipment	15,622,458	12,184,265
Future income taxes	12,900	14,000
Intangible assets	385,016	406,466
Goodwill	74,417,304	66,943,639
	<u>126,039,848</u>	<u>102,080,855</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 4)	7,444,907	11,397,240
Accounts payable and accrued liabilities	2,009,974	1,629,896
Distributions payable to unitholders (note 7)	510,629	358,190
Distributions payable to non-controlling interest (note 8)	703,885	721,523
	<u>10,669,395</u>	<u>14,106,849</u>
Long-term debt (note 6)	7,481,439	7,397,917
Non-controlling interest (note 8)	41,741,729	42,376,480
	<u>49,892,963</u>	<u>63,881,246</u>
Unitholders' Equity		
Unitholders' equity (note 7)		
Fund units	66,493,494	37,814,172
	<u>66,493,494</u>	<u>37,814,172</u>
Cumulative earnings		
Cumulative earnings	880,800	1,495,705
Distributions declared (note 9)	(1,227,009)	(1,110,268)
	<u>(346,209)</u>	<u>385,437</u>
	<u>66,147,285</u>	<u>38,199,609</u>
	<u>126,039,848</u>	<u>102,080,855</u>

Liquor Stores Income Fund

Consolidated Statement of Earnings and Cumulative Earnings

For the Period January 1, 2005 to March 31, 2005

	\$
Sales	26,818,724
Cost of sales	<u>20,898,410</u>
Gross margin	<u>5,920,314</u>
Expenses	
Operating	3,513,976
Administrative	877,818
Amortization of property and equipment	274,803
Acquisition and store development	115,966
Amortization of intangible assets	<u>21,450</u>
	<u>4,804,013</u>
Earnings from operations	1,116,301
Interest expense	<u>(206,109)</u>
Earnings before non-controlling interest	910,192
Non-controlling interest	<u>(414,829)</u>
Net earnings for the period	495,363
Cumulative earnings, beginning of period	<u>385,437</u>
Cumulative earnings, end of period	<u>880,800</u>
Basic and diluted earnings per unit (note 7)	<u>0.10</u>

Liquor Stores Income Fund
Consolidated Statement of Cash Flows
For the period from January 1, 2005 to March 31, 2005

	\$
Cash provided by (used in)	
Operating activities	
Net earnings for the period	495,363
Items not affecting cash	
Amortization	296,253
Future income taxes	1,100
Equity income	(2,857)
Accrued interest	151,946
Non-controlling interest	414,829
	1,356,634
Net change in non-cash working capital items	887,516
	2,244,150
Financing activities	
Net proceeds from the issuance of Units	28,679,322
Bank indebtedness	(4,020,757)
Distributions paid to unitholders	(1,074,570)
Distributions paid to non-controlling interest	(1,067,218)
	22,516,777
Investing activities	
Business acquisitions (note 3)	(14,026,372)
Purchase of property and equipment	(678,788)
Pre-opening costs	(79,175)
Repayment from equity investee	43,440
	(14,740,895)
Increase in cash and cash equivalents	10,020,032
Cash and cash equivalents balance, beginning of period	178,672
Cash and cash equivalents balance, end of period	10,198,704
Supplementary information	
Interest paid	54,163

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2005

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.

2 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, 2004. 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, 2004.

3 Issuance of Units and business acquisitions

On March 2, 2005, the Fund issued 1,830,000 Fund Units at \$16.40 per Fund Unit for aggregate proceeds of \$30,012,000. The cost of issuance of the units was \$1,332,678, resulting in net proceeds of \$28,679,322. The Fund used the net proceeds from the issuance to acquire 13 new stores, to repay existing indebtedness and for general corporate purposes.

The acquisitions of the new stores have been accounted for using the purchase method.

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

	\$
Property and equipment	3,034,208
Goodwill	<u>7,473,665</u>
	10,507,873
Net working capital	<u>3,518,499</u>
	14,026,372
Cash paid	<u>14,026,372</u>

Liquor Stores Income Fund

Notes to Consolidated Financial Statements
March 31, 2005

4 Bank indebtedness

The Fund has credit facilities with a Canadian chartered bank consisting of:

	\$
Operating line	960,113
Bankers' acceptance	6,361,633
Accretion	123,161
	<u>7,444,907</u>

The bank indebtedness is collateralized by a general security agreement covering all present and after acquired personal property of Liquor Stores LP and also by a floating charge over all of Liquor Stores LP's present and after acquired real property and an assignment of Liquor Stores LP's insurance. Interest is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%. As of March 31, 2005, bank indebtedness consists of bankers' acceptances of \$6,500,000 at an effective rate of 4.34% which matures on April 18, 2005.

5 Related party transactions

During the period, the Fund incurred professional fees of \$68,465 to a law firm where one of the partners is a director of a subsidiary of the Fund. Rent paid to companies controlled by directors of a subsidiary of the Fund amounted to \$20,298. Included in accounts payable and accrued liabilities is \$48,995 relating to these transactions.

Included in accounts payable and accrued liabilities is \$329,833 in amounts owing to the Vendors related to the acquisition of the assets at the time of the IPO. No interest is charged on these amounts.

6 Long-term debt

	\$
Non-revolving bank loan	
Bankers' acceptance	7,331,099
Accretion	150,340
	<u>7,481,439</u>

Interest is payable at the lender's prime rate plus 0.50% or at the bankers' acceptance rate plus 1.75%. As of March 31, 2005 long-term debt consisted of a bankers' acceptance at an effective rate of 4.59%, which matures on April 18, 2005 for \$7,500,000. The loan does not require principal repayments and is due on April 29, 2006. Interest expense on long-term debt is \$83,522.

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2005

The long-term debt is collateralized by a general security agreement covering all present and after acquired personal property of Liquor Stores LP and also by a floating charge over all of Liquor Stores LP's present and after acquired real property and an assignment of Liquor Stores LP's insurance.

7 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs \$	Net capital contributions \$
Units issued on initial public offering	4,300,000	5,185,828	37,814,172
Units issued on March 2, 2005 (note 3)	1,830,000	1,332,678	28,679,322
Fund Units	<u>6,130,000</u>	<u>6,518,506</u>	<u>66,493,494</u>

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.

The per trust unit amounts for 2005 were calculated based on the weighted average number of units outstanding as of March 31, 2005. The weighted average number of units outstanding is 4,910,000.

Distributions payable to Unitholders

Distributions to Unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$1,227,009 (\$0.2499 per Fund Unit) were declared by the Fund for the period ended March 31, 2005. Of the distributions declared during the period, \$716,380 were paid and \$510,629 were payable as of March 31, 2005. Distributions of \$1,074,570 were paid during the period, which included \$358,190 of distributions that were declared and payable as of December 31, 2004.

Liquor Stores Income Fund
Notes to Consolidated Financial Statements
March 31, 2005

8 Non-controlling interest

	Liquor Stores LP Exchangeable LP Units	Liquor Stores LP Subordinated LP Units	Total
	#	#	#
Number of Units	2,075,000	2,125,000	4,200,000
Fund Special Voting Units	2,075,000	2,125,000	4,200,000
	\$	\$	\$
Opening balance	20,935,999	21,440,481	42,376,480
Fund Special Voting Units – Amount	-	-	-
Non-controlling interest	204,945	209,884	414,829
Distributions declared	(518,543)	(531,037)	(1,049,580)
	20,622,401	21,119,328	41,741,729

Distributions payable to non-controlling interest

Distributions to non-controlling interest are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$518,543 (\$0.2499 per Exchangeable LP Unit) and \$531,037 (\$0.2499 per Subordinated LP Unit) were declared by the Fund for the period ended March 31, 2005. Of the distributions declared during the period, \$345,695 were paid and \$703,885 were payable as of March 31, 2005. Distributions of \$1,067,218 were paid during the period, which included \$721,523 of distributions that were declared and payable as of December 31, 2004.

9 Distributions

	Date distribution declared	Date distribution paid	Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
			Declared \$	Paid \$	Declared \$	Paid \$	Declared \$	Paid \$
	January 18, 2005	February 15, 2005	358,190	358,190	172,848	172,848	531,038	531,038
	February 16, 2005	March 15, 2005	358,190	358,190	172,847	172,847	531,037	531,037
	March 18, 2005	April 15, 2005	510,629	-	703,885	-	1,214,514	-
			1,227,009	716,380	1,049,580	345,695	2,276,589	1,062,075

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

March 31, 2005

10 Seasonal nature of the business

The Fund's results for the first quarter of 2005 are not necessarily indicative of the results that maybe expected for the full year due to seasonal variations in sales levels. The Fund historically experiences a higher level of sales during the fourth quarter, while the first quarter experiences lower sales levels due to seasonal shopping patterns. Occupancy related expenses; general and administrative expense, amortization and interest expense remain relatively steady throughout the year.