**November 12, 2004**

# Liquor Stores Income Fund Announces Results

# for the Third Quarter of 2004

**EDMONTON, Alberta**, November 12, 2004 – Liquor Stores Income Fund (the "Fund"), is pleased to announce its third quarter results which include the results of three days of business operations from September 28, 2004 to September 30, 2004.

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. Concurrent with the closing of the IPO, the Fund used the proceeds from the IPO to acquire an indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP") and Liquor Stores LP used such net proceeds and funds from its available credit facilities to acquire the net assets of The Liquor Depot Corporation and Liquor World Group Inc. and other wholly owned subsidiaries or companies that were under common control.

The Fund is the largest liquor store retailer in Alberta by number of stores with approximately 8% of the Alberta retail liquor market, as estimated by management. The Fund currently operates 50 stores, 43 of which are located in or near the urban centres of Calgary and Edmonton and one of which is 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.

## 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 initial period from August 10, 2004 to September 30, 2004, which includes business operations from September 28, 2004 to September 30, 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 thousand while other amounts have been rounded to the nearest one hundred thousand dollar. References to notes are to the notes to the Interim Financial Statements.

## 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 $4,580,000, resulting in an addition to Unitholders’ equity of $38,420,000. 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”) (note 3) and Liquor Stores LP used such net proceeds and funds from the new credit facilities (note 7) 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”).

Working capital amounts as at September 28, 2004 and September 30, 2004 have been estimated and, pursuant to the purchase agreements with the Vendors, the purchase price will be adjusted to reflect the actual amount of working capital purchased when it is determined within a year of the purchase date. The Fund is also in the process of finalizing its estimate of the fair value of assets acquired and liabilities assumed and expects to complete this process by March 31, 2005. The purchase price allocated to the assets acquired and the liabilities assumed, based on their estimated fair values, is as follows:

| | $ |
|---|---|
| Property and equipment | 12,258,801 |
| Goodwill | 67,630,224 |
| Intangibles | 429,000 |
| Other assets | 101,975 |
| | 80,420,000 |
| Net working capital | 17,776,253 |
| | 98,196,253 |
| Consideration, being cash from IPO and new credit facilities | 56,196,253 |
| Liquor Stores LP Subordinated LP Units | 21,250,000 |
| Liquor Stores LP Exchangeable LP Units | 20,750,000 |
| | 98,196,253 |

Additional information concerning the Fund is contained in the final prospectus of the Fund dated September 17, 2004.

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

### 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 with approximately 8% of the Alberta retail liquor market, as estimated by management. The Fund currently operates 50 stores, 43 of which are located in or near the urban centres of Calgary and Edmonton and one of which is in British Columbia.

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for alcohol in which all liquor stores are privately owned and operated and are permitted to sell all forms of alcoholic beverages including wine, coolers, spirits and beer. The Province of British Columbia has a partially privatized retail liquor industry, with both government and privately owned and operated retail liquor stores.

### UnitHolders' Equity

Fund Units outstanding and capital contributions are as follows:

| | Number of units | Issue costs | Unit Holders' Equity |
|---|---|---|---|
| | # | $ | $ |
| Fund Units | 4,300,000 | 4,580,000 | 38,420,000 |
| Liquor Stores LP Exchangeable LP Units | 2,075,000 | - | 20,750,000 |
| Liquor Stores LP Subordinated LP Units | 2,125,000 | - | 21,250,000 |
| Balance – September 30, 2004 | 8,500,000 | 4,580,000 | 59,170,000 |

## Selected Financial Information

### 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 Fund Units.

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 "Combined 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 and amortization of property and equipment 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 and officers, any loss arising from subsidiaries accounted for on a equity basis, interest expense, income tax expense and non-controlling interest to the net loss for the period and subtracting from the resulting total income taxes recovered and income arising for subsidiaries accounted for on a 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. Accordingly, the Fund's initial reporting period includes only three days of business operations. Comparative results for the Fund for the same three-day period in the previous year are not presented.

Therefore, to provide meaningful information, the following MD & A refers to the combined operating results of the Fund and the Vendors for the three months ended September 30, 2004 (the combined third quarter operating results) for similar operating accounts. The combined third quarter operating results are compared to the Vendors' results of operations for the three-month period ended September 30, 2003 (See "Non-GAAP Measures").

It is management's view that charitable donations and management salaries and bonuses incurred by Liquor Depot and Liquor World are not relevant when compared to the Fund because of differences between the structure and policies of the Fund to those of the Vendors.

**Combined Third Quarter Operating Results**

The following tables combine the results of the Fund, Liquor Depot, and Liquor World for the period from July 1, 2004 to September 30, 2004. For comparative purposes the results of Liquor Depot and Liquor World have been combined for the same period from the previous year. Combined sales, cost of sales and administrative and operating expenses for the period from July 1, 2004 to September 30, 2004 have been derived from the unaudited combined consolidated financial statements of Liquor World, the consolidated statements of Liquor Depot and the unaudited interim financial statements of the Fund. The combined sales, cost of sales, and administrative and operating expenses for the period from July 1, 2003 to September 30, 2003 have been derived from the unaudited combined consolidated financial statements of Liquor World and the consolidated statements of Liquor Depot and are presented for comparative purposes. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given period.

| | Fund Sept 28-30 2004 | Liquor Depot July 1-Sept 27 2004 | Liquor World July 1-Sept 27 2004 | COMBINED July 1-Sept 30 2004 |
|---|---|---|---|---|
| **Sales** | $806,759 | $16,641,912 | $13,656, 866 | $31,105,537 |
| **Cost of Sales** | 649,995 | 12, 856,677 | 11,023,342 | 24,530,014 |
| **Gross Margin** | 156,764 | 3, 785,235 | 2, 633,524 | 6,575,523 |
| **Administrative and Operating Expenses** | 134, 825 | 2,240,776 | 1,692,338 | 4,067,939 |
| **Earnings from operations, as defined below*** | 21,939 | 1,544,459 | 941,186 | 2,507,584 |

| | Liquor Depot July 1-Sept 30 2003 | Liquor World July 1-Sept 30 2003 | COMBINED July 1-Sept 30 2003 |
|---|---|---|---|
| **Sales** | $16,636,273 | $13,240,816 | $29,877,089 |
| **Cost of Sales** | 12,958,837 | 10,870,244 | 23,829,081 |
| **Gross Margin** | 3,677,436 | 2,370,572 | 6,048,008 |
| **Administrative and Operating Expenses** | 2,283,426 | 1,434,124 | 3,717,550 |
| **Earnings from operations, as defined below*** | 1,394,010 | 936,448 | 2,330,458 |

*Earnings from operations has been calculated as described below. In the case of the Fund, earnings from operations has been derived by adding interest expense and amortization of property and equipment to net earnings for the period. In the case of Liquor Depot and Liquor World, earnings from operations has been derived by adding amortization expense, charitable donations, management salaries to directors and officers, any loss arising from subsidiaries accounted for on a equity basis, interest expense, income tax expense and non-controlling interest to the net loss for the period and subtracting from the resulting total income taxes recovered and income arising from subsidiaries accounted for on a equity basis (See “Non-GAAP Measures”).

**Combined Third Quarter Revenue**

Combined third quarter revenue increased by approximately $1.2 million from $29.9 million to $31.1 million or 4.0% over the same period from the prior year. Stores that were formerly operated by Liquor World experienced revenue increases in 2004 as a result of adopting the advertising program that was utilized by Liquor Depot. Sales were negatively impacted by poor weekend weather conditions when compared to the same period during the prior year.

**Combined Third Quarter Cost of Sales and Gross Margin**

Combined third quarter cost of sales increased by approximately $701,000 from $23.8 million to $24.5 million or 2.9%. Combined gross margin increased by approximately $528,000 from $6.1 million to $6.6 million or 8.7%. The increase in gross margin of $528,000 was the result of the 4.0% increase in sales and a 0.9% increase in gross margin percentage.

**Combined Administrative and Operating Expense**

Combined administrative and operating expenses increased by approximately $350,000 from $3.7 million to $4.1 million or 9.4%. The increase was primarily the result an increase in Liquor World's administrative and operating expenses of approximately $258,000 when compared to the prior year. The majority of this increase resulted from increased costs associated with opening new stores that were not open in the prior quarter and increased head office expenses and other non-reoccurring expenses.

**Combined Earnings from Operations as defined**

Combined earnings from operations as defined above (see *) increased by approximately $177,000 from $2.3 million to $2.5 million or 7.6%. This amount increased as a result of the increase in gross margin being offset by increased administrative and operating costs.

| **Financial Position** | **September 30, 2004** |
|---|---|
| Total assets | $104,255,277 |
| Total liabilities | 23,832,335 |
| Unitholders' equity | 80,422,942 |

## 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 October 20, 2004, the Fund approved its first distribution of $0.0916 per Unit payable on November 15, 2004 to Unitholders of record on October 29, 2004. The total distribution on November 15, 2004, for the period from closing of the IPO on September 28, 2004 to October 31, 2004, will therefore be $583,950. This distribution is consistent with the distribution contemplated in the Fund's IPO prospectus. The prospectus contemplated subsequent monthly distributions of $0.0833 per unit or $1.00 per year in aggregate.

It is the Fund's policy to review the monthly distributions regularly.

### Capital Expenditures

On September 28, 2004, the Fund indirectly acquired property and equipment $12,258,801 (note 3) from the Vendors. During the period from September 28 to September 30, 2004, the Fund incurred $1,824 in capital expenditures. Capital expenditures of $50,000 are anticipated for the balance of the quarter. Future capital expenditures will be funded from cash flow generated from operations or from available credit facilities.

### Credit Facilities

At the time of its IPO, the Fund established credit facilities with a Canadian chartered bank. These credit facilities consist of an $18 million demand revolving operating loan, a $7.5 million 364-day committed non-revolving operating loan and a $10 million 364-day committed non-revolving acquisition loan.

At the closing of the IPO, $7.5 million was drawn on the non-revolving operating loan and $11,089,421 was drawn on the demand revolving operating loan in order to fund the purchase of the net working capital of the Vendors as at June 30, 2004, adjusted for estimated increases in inventory levels from June 30, 2004 to September 28, 2004. Under the purchase and sale agreements between Liquor Stores LP and the Vendors, the purchase price will be adjusted at a later date to reflect the actual working capital acquired. During the three-day period ended September 30, 2004, $1,863,358 of inventory was purchased, and as a result, total indebtedness under the new credit facilities has increased to $20,680,459.

The $10 million 364-day committed non-revolving acquisition loan has not been utilized to date.

Management believes that the credit facilities are sufficient to meet the Fund's working capital requirements.

**Interest Rate Risk and Sensitivity**

The Fund's bank indebtedness and long-term debt as described in Note 7 of the Interim Financial Statements, bear interest with floating rates based on bank prime rate or at short term banker's acceptance rates, thus exposing the Fund to interest rate fluctuations. The Fund is not, however, significantly impacted by interest rate changes. A 1.0% increase in interest rates would have an impact of less than $200,000 on distributable cash based on $18 million of debt outstanding on average throughout the year.

**Contractual Obligations**

The table below sets forth contractual obligations of the Fund as of September 30, 2004 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 | 4,063,028 | 3,058,469 | 2,862,422 | 2,708,023 | 6,248,390 |
| Long Term Debt | | 7,500,000 | | | |
| Total | 4,063,028 | 10,558,469 | 2,862,422 | 2,708,023 | 6,248,390 |

Other commitments of the Fund would include the $7,500,000, non-revolving loan that is repayable on demand in April of 2006.

## 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 any estimates that result in the Fund having any 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 purchase of the assets of the business from the Vendors. As of September 30, 2004, $1,260,113 was due from the Vendors. This amount arose as 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 current estimate. On October 29, 2004 the Vendors paid $1.2 million to the Fund.

## Outlook

Management anticipates that the results of operations will continue to improve in the coming year due to synergies to be realized from the combination of head office staff and the optimization of the work force in the retail stores. Management expects to expand its operations both in Alberta and in British Columbia.

## Additional information

Additional information relating to the Fund, including all public filings, is available on SEDAR (www.sedar.com).

## RISK FACTORS

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; failure to achieve the benefits of the business combination of Liquor Depot and Liquor World; 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 in the Fund's final prospectus dated September 17, 2004 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 ''believe'', ''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 'Risks Factors".

The information contained in this management's discussion and analysis, including the information set forth under ''Risks 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.

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# Consolidated Financial Statements

## Liquor Stores Income Fund

Consolidated Balance Sheet
**(Unaudited)**
**As at September 30, 2004**

| | $ |
|---|---|
| **Assets** | |
| **Current assets** | |
| Cash | 2,129,410 |
| Accounts receivable | 1,065,993 |
| Due from vendors (note 4) | 1,260,113 |
| Inventory | 18,655,575 |
| Prepaid expenses and deposits | 732,263 |
| | 23,843,354 |
| **Equity investment** (note 5) | 100,001 |
| **Property and equipment** (note 6) | 12,252,698 |
| **Intangible assets** | 429,000 |
| **Goodwill** | 67,630,224 |
| | 104,255,277 |
| **Liabilities** | |
| **Current liabilities** | |
| Bank indebtedness (note 7) | 13,180,549 |
| Accounts payable and accrued liabilities | 3,151,786 |
| | 16,332,335 |
| **Long-term debt** (note 7) | 7,500,000 |
| | 23,832,335 |
| **Commitments** (note 8) | |
| **Unitholders' Equity** | |
| **Unitholders' equity** (note 10) | |
| Fund Units | 38,420,000 |
| Liquor Stores LP Exchangeable LP Units | 20,750,000 |
| Liquor Stores LP Subordinated LP Units | 21,250,000 |
| | 80,420,000 |
| **Cumulative earnings** | 2,942 |
| | 80,422,942 |
| | 104,255,277 |

# Liquor Stores Income Fund

Consolidated Balance Sheet
(Unaudited)
**For the period from August 10, 2004 including operations from September 28, 2004 (date of commencement of business operations) to September 30, 2004**

| | $ |
|---|---|
| **Sales** | 806,759 |
| **Cost of sales** | 649,995 |
| **Gross margin** | 156,764 |
| **Expenses** | |
| Amortization of property and equipment | 7,927 |
| Administrative and operating | 134,825 |
| | 142,752 |
| **Earnings from operations** | 14,012 |
| **Interest expense** | (11,070) |
| **Net earnings for the period and cumulative earnings at end of the period** | 2,942 |

# Liquor Stores Income Fund

Consolidated Balance Sheet

(Unaudited)

**For the period from August 10, 2004 including operations from September 28, 2004 (date of commencement of business operations) to September 30, 2004**

| | $ |
|---|---|
| **Cash provided by (used in)** | |
| **Operating activities** | |
| Net earnings for the period | 2,942 |
| Item not affecting cash | |
| Amortization of property and equipment | 7,927 |
| | 10,869 |
| Net change in non-cash working capital items | 476,182 |
| | 487,051 |
| **Financing activities** | |
| Net proceeds from the issuance of Units | 38,420,000 |
| Proceeds of long-term debt | 7,500,000 |
| Bank indebtedness | 13,180,549 |
| Due from vendors | (1,260,113) |
| | 57,840,436 |
| **Investing activities** | |
| Business acquisitions (note 3) | (56,196,253) |
| Purchase of property and equipment | (1,824) |
| | (56,198,077) |
| **Increase in cash and cash at end of period** | 2,129,410 |
| **Supplementary information** | |
| Interest paid | 11,070 |
| Interest received | - |

## 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.

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. Concurrent with the closing of the IPO, the Fund acquired a 50.6% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP") (note 3) and Liquor Stores LP acquired the net assets (the "Acquired Business") of The Liquor Depot Corporation and Liquor World Group Inc. and other wholly owned subsidiaries or companies that were under common control (collectively, the "Vendors"). Liquor Stores LP operates 49 retail liquor stores in Alberta and one retail liquor store in British Columbia.

## 2 Significant accounting policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements and may not include all disclosures required by generally accepted accounting principles for annual financial statements.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, goodwill is assessed for impairment based on the expected discounted future cash flows of the related operations and amortization of property and equipment is based on their estimated useful lives. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known. These financial statements have in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of presentation

These consolidated financial statements include the accounts of the Fund, Liquor Stores Operating Trust, Liquor Stores LP, Liquor Stores GP Inc. and several wholly owned subsidiaries. The Liquor Stores LP Subordinated LP Units and Exchangeable LP Units are classified as equity due to their rights (see note 10). All significant interentity balances and transactions have been eliminated on consolidation.

Since the Fund commenced operations on September 28, 2004 with the purchase of the Acquired Business, no comparative information is provided.

b) Revenue recognition

Revenue includes sales to customers through retail stores and is recognized at the point of sale.

c) Inventory

Inventory is valued at the lower of cost, determined on the first in, first out basis, and net realizable value.

d) Property and equipment

Property and equipment is recorded at cost. Amortization is provided for over the estimated useful lives of assets on a straight-line basis at rates disclosed in note 6.

e) Assessment for impairment

The Fund will test its long lived assets for impairment when events or circumstances warrant such a review. The Fund will evaluate the carrying value of long-lived assets using undiscounted estimated cash flows. An asset group is considered impaired when the anticipated separately identifiable cash flows from the asset group are less than the carrying value. An impaired asset is written down to estimated fair value.

f) Equity investments

The Fund accounts for investments in which it has significant influence but not control using the equity method.

g) Goodwill

Goodwill represents the excess of the cost of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized, but is tested at least annually for impairment. The Fund will assess impairment at the reporting unit level by comparing the fair value of the reporting unit, determined using estimated discounted cash flows, to the carrying value of the net assets of the reporting unit. If the carrying value of the goodwill exceeds its fair value, an impairment loss is reported in income of the current period.

h) Intangible assets

Intangible assets represent customer relationships, retail liquor licenses and business permits, and the value attributed to leases.

The amount attributable to customer relationships is amortized over five years and the amount attributable to leases is amortized over the remaining term of the lease. Retail liquor licenses and business permits have an indefinite life therefore the amount attributable to these items is not being amortized.

The Fund will assess the carrying value of other intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recorded when it is determined that the carrying amount of the assets is not recoverable and exceeds their fair value.

i) Future income taxes

Incorporated subsidiaries of the Fund use the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Income tax obligations relating to distributions of the Fund are the obligations of the Unitholders and, accordingly, no provision for income taxes has been made in respect of the assets and liabilities of the Fund.

## 3 Issuance of Units and business acquisitions

On September 28, 2004, the Fund completed the IPO for aggregate proceeds of $43,000,000. The costs of issuance of the units were $4,580,000, resulting in an addition to Unitholders' Equity of $38,420,000. The Fund used the net proceeds from the IPO to acquire an indirect 50.6% interest in Liquor Stores LP, represented by 4,300,000 Ordinary LP Units. Liquor Stores LP combined these funds with s from new credit facilities (note 7) to acquire, through a series of transactions, 100% of the net business assets of the Vendors.

The acquisition of the Fund's interest in the Acquired Business has been accounted for using the purchase method.

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

| | $ |
|---|---|
| Property and equipment | 12,258,801 |
| Goodwill | 67,630,224 |
| Intangible assets | 429,000 |
| Other assets | 101,975 |
| | 80,420,000 |
| Net working capital | 17,776,253 |
| | 98,196,253 |
| Consideration, being cash from IPO and new credit facilities | 56,196,253 |
| Liquor Stores LP Exchangeable LP Units | 20,750,000 |
| Liquor Stores LP Subordinated LP Units | 21,250,000 |
| | 98,196,253 |

The Fund is in the process of finalizing its estimate of the cost of issuance and the fair value of assets acquired and the liabilities assumed. Working capital amounts as at September 28, 2004 and September 30, 2004 have been estimated and, pursuant to the purchase agreements with the Vendors, the purchase price will be adjusted to reflect the actual amount of working capital purchased when it is determined. Further, the Fund expects to complete these processes by March 31, 2005.

## 4 Due from Vendors

The amount due from Vendors arose as a result of transaction costs and the difference between the September 17, 2004 estimate and the current estimate of the amount of working capital that would be purchased from the Vendors by the Fund as of September 28, 2004. On October 29, 2004, the Vendors repaid $1,200,000 of this amount.

## 5 Equity investments

| | $ |
|---|---|
| Vines of Riverbend, Inc. – 50% | |
| Shares – equity | 1 |
| Advances | 100,000 |
| | 100,001 |

The advances are non-interest bearing and have no specified repayment terms.

## 6 Property and equipment

| | Rate % | Cost $ | Accumulated amortization $ | Net book value $ |
|---|---|---|---|---|
| Leasehold improvements | 7 | 11,033,335 | 6,793 | 11,026,542 |
| Operating equipment | 20 | 225,537 | 363 | 225,174 |
| Office equipment and fixtures | 10 | 355,989 | 299 | 355,690 |
| Computer equipment | 20 | 208,360 | 357 | 208,003 |
| Automotive | 20 | 36,300 | 60 | 36,240 |
| Shelving and racking | 10 | 401,104 | 55 | 401,049 |
| | | 12,260,625 | 7,927 | 12,252,698 |

## 7 Bank indebtedness and long-term debt

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

| | $ |
|---|---|
| Bank indebtedness | 13,180,549 |
| Non-revolving bank loan | 7,500,000 |

The bank indebtedness is collateralized by a general security agreement covering all present and after acquired personal property of Liquor Stores LP. Interest is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%.

The non-revolving bank loan is collateralized by a first security interest in all present and after acquired personal property of Liquor Stores LP. Interest is payable at the lender's prime rate plus 0.50% or at the banker's acceptance rate plus 1.75%.

Both the bank indebtedness and the non-revolving bank loan are also collateralized 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.

The principal amount of the non-revolving bank loan is repayable on April 29, 2006.

## 8 Commitments

The Fund occupies its retail locations under lease agreements with varying terms from five to fifteen years, expiring from October 2004 to October 2019. The leases provide for minimum annual lease payments over the next five years as follows:

| | **$** |
|---|---|
| Years ending September 30 | |
| 2005 | 4,063,028 |
| 2006 | 3,058,469 |
| 2007 | 2,862,422 |
| 2008 | 2,708,023 |
| 2009 and thereafter | 6,248,390 |

## 9 Long-term incentive plan

The Fund has adopted a long-term incentive plan (the "Plan") to provide key senior management of the Fund and its subsidiaries with compensation opportunities that will enhance the ability of the Fund to attract, retain and motivate key personnel and reward these key employees for significant performance and associated per unit cash flow growth of the Fund. Bonuses, in the form of units of the Fund, will be provided to eligible employees on an annual basis where the distributable cash of the Fund exceeds certain specified threshold amounts.

The costs associated with the plan are accrued as earned based on management's best estimate over the vesting period. No amount has been accrued to September 30, 2004.

## 10 Unitholders' equity

Units outstanding and capital contributions are as follows:

| | Number of units # | Issue costs $ | Net capital contributions $ |
|---|---|---|---|
| Fund Units | 4,300,000 | 4,580,000 | 38,420,000 |
| Liquor Stores LP Exchangeable LP Units | 2,075,000 | - | 20,750,000 |
| Liquor Stores LP Subordinated LP Units | 2,125,000 | - | 21,250,000 |
| Balance – September 30, 2004 | 8,500,000 | 4,580,000 | 80,420,000 |
| Fund Special Voting Units | 4,200,000 | - | - |

**Fund Units**

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 have equal voting rights and privileges.

**Fund Special Voting Units**

Fund Special Voting Units are non-participating and are used solely for providing voting rights to persons holding Liquor Stores LP Subordinated LP Units ("Subordinated LP Units") and Liquor Stores LP Exchangeable LP Units ("Exchangeable LP Units"). Fund Special Voting Units are not transferable separately from Subordinated LP Units and Exchangeable LP Units to which they relate. Fund Special Voting Units will automatically be transferred upon a transfer of the Subordinated LP Units or the Exchangeable LP Units to which they relate. The Fund Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Fund Unit and the Fund Special Voting Unit entitles the holder thereof to one vote at all meetings of Unitholders.

If the Exchangeable LP Units or the Subordinated LP Units are purchased in accordance with the Exchange Agreement, a like number of Fund Special Voting Units will be redeemed by the Fund for a nominal amount. The Fund issued 4,200,000 Fund Special Voting Units relating to the 2,075,000 Exchangeable LP Units and 2,125,000 Subordinated LP Units that were issued at the time of the IPO.

### Liquor Stores LP Exchangeable LP Units

The Exchangeable LP Units issued by the Fund have economic and voting rights equivalent, in all material respects, to the Fund Units. As a result, they have been treated for accounting purposes as Fund Unit equivalents. 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.

Each Exchangeable LP Unit entitles the holder to receive distributions from Liquor Stores LP pro rata with distributions made by Liquor Stores LP on Ordinary LP Units.

### Liquor Stores LP Subordinated LP Units

The Subordinated LP Units have economic and voting rights equivalent in all material respects, to the Fund Units, except in connection with the subordination terms as described below. As a result, they have been treated for accounting purposes as Fund Unit equivalents.

Distributions are to be made monthly on the Ordinary LP Units and Exchangeable LP Units equal to $0.0833 per Unit to the extent cash is available to make cash distributions. Distributions on the Subordinated LP Units are subordinated and are made quarterly in an amount equal to the amount distributed on per Unit Ordinary LP Units and Exchangeable LP Units during such fiscal quarter, only after the distributions have been made on the Ordinary LP Units and Exchangeable LP Units and to the extent cash is available to make such distributions.

The Subordinated LP Units will be automatically exchanged for Exchangeable LP Units on a one-for-one basis (and the subordination provisions will only apply until) the end of any fiscal year ending on or after December 31, 2007 if, for that fiscal year, the Fund has earned EBITDA of at least $9.836 million and the Fund has paid distributions of at least $1.00 per LP Unit for such fiscal year.

In the event that a take-over bid by a person acting at arm's length to the holders of the Subordinated LP Units is accepted by holders of the Fund Units representing 20% or more of the issued and outstanding Units of the Fund on a fully diluted basis, or in the event of certain other acquisition transactions in respect of the Fund, the subordination provisions will terminate and the Subordinated LP Units will automatically convert into Exchangeable LP Units on a one-for-one basis.

## 11 Economic dependence

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

## 12 Financial instruments

The Fund, as part of its operations, carries a number of financial instruments. These financial instruments include cash, accounts receivable, due from Vendors, advances to equity investees, bank indebtedness, accounts payable and accrued liabilities and long-term debt. It is management's opinion that the Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as described below.

**Interest rate risk**

The Fund's bank indebtedness and its long-term debt, as described in note 7, bear interest with floating rates over prime, thus exposing the Fund to interest rate fluctuations.

**Fair value disclosure**

The carrying amount of cash, accounts receivable, due from Vendors, bank indebtedness, accounts payable and accrued liabilities approximate their fair value either due to their relatively short-term maturities or interest rates which approximate market rates. The fair value of advances to equity investees cannot be determined due to the fact that the advances do not have specified terms and no active market for the advances exists. The carrying values of long-term debt approximate the fair value of the long-term debt as the interest rate affecting this amount approximates market rates.