

Liquor Stores Income Fund

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2006

(expressed in Canadian dollars)

Liquor Stores Income Fund

Interim Consolidated Balance Sheet

	March 31, 2006 (unaudited) \$	December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	2,935,221	2,047,400
Accounts receivable	798,382	1,102,634
Inventory	33,169,297	34,066,925
Prepaid expenses and deposits	2,115,139	1,552,731
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	39,018,039	38,769,690
Pre-opening costs	623,018	471,903
Equity investment	453,785	422,789
Property and equipment	18,278,929	18,007,419
Future income taxes	65,900	34,000
Intangible assets	394,806	424,293
Goodwill	82,676,117	82,676,117
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	141,510,594	140,806,211
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Liabilities		
Current liabilities		
Bank indebtedness (note 4)	-	15,492,652
Accounts payable and accrued liabilities	2,474,370	3,628,182
Distributions payable to unitholders (note 7)	862,064	553,576
Distributions payable to non-controlling interest (note 8)	755,936	752,500
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	4,092,370	20,426,910
Long-term debt (note 6)	-	11,352,466
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	4,092,370	31,779,376
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Non-controlling interest (note 8)	32,643,082	41,700,230
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Unitholders' Equity		
Fund Units (notes 3 and 7)	105,853,597	66,990,066
Cumulative undistributed earnings	(1,078,455)	336,539
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	104,775,142	67,326,605
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	141,510,594	140,806,211
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Liquor Stores Income Fund

Interim Consolidated Statement of Earnings and Cumulative Earnings (Unaudited)

	Three-month period ended	
	March 31, 2006 \$	March 31, 2005 \$
Sales	38,020,724	26,818,724
Cost of sales, operating, administrative, acquisition and store development	36,120,331	25,406,170
Operating margin	1,900,393	1,412,554
Amortization		
Property and equipment	416,042	274,803
Intangible assets	29,487	21,450
Pre-opening costs	43,075	-
	488,604	296,253
Interest		
Interest expense on bank indebtedness	(195,019)	(122,647)
Interest expense on long-term debt	(115,381)	(83,462)
	(310,400)	(206,109)
Earnings before non-controlling interest	1,101,389	910,192
Non-controlling interest	(417,264)	(414,829)
Net earnings for the period	684,125	495,363
Cumulative undistributed earnings, beginning of period	336,539	385,437
Distributions declared (note 10)	(2,099,119)	(1,227,009)
Cumulative undistributed earnings, end of period	(1,078,455)	(346,209)
Basic earnings per unit (note 9)	0.10	0.10
Diluted earnings per unit (note 9)	0.10	0.10

Liquor Stores Income Fund

Interim Consolidated Statement of Cash Flows

(Unaudited)

	Three-month period ended	
	March 31, 2006	March 31, 2005
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	684,125	495,363
Items not affecting cash		
Amortization	488,604	296,253
Future income taxes	(31,900)	1,100
Equity income	(6,856)	(2,857)
Accrued interest	-	151,946
Non-controlling interest	417,264	414,829
	<u>1,551,237</u>	<u>1,356,634</u>
Net change in non-cash working capital items	(514,340)	887,516
	<u>1,036,897</u>	<u>2,244,150</u>
Financing activities		
Net proceeds from the issuance of Units (note 3)	30,549,000	28,679,322
Bank indebtedness	(15,492,652)	(4,020,757)
Long-term debt	(11,352,466)	-
Distributions paid to unitholders	(1,790,631)	(1,074,570)
Distributions paid to non-controlling interest	(1,156,445)	(1,067,218)
	<u>756,806</u>	<u>22,516,777</u>
Investing activities		
Business acquisitions	-	(14,026,372)
Purchase of property and equipment	(687,552)	(678,788)
Pre-opening costs	(194,190)	(79,175)
Repayment from (investment in) equity investee	(24,140)	43,440
	<u>(905,882)</u>	<u>(14,740,895)</u>
Increase in cash and cash equivalents	887,821	10,020,032
Cash and cash equivalents balance, beginning of period	<u>2,047,400</u>	<u>178,672</u>
Cash and cash equivalents balance, end of period	<u>2,935,221</u>	<u>10,198,704</u>
Supplementary information		
Interest paid	<u>310,400</u>	<u>54,163</u>

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

March 31, 2006

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, 2005. 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, 2005.

3 Issuance of Units

On March 15, 2006, the Fund issued 1,600,000 Fund Units at \$20.25 per Fund Unit for aggregate proceeds of \$32,400,000. The cost of issuance of the units was \$1,851,000, resulting in net proceeds of \$30,549,000. The Fund used the net proceeds from the issuance to repay existing indebtedness and for general corporate purposes.

4 Bank indebtedness

Interest is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%.

5 Related party transactions

During the three month period ended March 31, 2006, the Fund incurred professional fees of \$55,581 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 \$19,856. Further, the Fund paid fees and expenses to a company controlled by the President of the Fund, relating to the supervision of construction of developed stores and lease administration, in the amount \$20,738. These transactions are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount. Included in accounts payable and accrued liabilities is \$59,719 relating to these transactions.

6 Long-term debt

Interest is payable at the bank's prime rate plus 0.50%.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

March 31, 2006

7 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs \$	Net capital contributions \$
Balance – December 31, 2005	6,179,683	6,518,764	66,990,066
Units issued on March 15, 2006	1,600,000	1,851,000	30,549,000
Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the quarter ended March 31, 2006	840,959	-	8,314,531
Balance – March 31, 2006	8,620,642	8,369,764	105,853,597

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.

Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the quarter ended March 31, 2006 were issued at the carrying amount of the Liquor Stores LP Exchangeable LP Units in accordance with EIC-151.

Distributions payable to Unitholders

Distributions to Unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$2,099,119 (\$0.30 per Fund Unit) were declared by the Fund for the quarter ended March 31, 2006. Of the distributions declared during the quarter, \$1,237,055 were paid and \$862,064 were payable as of March 31, 2006. Distributions of \$1,790,631 were paid during the quarter, which included \$553,576 of distributions that were declared and payable as of December 31, 2005.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

March 31, 2006

8 Non-controlling interest

	Liquor Stores LP Exchangeable LP Units	Liquor Stores LP Subordinated LP Units	Total
	#	#	#
Balance – December 31, 2005	2,025,317	2,125,000	4,150,317
Redemption of Liquor Stores LP Exchangeable LP Units for Fund Units during the quarter ended March 31, 2006	(840,959)	-	(840,959)
Balance – March 31, 2006	1,184,358	2,125,000	3,309,358
Fund Special Voting Units	1,184,358	2,125,000	3,309,358
	\$	\$	\$
Opening balance	20,351,876	21,348,354	41,700,230
Fund Special Voting Units – Amount	-	-	-
Earnings	201,935	215,329	417,264
Units exchanged for Fund Units	(8,314,531)	-	(8,314,531)
Distributions declared (note 10)	(522,381)	(637,500)	(1,159,881)
	11,816,899	20,926,183	32,643,082

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 \$522,381 (\$0.30 per Exchangeable LP Unit) and \$637,500 (\$0.30 per Subordinated LP Unit) were declared by the Fund for the quarter ended March 31, 2006. Of the distributions declared during the quarter, \$403,945 was paid and \$755,936 was payable as of March 31, 2006. Distributions of \$1,156,445 were paid during the quarter, which included \$752,500 of distributions that were declared and payable as of December 31, 2005.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

March 31, 2006

9 Earnings per Unit

	Three-month period ended	
	March 31, 2006	March 31, 2005
Net earnings (Numerator utilized in basic earnings per unit)	\$ 684,125	\$ 495,363
Non-controlling interest	417,264	414,829
Earnings (Numerator utilized in diluted earnings per unit)	<u>1,101,389</u>	<u>910,192</u>
Earnings per unit - basic	\$ 0.10	\$ 0.10
- diluted	\$ 0.10	\$ 0.10
Equivalent units outstanding, beginning of period	6,179,683	4,300,000
Weighted average of equivalent Units issued	436,497	610,000
Denominator utilized in basic earning per Unit	<u>6,616,180</u>	<u>4,910,000</u>
Exchangeable and Subordinated Units	3,998,265	4,200,000
Denominator utilized in diluted earning per Unit	<u>10,614,445</u>	<u>9,110,000</u>

10 Distributions

		Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
		Declared \$	Paid \$	Declared \$	Paid \$	Declared \$	Paid \$
January 9, 2006	February 15, 2006	618,111	618,111	202,389	202,389	820,500	820,500
February 15, 2006	March 15, 2006	618,944	618,944	201,556	201,556	820,500	820,500
March 10, 2006		862,064	-	755,936	-	1,618,000	-
		<u>2,099,119</u>	<u>1,237,055</u>	<u>1,159,881</u>	<u>403,945</u>	<u>3,259,000</u>	<u>1,641,000</u>

11 Seasonal nature of the business

The Fund's results for the first quarter of 2006 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The Fund historically experiences higher sales in the third and fourth quarters, while the first and second quarter typically experience lower sales levels due to seasonal shopping patterns. Occupancy related expenses, operating and administrative expense, amortization and interest expense remain relatively steady throughout the year.

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Notes to Interim Consolidated Financial Statements

March 31, 2006

12 Subsequent events

Subsequent to March 31, 2006, the Fund completed the acquisition of 1 retail liquor store business. The aggregate purchase price (including inventory) for the acquisition was approximately \$900,000. The purchase price was paid in cash from the proceeds from the issuance of Fund Units.

The purchase price on the acquisition will be allocated to the fair value of the acquired assets when determined.

13 Comparative figures

Certain comparative figures have been reclassified to conform with the current period presentation.