

Liquor Stores Income Fund

Interim Consolidated Financial Statements
(unaudited)

June 30, 2006
(expressed in Canadian dollars)

Liquor Stores Income Fund

Interim Consolidated Balance Sheet

As at June 30, 2006

	June 30, 2006 (unaudited)	December 31, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	275,698	2,047,400
Accounts receivable	748,624	1,102,634
Inventory	36,375,932	34,066,925
Prepaid expenses and deposits	2,969,071	1,552,731
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	40,369,325	38,769,690
Pre-opening costs	738,837	471,903
Deposits on future business acquisitions	13,485,688	-
Equity investment	498,576	422,789
Property and equipment	20,216,427	18,007,419
Future income taxes	48,608	34,000
Intangible assets	400,740	424,293
Goodwill	90,054,130	82,676,117
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	165,812,331	140,806,211
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	15,494,691	15,492,652
Accounts payable and accrued liabilities	3,368,192	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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	20,480,883	20,426,910
Long-term debt (note 5)	7,500,000	11,352,466
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	27,980,883	31,779,376
Non-controlling interest (note 8)	32,716,072	41,700,230
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	32,716,072	41,700,230
Unitholders' Equity		
Fund Units (notes 3 and 7)	105,909,007	66,990,066
Cumulative undistributed earnings	(793,631)	336,539
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	105,115,376	67,326,605
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	165,812,331	140,806,211

Liquor Stores Income Fund

Interim Consolidated Statement of Earnings and Cumulative Undistributed Earnings

	Three month period ended		Six month period ended	
	June 30, 2006 \$ (unaudited)	June 30, 2005 \$ (unaudited)	June 30, 2006 \$ (unaudited)	June 30, 2005 \$ (unaudited)
Sales	52,215,489	38,505,474	90,236,213	65,324,198
Cost of sales, operating, administrative, acquisition and store development	47,542,847	35,277,447	83,663,178	60,683,617
Operating margin	4,672,642	3,228,027	6,573,035	4,640,581
Amortization				
Property and equipment	466,766	282,981	882,808	557,784
Intangible assets	32,139	21,450	61,626	42,900
Pre-opening costs	55,282	17,308	98,357	17,308
	554,187	321,739	1,042,791	617,992
Interest				
Interest expense on bank indebtedness	(124,653)	(56,651)	(319,672)	(179,238)
Interest expense on long-term debt	(1,578)	(89,811)	(116,959)	(173,333)
	(126,231)	(146,462)	(436,631)	(352,571)
Earnings before non-controlling interest	3,992,224	2,759,826	5,093,613	3,670,018
Non-controlling interest	(1,121,208)	(1,122,777)	(1,538,472)	(1,537,606)
Net earnings for the period	2,871,016	1,637,049	3,555,141	2,132,412
Cumulative undistributed earnings, beginning of period	(1,078,455)	(346,209)	336,539	385,437
Distributions declared (note 10)	(2,586,192)	(1,608,880)	(4,685,311)	(2,835,889)
Cumulative undistributed earnings, end of period	(793,631)	(318,040)	(793,631)	(318,040)
Basic earnings per unit (note 9)	0.33	0.27	0.47	0.39
Diluted earnings per unit (note 9)	0.33	0.27	0.45	0.38

Liquor Stores Income Fund

Interim Consolidated Statement of Cash Flows

	Three month period ended		Six month period ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	2,871,016	1,637,049	3,555,141	2,132,412
Items not affecting cash				
Amortization	554,187	321,739	1,042,791	617,992
Future income taxes	17,292	8,700	(14,608)	9,800
Equity income	(21,381)	(4,491)	(28,237)	(7,348)
Accrued interest	-	21,489	-	105,011
Non-controlling interest	1,121,208	1,122,777	1,538,472	1,537,606
	4,542,322	3,107,263	6,093,559	4,395,473
Net change in non-cash working capital items	(1,719,464)	(2,637,320)	(2,233,804)	(1,749,802)
	2,822,858	469,943	3,859,755	2,645,671
Financing activities				
Net proceeds from the issuance of Units (note 3)	-	(8,858)	30,549,000	28,670,464
Increase (decrease) in bank indebtedness	15,494,691	(7,444,907)	2,039	(11,397,240)
Proceeds of long-term debt	7,500,000	-	7,500,000	-
Repayment of long-term debt	-	-	(11,352,466)	-
Distributions paid to unitholders	(2,586,192)	(1,570,384)	(4,376,823)	(2,644,954)
Distributions paid to non-controlling interest	(992,808)	(1,062,611)	(2,149,253)	(2,129,830)
	19,415,691	(10,086,760)	20,172,497	12,498,440
Investing activities				
Business acquisitions (note 4)	(10,041,874)	5,002	(10,041,874)	(14,021,587)
Deposits on future business acquisitions	(13,485,688)	-	(13,485,688)	-
Purchase of property and equipment	(1,175,999)	(306,614)	(1,863,551)	(985,186)
Pre-opening costs	(171,101)	(31,024)	(365,291)	(110,199)
Repayment from (investment in) equity investee	(23,410)	16,534	(47,550)	59,974
	(24,898,072)	(316,102)	(25,803,954)	(15,056,998)
Increase (decrease) in cash and cash equivalents	(2,659,523)	(9,932,919)	(1,771,702)	87,113
Cash and cash equivalents balance, beginning of period	2,935,221	10,198,704	2,047,400	178,672
Cash and cash equivalents balance, end of period	275,698	265,785	275,698	265,785
Supplementary information				
Interest paid	126,231	124,973	436,631	247,560

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

1 Nature of operations and organization

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

As at June 30, 2006, Liquor Stores LP operated eighty (June 30, 2005 – sixty-three) retail liquor stores in Alberta and six (June 30, 2005 - three) retail liquor stores in British Columbia.

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 acquire new stores as described in notes 4 and 12, develop new stores, repay existing indebtedness and for general corporate purposes.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

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4 Business acquisitions

During the quarter ended June 30, 2006, the Fund completed the acquisition of 6 retail liquor store businesses and one pub. The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

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

Property and equipment	1,228,265
Goodwill	7,378,013
Intangible assets	<u>38,073</u>
	8,644,351
Net working capital	<u>1,397,523</u>
	10,041,874
Cash paid	<u><u>10,041,874</u></u>

5 Bank indebtedness and long-term debt

Interest on bank indebtedness is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%. As at June 30, 2006, the bank indebtedness rate of interest was 6.25% (December 31, 2005 – 5.25%). As at June 30, 2006 and December 31, 2005, there were no banker's acceptances.

Interest on long-term debt is payable at the bank's prime rate plus 0.50%. As of June 30, 2006 the effective long-term debt rate of interest was 6.50% (December 31, 2005 – 5.50%). The loan matures on April 30, 2007. The loan does not require principal repayments, but the bank has the right to demand the loan to be repaid in full, three hundred and sixty-four days from the maturity of the current term. Therefore, the loan is due on April 29, 2008.

The bank indebtedness and long-term debt are 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.

Subsequent to June 30, 2006, interest on bank indebtedness has been adjusted to prime and the interest rate on long-term debt has been reduced to prime plus 0.25%. The aggregate of the facilities has been increased from \$55.1 million at June 30, 2006 to \$61.5 million.

Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

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6 Related party transactions

During the three and six month periods ended June 30, 2006, the Fund incurred professional fees of \$42,082 and \$97,663 respectively, 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 \$21,027 and \$40,883 respectively. 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 \$38,332 and \$59,070 respectively. 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 \$10,878 relating to these transactions.

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 six months ended June 30, 2006	846,500	-	8,369,941
Balance – June 30, 2006	<u>8,626,183</u>	<u>8,369,764</u>	<u>105,909,007</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.

Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the six months ended June 30, 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 \$2,586,192 (\$0.30 per Fund Unit) were declared by the Fund for the quarter ended June 30, 2006. Of the distributions declared during the quarter, \$1,724,128 were paid and

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Notes to Interim Consolidated Financial Statements

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\$862,064 were payable as of June 30, 2006. Distributions of \$2,586,192 were paid during the quarter, which included \$862,064 of distributions that were declared and payable as of 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 six months ended June 30, 2006	(846,500)	-	(846,500)
Balance – June 30, 2006	1,178,817	2,125,000	3,303,817
Fund Special Voting Units	1,178,817	2,125,000	3,303,817
	\$	\$	\$
Balance – December 31, 2005	20,351,876	21,348,354	41,700,230
Fund Special Voting Units – Amount	-	-	-
Earnings	759,231	779,241	1,538,472
Units exchanged for Fund Units	(8,369,941)	-	(8,369,941)
Distributions declared (note 10)	(877,689)	(1,275,000)	(2,152,689)
	11,863,477	20,852,595	32,716,072

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 \$355,308 (\$0.30 per Exchangeable LP Unit) and \$637,500 (\$0.30 per Subordinated LP Unit) were declared by the Fund for the quarter ended June 30, 2006. Of the distributions declared during the quarter, \$236,872 was paid and \$755,936 was payable as of June 30, 2006. Distributions of \$992,808 were paid during the quarter, which included \$755,936 of distributions that were declared and payable as of March 31, 2006.

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(unaudited)

9 Earnings per Unit

	June 30, 2006 (3 months) \$	June 30, 2005 (3 months) \$	June 30, 2006 (6 months) \$	June 30, 2005 (6 months) \$
Net Earnings (Numerator utilized in basic earnings per unit)	2,871,016	1,637,049	3,555,141	2,132,412
Non-controlling interest	1,121,208	1,122,777	1,538,472	1,537,606
Earnings (Numerator utilized in diluted earnings per unit)	3,992,224	2,759,826	5,093,613	3,670,018
Earnings per unit - basic	\$0.33	\$0.27	\$0.47	\$0.39
- diluted	\$0.33	\$0.27	\$0.45	\$0.38
Equivalent units outstanding, beginning of period	8,620,642	6,130,000	6,179,683	4,300,000
Weighted average of equivalent units issued	972	-	1,452,774	1,223,370
Denominator utilized in basic earnings per unit	8,621,614	6,130,000	7,632,457	5,523,370
Exchangeable and Subordinated units	3,308,386	4,200,000	3,648,654	4,200,000
Denominator utilized in diluted earnings per unit	11,930,000	10,330,000	11,281,111	9,723,370

10 Distributions

		Exchangeable LP Units and Subordinated LP Units				Total	
		Fund Units		Units			
Date distribution declared	Date distribution paid	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	April 17, 2006	862,064	862,064	755,936	755,936	1,618,000	1,618,000
April 13, 2006	May 15, 2006	862,064	862,064	118,436	118,436	980,500	980,500
May 15, 2006	June 15, 2006	862,064	862,064	118,436	118,436	980,500	980,500
June 15, 2006	July 17, 2006	862,064	-	755,936	-	1,618,000	-
		4,685,311	3,823,247	2,152,689	1,396,753	6,838,000	5,220,000

11 Seasonal nature of the business

The Fund's results for the second quarter and first six months 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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12 Subsequent events

Subsequent to June 30, 2006, the Fund completed the acquisition of 8 retail liquor store businesses. The aggregate purchase price (including inventory) for the acquisitions was approximately \$9,464,000 and was paid in cash from existing facilities and proceeds from the issuance of Fund Units (note 3).

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.