

# **Liquor Stores Income Fund**

Interim Consolidated Financial Statements  
(unaudited)

**September 30, 2006**  
(expressed in Canadian dollars)

# Liquor Stores Income Fund

## Consolidated Balance Sheets (unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>	<b>\$</b>	<b>\$</b>
<b>Current assets</b>		
Cash and cash equivalents	1,682,818	2,047,400
Accounts receivable	949,209	1,136,634
Inventory	43,003,757	34,066,925
Prepaid expenses and deposits (note 5)	1,819,824	1,552,731
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	47,455,608	38,803,690
<b>Pre-opening costs</b>	753,501	471,903
<b>Deposits on future business acquisitions (note 5)</b>	1,882,298	-
<b>Equity investment</b>	-	422,789
<b>Property and equipment</b>	21,888,004	18,007,419
<b>Intangible assets</b>	418,925	424,293
<b>Goodwill</b>	101,337,473	82,676,117
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	173,735,809	140,806,211
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<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 6)	28,963,844	15,492,652
Accounts payable and accrued liabilities	1,558,551	3,628,182
Distributions payable to unitholders (note 8)	862,832	553,576
Distributions payable to non-controlling interest (note 9)	755,168	752,500
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	32,140,395	20,426,910
<b>Long-term debt (note 6)</b>	2,500,000	11,352,466
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	34,640,395	31,779,376
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<b>Non-controlling interest (note 9)</b>	33,120,319	41,700,230
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<b>Unitholders' Equity</b>		
Fund Units (notes 3 and 8)	106,024,795	66,990,066
Cumulative undistributed earnings	(49,700)	336,539
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	105,975,095	67,326,605
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	173,735,809	140,806,211
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# Liquor Stores Income Fund

## Consolidated Statements of Earnings and Cumulative Undistributed Earnings (unaudited)

	Three month period ended		Nine month period ended	
	September 30, 2006 \$	September 30, 2005 \$	September 30, 2006 \$	September 30, 2005 \$
<b>Sales</b>	60,751,442	41,434,078	150,987,655	106,758,276
<b>Cost of sales, operating, administrative, acquisition and store development</b>	54,965,287	37,924,823	138,628,465	98,608,440
<b>Operating earnings before amortization</b>	5,786,155	3,509,255	12,359,190	8,149,836
<b>Amortization</b>				
Property and equipment	532,014	325,510	1,414,822	883,294
Intangible assets	40,811	21,450	102,437	64,350
Pre-opening costs	78,811	28,045	177,168	45,353
	651,636	375,005	1,694,427	992,997
<b>Earnings before interest and non-controlling interest</b>	5,134,519	3,134,250	10,664,763	7,156,839
<b>Interest</b>				
Interest expense on bank indebtedness	(358,240)	(102,992)	(677,912)	(282,230)
Interest expense on long-term debt	(98,724)	(65,383)	(215,683)	(238,716)
	(456,964)	(168,375)	(893,595)	(520,946)
<b>Earnings before non-controlling interest</b>	4,677,555	2,965,875	9,771,168	6,635,893
<b>Non-controlling interest</b>	(1,345,342)	(1,202,077)	(2,883,814)	(2,739,683)
<b>Net earnings for the period</b>	3,332,213	1,763,798	6,887,354	3,896,210
<b>Cumulative undistributed earnings, beginning of period</b>	(793,631)	(318,040)	336,539	385,437
<b>Distributions declared</b> (note 11)	(2,588,282)	(1,650,677)	(7,273,593)	(4,486,566)
<b>Cumulative undistributed earnings, end of period</b>	(49,700)	(204,919)	(49,700)	(204,919)
<b>Basic earnings per unit</b> (note 10)	\$0.39	\$0.29	\$0.86	\$0.68
<b>Diluted earnings per unit</b> (note 10)	\$0.39	\$0.29	\$0.85	\$0.67

# Liquor Stores Income Fund

## Consolidated Statements of Cash Flows (unaudited)

	Three month period ended		Nine month period ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings for the period	3,332,213	1,763,798	6,887,354	3,896,210
Items not affecting cash				
Amortization	651,636	375,005	1,694,427	992,997
Equity income	-	(5,237)	(28,237)	(12,585)
Accrued interest	-	25,711	-	130,722
Non-controlling interest	1,345,342	1,202,077	2,883,814	2,739,683
	5,329,191	3,361,354	11,437,358	7,747,027
Net change in non-cash working capital items	(5,018,345)	(1,340,616)	(7,333,994)	(3,077,689)
	310,846	2,020,738	4,103,364	4,669,338
<b>Financing activities</b>				
Net proceeds from the issuance of Units (note 3)	94,418	-	30,643,418	28,670,464
Increase (decrease) in bank indebtedness	12,169,634	8,993,000	13,585,671	(2,404,240)
Proceeds of long-term debt	-	(143,573)	-	(146,501)
Repayment of long-term debt	(5,000,000)	-	(8,852,466)	-
Distributions paid to unitholders	(2,587,514)	(1,647,377)	(6,964,337)	(4,292,331)
Distributions paid to non-controlling interest	(991,486)	(1,115,362)	(3,140,739)	(3,245,193)
	3,685,052	6,086,688	25,271,547	18,582,199
<b>Investing activities</b>				
Business acquisitions (note 4)	(3,175,717)	(1,177,746)	(24,856,292)	(15,199,333)
Deposits on future business acquisitions	(55,000)	(6,200,000)	(1,882,298)	(6,200,000)
Purchase of property and equipment	(678,585)	(722,757)	(2,542,137)	(1,707,943)
Intangible assets	-	-	-	-
Pre-opening costs	(93,475)	(106,354)	(458,766)	(216,553)
Repayment from (investment in) equity investee	-	5,538	-	65,512
	(4,002,776)	(8,201,319)	(29,739,493)	(23,258,317)
<b>Increase (decrease) in cash and cash equivalents</b>	(6,878)	(93,893)	(364,582)	(6,780)
<b>Cash and cash equivalents balance, beginning of period</b>	1,689,696	265,785	2,047,400	178,672
<b>Cash and cash equivalents balance, end of period</b>	1,682,818	171,892	1,682,818	171,892
<b>Supplementary information</b>				
Interest paid	456,964	142,664	893,595	390,224

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

September 30, 2006

(unaudited)

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## 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 September 30, 2006, Liquor Stores LP operated 92 (September 30, 2005 – 65) retail liquor stores in Alberta and 7 (September 30, 2005 -3) 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 \$1,756,582, resulting in net proceeds of \$30,643,418. The Fund used the net proceeds from the issuance to acquire new stores as described in notes 4 and 13, develop new stores, repay existing indebtedness and for general corporate purposes.

## 4 Business acquisitions

During the quarter ended September 30, 2006, the Fund completed the acquisition of 11 retail liquor store businesses. 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 Fund has not yet finalized the allocation of the purchase cost for the acquisitions. The preliminary allocation of the purchase cost is based on management's best estimate and information available at the time of preparing these consolidated financial statements and any changes may be material.

# Liquor Stores Income Fund

## Notes to Interim Consolidated Financial Statements

September 30, 2006

(unaudited)

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

	\$
Property and equipment	1,378,145
Goodwill	11,283,343
Intangible assets	58,997
	12,720,485
Net working capital	2,113,622
Deposits made prior to June 30, 2006	<u>(11,658,390)</u>
Cash paid	<u>3,175,717</u>

### 5 Deposits on future business acquisitions

At September 30, 2006 the Fund had tendered deposits for 5 retail liquor stores in the amount of \$1,882,298 (December 31, 2006 – nil). In addition, deposits for inventory and working capital in the amount of \$590,061 were included in prepaid expenses and deposits at September 30, 2006. Subsequent to September 30, 2006, the Fund drew down the future business acquisitions deposits by \$927,469 and inventory and working capital deposits by \$307,497 through the acquisition of 2 stores.

### 6 Bank indebtedness and long-term debt

#### Bank Indebtedness

The Fund has an available \$32 million operating line, with a seasonal bulge to \$38 million between October 1 and February 28. Interest on bank indebtedness is payable at the lender's prime rate. As at September 30, 2006, the bank indebtedness rate of interest was 6% (December 31, 2005 – 5.25%) and \$30,965,171 was drawn on the operating line.

#### Long-term debt

Long-term debt consists of a \$14.5 million capital asset loan established to assist in financing existing capital assets of the Fund. Interest on long-term debt is payable at the bank's prime rate plus 0.25%. As of September 30, 2006 the effective long-term debt rate of interest was 6.25% (December 31, 2005 – 5.50%). Subsequent to September 30, 2006, \$2.5 million was repaid.

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.

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

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## 7 Related party transactions

During the three and nine month periods ended September 30, 2006, the Fund incurred professional fees of \$109,032 and \$155,695 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 \$21,604 and \$75,479 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 \$36,246 and \$95,317 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 \$1,375 (December 2005 - \$94,848) relating to these transactions.

## 8 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	1,756,582	30,643,418
Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the nine months ended September 30, 2006	848,637	-	8,391,311
Balance – September 30, 2006	<u>8,628,320</u>	<u>8,275,346</u>	<u>106,024,795</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 nine months ended September 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

Cash available for distribution to unitholders is after cash required for maintenance capital expenditures, working capital reserve, and other reserves considered advisable by the Trustees of the Fund. Distributions totalling \$2,588,282 (\$0.30 per Fund Unit) were declared by the Fund for the quarter ended September 30, 2006. Of the distributions declared during the quarter, \$1,725,450 were paid and \$862,832 were payable as of

# Liquor Stores Income Fund

## Notes to Interim Consolidated Financial Statements

September 30, 2006

(unaudited)

September 30, 2006. Distributions of \$2,587,514 were paid during the quarter, which included \$862,064 of distributions that were declared and payable as of June 30, 2006.

### 9 Non-controlling interest

#### Exchangeable and Subordinated Unitholders

	Liquor Stores LP Exchangeable LP Units	Liquor Stores LP Subordinated LP Units	Total
	#	#	#
<b>Liquor Stores Limited Partnership</b>			
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 nine months ended September 30, 2006	(848,637)	-	(848,637)
Balance – September 30, 2006	1,176,680	2,125,000	3,301,680
Fund Special Voting Units	1,176,680	2,125,000	3,301,680
	\$	\$	\$
Balance – December 31, 2005	20,351,876	21,348,354	41,700,230
Fund Special Voting Units – Amount	-	-	-
Earnings	1,027,276	1,826,268	2,853,544
Units exchanged for Fund Units	(8,391,311)	-	(8,391,311)
Distributions declared (note 11)	(1,230,907)	(1,912,500)	(3,143,407)
	11,756,934	21,262,122	33,019,056
<b>Subsidiaries</b>			
Balance – December 31, 2005			-
Acquisitions during the period			70,992
Earnings			30,271
Balance - September 30, 2006			101,263
<b>Total</b>			<b>33,120,319</b>



# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

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## Distributions payable to exchangeable and subordinated unitholders non-controlling interest

Cash available for distribution to non-controlling interest is after cash required for maintenance capital expenditures, working capital reserve, and other reserves considered advisable by the Trustees of the Fund. Distributions totalling \$353,218 (\$0.30 per Exchangeable LP Unit) and \$637,500 (\$0.30 per Subordinated LP Unit) were declared by the Fund for the quarter ended September 30, 2006. Of the distributions declared during the quarter, \$235,550 was paid and \$755,168 was payable as of September 30, 2006. Distributions of \$991,486 were paid during the quarter, which included \$755,936 of distributions that were declared and payable as of June 30, 2006.

## 10 Earnings per Unit

	September 30, 2006 (3 months) \$	September 30, 2005 (3 months) \$	September 30, 2006 (9 months) \$	September 30, 2005 (9 months) \$
Net Earnings (Numerator utilized in basic earnings per unit)	3,332,213	1,763,798	6,887,354	3,896,210
Non-controlling interest	1,345,342	1,202,077	2,883,814	2,739,683
Earnings (Numerator utilized in diluted earnings per unit)	4,677,555	2,965,875	9,771,168	6,635,893
Earnings per unit - basic	\$0.39	\$0.29	\$0.86	\$0.68
- diluted	\$0.39	\$0.29	\$0.85	\$0.67
Equivalent units outstanding, beginning of period	8,626,183	6,130,000	6,179,683	4,300,000
Weighted average of equivalent units issued	1,742	7,126	1,782,922	1,423,500
Denominator utilized in basic earnings per unit	8,627,925	6,137,126	7,962,605	5,723,500
Exchangeable and Subordinated units	3,302,075	4,192,874	3,533,695	4,197,599
Denominator utilized in diluted earnings per unit	11,930,000	10,330,000	11,496,300	9,921,099

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

September 30, 2006

(unaudited)

## 11 Distributions

Date distribution declared	Date distribution paid	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	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	862,064	755,936	755,936	1,618,000	1,618,000
July 14, 2006	August 15, 2006	862,618	862,618	117,882	117,882	980,500	980,500
August 15, 2006	September 15, 2006	862,832	862,832	117,668	117,668	980,500	980,500
September 15, 2006	October 16, 2006	862,832	-	755,168	-	1,618,000	-
		7,273,593	6,410,761	3,143,407	2,388,239	10,417,000	8,799,000

## 12 Seasonal nature of the business

The Fund's results for the third quarter and first nine 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.

## 13 Subsequent events

Subsequent to September 30, 2006, the Fund completed the acquisition of 3 retail liquor store businesses. The aggregate purchase price (including inventory) for the acquisitions was approximately \$3.2 million 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.

On October 2, 2006 the Fund issued 1,600,000 Fund Units at \$22.30 per Fund Unit for aggregate proceeds of \$35,680,000. The cost of issuance of the units was \$1,888,607, resulting in net proceeds of \$33,791,393. The Fund will use the net proceeds from the issuance to temporarily repay bank indebtedness and for future liquor store acquisitions and development.

# **Liquor Stores Income Fund**

Notes to Interim Consolidated Financial Statements

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(unaudited)

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## **14 Comparative figures**

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