Liquor Stores Income Fund

Consolidated Financial Statements
(Unaudited)
September 30, 2004

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 Statement of Earnings and Cumulative Earnings

(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 Statement of Cash Flows
(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.