LIQUOR STORES INCOME FUND

Quarterly Report

For the period from August 10, 2004

to September 30, 2004

(including business operations from September 28 – September 30, 2004)

November 12, 2004

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 subisidaries 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.