

Liquor Stores Income Fund

Consolidated Financial Statements
March 31, 2005

Liquor Stores Income Fund

Consolidated Balance Sheets

	March 31, 2005 (unaudited)	December 31, 2004
Assets	\$	\$
Current assets		
Cash and cash equivalents	10,198,704	178,672
Accounts receivable	658,611	666,130
Inventory	23,686,807	20,676,416
Prepaid expenses and deposits	421,774	413,585
	<u>34,965,896</u>	<u>21,934,803</u>
Pre-opening costs	244,129	164,954
Equity investment	392,145	432,728
Property and equipment	15,622,458	12,184,265
Future income taxes	12,900	14,000
Intangible assets	385,016	406,466
Goodwill	74,417,304	66,943,639
	<u>126,039,848</u>	<u>102,080,855</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 4)	7,444,907	11,397,240
Accounts payable and accrued liabilities	2,009,974	1,629,896
Distributions payable to unitholders (note 7)	510,629	358,190
Distributions payable to non-controlling interest (note 8)	703,885	721,523
	<u>10,669,395</u>	<u>14,106,849</u>
Long-term debt (note 6)	7,481,439	7,397,917
Non-controlling interest (note 8)	41,741,729	42,376,480
Unitholders' Equity		
Unitholders' equity (note 7)		
Fund units	66,493,494	37,814,172
Cumulative earnings		
Cumulative earnings	880,800	1,495,705
Distributions declared (note 9)	(1,227,009)	(1,110,268)
	<u>(346,209)</u>	<u>385,437</u>
	<u>66,147,285</u>	<u>38,199,609</u>
	<u>126,039,848</u>	<u>102,080,855</u>

Liquor Stores Income Fund

Consolidated Statement of Earnings and Cumulative Earnings

For the period from January 1, 2005 to March 31, 2005

	\$
Sales	26,818,724
Cost of sales	<u>20,898,410</u>
Gross margin	<u>5,920,314</u>
Expenses	
Operating	3,513,976
Administrative	877,818
Amortization of property and equipment	274,803
Acquisition and store development	115,966
Amortization of intangible assets	<u>21,450</u>
	<u>4,804,013</u>
Earnings from operations	1,116,301
Interest expense	<u>(206,109)</u>
Earnings before non-controlling interest	910,192
Non-controlling interest	<u>(414,829)</u>
Net earnings for the period	495,363
Cumulative earnings, beginning of period	<u>385,437</u>
Cumulative earnings, end of period	<u>880,800</u>
Basic and diluted earnings per unit (note 7)	<u>0.10</u>

Liquor Stores Income Fund

Consolidated Statement of Cash Flows

For the period from January 1, 2005 to March 31, 2005

\$

Cash provided by (used in)

Operating activities

Net earnings for the period	495,363
Items not affecting cash	
Amortization	296,253
Future income taxes	1,100
Equity income	(2,857)
Accrued interest	151,946
Non-controlling interest	414,829

1,356,634

Net change in non-cash working capital items

887,516

2,244,150

Financing activities

Net proceeds from the issuance of Units	28,679,322
Bank indebtedness	(4,020,757)
Distributions paid to unitholders	(1,074,570)
Distributions paid to non-controlling interest	(1,067,218)

22,516,777

Investing activities

Business acquisitions (note 3)	(14,026,372)
Purchase of property and equipment	(678,788)
Pre-opening costs	(79,175)
Repayment from equity investee	43,440

(14,740,895)

Increase in cash and cash equivalents

10,020,032

Cash and cash equivalents balance, beginning of period

178,672

Cash and cash equivalents balance, end of period

10,198,704

Supplementary information

Interest paid

54,163

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

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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.

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, 2004. 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, 2004.

3 Issuance of Units and business acquisitions

On March 2, 2005, the Fund issued 1,830,000 Fund Units at \$16.40 per Fund Unit for aggregate proceeds of \$30,012,000. The cost of issuance of the units was \$1,332,678, resulting in net proceeds of \$28,679,322. The Fund used the net proceeds from the issuance to acquire 13 new stores, to repay existing indebtedness and for general corporate purposes.

The acquisitions of the new stores have been accounted for using the purchase method.

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

	\$
Property and equipment	3,034,208
Goodwill	<u>7,473,665</u>
	10,507,873
Net working capital	<u>3,518,499</u>
Cash paid	<u>14,026,372</u>

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4 Bank indebtedness

The Fund has credit facilities with a Canadian chartered bank consisting of:

	\$
Operating line	960,113
Bankers' acceptance	6,361,633
Accretion	<u>123,161</u>
	<u>7,444,907</u>

The bank indebtedness is 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. Interest is payable at the lender's prime rate plus 0.25% or at the banker's acceptance rate plus 1.50%. As of March 31, 2005, bank indebtedness consists of bankers' acceptances of \$6,500,000 at an effective rate of 4.34% which matures on April 18, 2005.

5 Related party transactions

During the period, the Fund incurred professional fees of \$68,465 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 \$20,298. Included in accounts payable and accrued liabilities is \$48,995 relating to these transactions.

Included in accounts payable and accrued liabilities is \$329,833 in amounts owing to the Vendors related to the acquisition of the assets at the time of the IPO. No interest is charged on these amounts.

6 Long-term debt

	\$
Non-revolving bank loan	
Bankers' acceptance	7,331,099
Accretion	<u>150,340</u>
	<u>7,481,439</u>

Interest is payable at the lender's prime rate plus 0.50% or at the bankers' acceptance rate plus 1.75%. As of March 31, 2005 long-term debt consisted of a bankers' acceptance at an effective rate of 4.59%, which matures on April 18, 2005 for \$7,500,000. The loan does not require principal repayments and is due on April 29, 2006. Interest expense on long-term debt is \$83,522.

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The long-term debt is 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.

7 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs \$	Net capital contributions \$
Units issued on initial public offering	4,300,000	5,185,828	37,814,172
Units issued on March 2, 2005 (note 3)	1,830,000	1,332,678	28,679,322
	<hr/>	<hr/>	<hr/>
Fund Units	6,130,000	6,518,506	66,493,494

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.

The per trust unit amounts for 2005 were calculated based on the weighted average number of units outstanding as of March 31, 2005. The weighted average number of units outstanding is 4,910,000.

Distributions payable to Unitholders

Distributions to Unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$1,227,009 (\$0.2499 per Fund Unit) were declared by the Fund for the period ended March 31, 2005. Of the distributions declared during the period, \$716,380 were paid and \$510,629 were payable as of March 31, 2005. Distributions of \$1,074,570 were paid during the period, which included \$358,190 of distributions that were declared and payable as of December 31, 2004.

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8 Non-controlling interest

	Liquor Stores LP Exchangeable LP Units #	Liquor Stores LP Subordinated LP Units #	Total #
Number of Units	2,075,000	2,125,000	4,200,000
Fund Special Voting Units	2,075,000	2,125,000	4,200,000
	\$	\$	\$
Opening balance	20,935,999	21,440,481	42,376,480
Fund Special Voting Units – Amount	-	-	-
Non-controlling interest	204,945	209,884	414,829
Distributions declared	(518,543)	(531,037)	(1,049,580)
	20,622,401	21,119,328	41,741,729

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 \$518,543 (\$0.2499 per Exchangeable LP Unit) and \$531,037 (\$0.2499 per Subordinated LP Unit) were declared by the Fund for the period ended March 31, 2005. Of the distributions declared during the period, \$345,695 were paid and \$703,885 were payable as of March 31, 2005. Distributions of \$1,067,218 were paid during the period, which included \$721,523 of distributions that were declared and payable as of December 31, 2004.

9 Distributions

Date distribution declared	Date distribution paid	Fund Units		Exchangeable LP Units and Subordinated LP Units		Total	
		Declared \$	Paid \$	Declared \$	Paid \$	Declared \$	Paid \$
January 18, 2005	February 15, 2005	358,190	358,190	172,848	172,848	531,038	531,038
February 16, 2005	March 15, 2005	358,190	358,190	172,847	172,847	531,037	531,037
March 18, 2005	April 15, 2005	510,629	-	703,885	-	1,214,514	-
		1,227,009	716,380	1,049,580	345,695	2,276,589	1,062,075

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10 Seasonal nature of the business

The Fund's results for the first quarter of 2005 are not necessarily indicative of the results that maybe expected for the full year due to seasonal variations in sales levels. The Fund historically experiences a higher level of sales during the fourth quarter, while the first quarter experiences lower sales levels due to seasonal shopping patterns. Occupancy related expenses; general and administrative expense, amortization and interest expense remain relatively steady throughout the year.