

Liquor Stores Income Fund

Consolidated Financial Statements
June 30, 2005

Liquor Stores Income Fund

Consolidated Balance Sheets

| | June 30, 2005 | December 31, 2004 |
|--|--------------------------|------------------------------|
| | \$ | \$ |
| | (Unaudited) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 265,785 | 178,672 |
| Accounts receivable | 796,729 | 666,130 |
| Inventory | 25,953,905 | 20,676,416 |
| Prepaid expenses and deposits | 344,503 | 413,585 |
| | <hr/> | <hr/> |
| | 27,360,922 | 21,934,803 |
| Pre-opening costs | 257,845 | 164,954 |
| Equity investment | 380,102 | 432,728 |
| Property and equipment | 15,646,091 | 12,184,265 |
| Future income taxes | 4,200 | 14,000 |
| Intangible assets | 363,566 | 406,466 |
| Goodwill | 74,412,302 | 66,943,639 |
| | <hr/> | <hr/> |
| | 118,425,028 | 102,080,855 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | - | 11,397,240 |
| Accounts payable and accrued liabilities | 1,703,527 | 1,629,896 |
| Distributions payable to unitholders (note 6) | 549,125 | 358,190 |
| Distributions payable to non-controlling interest (note 7) | 743,606 | 721,523 |
| | <hr/> | <hr/> |
| | 2,996,258 | 14,106,849 |
| Long-term debt (note 5) | <hr/> | <hr/> |
| | 7,500,000 | 7,397,917 |
| Non-controlling interest (note 7) | <hr/> | <hr/> |
| | 41,762,174 | 42,376,480 |
| Unitholders' Equity | | |
| Unitholders' equity (note 6) | | |
| Fund units | <hr/> | <hr/> |
| | 66,484,636 | 37,814,172 |
| Cumulative earnings | | |
| Cumulative earnings | 2,517,849 | 1,495,705 |
| Distributions declared (note 9) | (2,835,889) | (1,110,268) |
| | <hr/> | <hr/> |
| | (318,040) | 385,437 |
| | <hr/> | <hr/> |
| | 66,166,596 | 38,199,609 |
| | <hr/> | <hr/> |
| | 118,425,028 | 102,080,855 |

Liquor Stores Income Fund

Consolidated Statement of Earnings and Cumulative Earnings
For the period from January 1, 2005 to June 30, 2005

| | Three-month period ended June 30, 2005 \$ (Unaudited) | Six-month period ended June 30, 2005 \$ (Unaudited) |
|--|--|--|
| Sales | 38,505,474 | 65,324,198 |
| Cost of sales | 29,958,759 | 50,857,170 |
| Gross margin | 8,546,715 | 14,467,028 |
| Expenses | | |
| Operating | 4,340,442 | 7,854,418 |
| Administrative | 889,313 | 1,767,130 |
| Amortization of property and equipment | 282,981 | 557,784 |
| Acquisition and store development | 88,933 | 204,899 |
| Amortization of intangible assets | 21,450 | 42,900 |
| Amortization of pre-opening costs | 17,308 | 17,308 |
| | 5,640,427 | 10,444,439 |
| Earnings before the undernoted | 2,906,288 | 4,022,589 |
| Interest | | |
| Bank indebtedness | (56,651) | (179,238) |
| Long-term debt | (89,811) | (173,333) |
| | (146,462) | (352,571) |
| Earnings before non-controlling interest | 2,759,826 | 3,670,018 |
| Non-controlling interest | (1,122,777) | (1,537,606) |
| Net earnings for the period | 1,637,049 | 2,132,412 |
| Cumulative earnings – Beginning of period | 880,800 | 385,437 |
| Cumulative earnings – End of period | 2,517,849 | 2,517,849 |
| Basic earnings per unit (note 8) | 0.27 | 0.39 |
| Diluted earnings per unit (note 8) | 0.27 | 0.38 |

Liquor Stores Income Fund

Consolidated Statement of Cash Flows

For the period from January 1, 2005 to June 30, 2005

| | Three-month period ended June 30, 2005 \$ (Unaudited) | Six-month period ended June 30, 2005 \$ (Unaudited) |
|---|--|--|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net earnings for the period | 1,637,049 | 2,132,412 |
| Items not affecting cash | | |
| Amortization | 321,739 | 617,992 |
| Future income taxes | 8,700 | 9,800 |
| Equity income | (4,491) | (7,348) |
| Accrued interest | 21,489 | 105,011 |
| Non-controlling interest | 1,122,777 | 1,537,606 |
| | <u>3,107,263</u> | <u>4,395,473</u> |
| Net change in non-cash working capital items | <u>(2,637,320)</u> | <u>(1,749,802)</u> |
| | <u>469,943</u> | <u>2,645,671</u> |
| Financing activities | | |
| Net proceeds from the issuance of Units | (8,858) | 28,670,464 |
| Bank indebtedness | (7,444,907) | (11,397,240) |
| Distributions paid to unitholders | (1,570,384) | (2,644,954) |
| Distributions paid to non-controlling interest | (1,062,611) | (2,129,830) |
| | <u>(10,086,760)</u> | <u>12,498,440</u> |
| Investing activities | | |
| Business acquisitions (note 3) | 5,002 | (14,021,587) |
| Purchase of property and equipment | (306,614) | (985,186) |
| Pre-opening costs | (31,024) | (110,199) |
| Repayment from equity investee | 16,534 | 59,974 |
| | <u>(316,102)</u> | <u>(15,056,998)</u> |
| (Decrease) increase in cash and cash equivalents | <u>(9,932,919)</u> | <u>87,113</u> |
| Cash and cash equivalents – Beginning of period | <u>10,198,704</u> | <u>178,672</u> |
| Cash and cash equivalents – End of period | <u>265,785</u> | <u>265,785</u> |
| Supplementary information | | |
| Interest paid | <u>193,397</u> | <u>247,560</u> |

Liquor Stores Income Fund

Notes to Consolidated Financial Statements
June 30, 2005

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 \$1,341,536, resulting in net proceeds of \$28,670,464. The Fund used the net proceeds from the issuance to acquire 13 stores, to repay existing bank indebtedness and for general corporate purposes.

The acquisitions of the 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 | 3,034,424 |
| Goodwill | <u>7,473,665</u> |
| | 10,508,089 |
| Net working capital | <u>3,518,283</u> |
| Cash paid | <u>14,026,372</u> |

Liquor Stores Income Fund

Notes to Consolidated Financial Statements
June 30, 2005

4 Related party transactions

During the three and six month period ended June 30, 2005, the Fund incurred professional fees of \$31,699 and \$100,164 respectively, to a law firm where one of the partners is a director of a subsidiary of the Fund. During the three and six month period June 30, 2005, the Fund paid rent to companies controlled by directors of a subsidiary of the Fund in the amount \$20,298 and \$40,596 respectively. Included in accounts payable and accrued liabilities is \$9,487 relating to these transactions.

5 Long-term debt

Interest is payable at the bank's prime rate plus 0.50%. As of June 30, 2005, the long-term debt rate of interest is 4.50%. The loan matures on January 31, 2006 for \$7,500,000. 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 January 30, 2007.

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.

6 Unitholders' equity

Fund Units

Units outstanding and capital contributions are as follows:

| | Number of unit # | 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 | 1,830,000 | 1,341,536 | 28,670,464 |
| | <hr/> | <hr/> | <hr/> |
| Fund Units | 6,130,000 | 6,527,364 | 66,484,636 |
| | <hr/> | <hr/> | <hr/> |

Liquor Stores Income Fund

Notes to Consolidated Financial Statements

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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.

Distributions payable to unitholders

Distributions to unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$1,608,880 (\$0.26246 per Fund Unit) were declared by the Fund for the quarter ended June 30, 2005. Of the distributions declared during the quarter, \$1,059,755 were paid and \$549,125 were payable as of June 30, 2005. Distributions of \$1,570,384 were paid during the quarter, which included \$510,629 of distributions that were declared and payable as of March 31, 2005.

7 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 | 759,651 | 777,955 | 1,537,606 |
| Distributions declared | (1,063,147) | (1,088,765) | (2,151,912) |
| | 20,632,503 | 21,129,671 | 41,762,174 |

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 \$544,604 (\$0.26246 per Exchangeable LP Unit) and \$557,728 (\$0.26246 per Subordinated LP Unit) were declared by the Fund for the quarter ended June 30, 2005. Of the distributions declared during the quarter, \$358,726 were paid and \$743,606 were payable as of June 30, 2005. Distributions of \$1,062,611 were paid during the quarter, which included \$703,885 of distributions that were declared and payable as of March 31, 2005.

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8 Earnings per Unit

| | 2005 | 2004 |
|--|-------------|-------------|
| | \$ | \$ |
| Net earnings (numerator utilized in basic earnings per Unit) | 1,637,049 | 2,132,412 |
| Non-controlling interest | 1,122,777 | 1,537,606 |
| | <hr/> | <hr/> |
| Earnings (numerator utilized in diluted earnings per Unit) | 2,759,826 | 3,670,018 |
| | <hr/> | <hr/> |
| Earnings per Unit | | |
| Basic | 0.27 | 0.39 |
| | <hr/> | <hr/> |
| Diluted | 0.27 | 0.38 |
| | <hr/> | <hr/> |
| Equivalent Units outstanding – Beginning of year | 6,130,000 | 4,300,000 |
| Weighted average of equivalent Units issued | - | 1,223,370 |
| | <hr/> | <hr/> |
| Denominator utilized in basic earnings per Unit | 6,130,000 | 5,523,370 |
| Exchangeable and Subordinated Units | 4,200,000 | 4,200,000 |
| | <hr/> | <hr/> |
| Denominator utilized in diluted earnings per Unit | 10,330,000 | 9,723,370 |
| | <hr/> | <hr/> |

9 Distributions

| | | 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 | 510,629 | 703,885 | 703,885 | 1,214,514 | 1,214,514 |
| April 15, 2005 | May 16, 2005 | 510,629 | 510,629 | 172,848 | 172,848 | 683,477 | 683,477 |
| May 16, 2005 | June 15, 2005 | 549,126 | 549,126 | 185,878 | 185,878 | 735,004 | 735,004 |
| June 16, 2005 | July 15, 2005 | 549,125 | - | 743,606 | - | 1,292,731 | - |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | | 2,835,889 | 2,286,764 | 2,151,912 | 1,408,306 | 4,987,801 | 3,695,070 |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

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10 Seasonal nature of the business

The Fund's results for the second 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 higher sales in the second quarter than the first quarter, while the second quarter typically experiences lower sales levels then the third and fourth quarters due to seasonal shopping patterns. Occupancy related expenses; general and administrative expense, amortization and interest expense remain relatively steady throughout the year.

