

# **Liquor Stores Income Fund**

Interim Consolidated Financial Statements  
**September 30, 2005**

# Liquor Stores Income Fund

## Interim Consolidated Balance Sheets

	September 30, 2005 (unaudited)	December 31, 2004
<b>Assets</b>	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	171,892	178,672
Accounts receivable	524,013	666,130
Inventory	27,408,116	20,676,416
Prepaid expenses and deposits	296,614	413,585
	<u>28,400,635</u>	<u>21,934,803</u>
<b>Pre-opening costs</b>	336,154	164,954
<b>Deposit on future business acquisitions (note 13)</b>	6,200,000	-
<b>Equity investment</b>	379,801	432,728
<b>Property and equipment</b>	16,204,584	12,184,265
<b>Future income taxes receivable</b>	-	14,000
<b>Intangible assets</b>	342,116	406,466
<b>Goodwill</b>	75,251,062	66,943,639
	<u>127,114,352</u>	<u>102,080,855</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 5)	8,993,000	11,397,240
Accounts payable and accrued liabilities	1,328,795	1,629,896
Distributions payable to unitholders (note 8)	552,445	358,190
Distributions payable to non-controlling interest (note 9)	753,652	721,523
	<u>11,627,892</u>	<u>14,106,849</u>
<b>Future income taxes payable</b>	9,100	-
<b>Long-term debt (note 7)</b>	7,358,800	7,397,917
<b>Non-controlling interest (note 9)</b>	41,470,603	42,376,480
	<u>66,852,876</u>	<u>37,814,172</u>
<b>Unitholders' Equity</b>		
<b>Unitholders' equity (note 8)</b>		
Fund units	66,852,876	37,814,172
<b>Cumulative earnings</b>		
Cumulative earnings	4,281,647	1,495,705
Distributions declared (note 11)	(4,486,566)	(1,110,268)
	<u>(204,919)</u>	<u>385,437</u>
	<u>66,647,957</u>	<u>38,199,609</u>
	<u>127,114,352</u>	<u>102,080,855</u>

# Liquor Stores Income Fund

## Interim Consolidated Statement of Earnings and Cumulative Earnings For the three and nine month periods ended September 30, 2005

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	Three Months Ended September 30, 2005 (unaudited)	Period from August 10, 2004 to September 30, 2004 (unaudited)	Nine Months Ended September 30, 2005 (unaudited)
	\$	\$	\$
Sales	41,434,078	806,759	106,758,276
Cost of sales	<u>32,168,167</u>	<u>649,995</u>	<u>83,025,337</u>
Gross margin	<u>9,265,911</u>	<u>156,764</u>	<u>23,732,939</u>
<b>Expenses</b>			
Operating	4,667,254	91,012	12,521,672
Administrative	982,847	43,813	2,749,977
Amortization of property and equipment	325,510	7,927	883,294
Acquisition and store development	106,555	-	311,454
Amortization of intangible assets	21,450	-	64,350
Amortization of pre-opening costs	<u>28,045</u>	<u>-</u>	<u>45,353</u>
	<u>6,131,661</u>	<u>142,752</u>	<u>16,576,100</u>
Earnings before the under-noted	3,134,250	14,012	7,156,839
<b>Interest</b>			
Interest expense on current debt	(102,992)	(10,835)	(282,230)
Interest expense on long-term debt	<u>(65,383)</u>	<u>(235)</u>	<u>(238,716)</u>
	<u>(168,375)</u>	<u>(11,070)</u>	<u>(520,946)</u>
Earnings before non-controlling interest	2,965,875	2,942	6,635,893
Non-controlling interest	<u>(1,202,077)</u>	<u>-</u>	<u>(2,739,683)</u>
Net earnings for the period	1,763,798	2,942	3,896,210
Cumulative earnings, beginning of period	<u>2,517,849</u>	<u>-</u>	<u>385,437</u>
Cumulative earnings, end of period	<u>4,281,647</u>	<u>2,942</u>	<u>4,281,647</u>
Basic earnings per unit (note 10)	\$0.29	\$0.00	\$0.68
Diluted earnings per unit (note 10)	\$0.29	\$0.00	\$0.67

# Liquor Stores Income Fund

## Interim Consolidated Statement of Cash Flows

For the three and nine month periods ended September 30, 2005

	Three Months Ended September 30, 2005 (unaudited)	Period from August 10, 2004 to September 30, 2004 (unaudited)	Nine Months Ended September 30, 2005 (unaudited)
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net earnings for the period	\$ 1,763,798	\$ 2,942	\$ 3,896,210
Items not affecting cash			
Amortization	375,005	7,927	992,997
Future income taxes	13,300	-	23,100
Equity income	(5,237)	-	(12,585)
Accrued interest	25,711	-	130,722
Non-controlling interest	1,202,077	-	2,739,683
	<u>3,374,654</u>	<u>10,869</u>	<u>7,770,127</u>
Net change in non-cash working capital items	<u>(1,353,916)</u>	<u>476,182</u>	<u>(3,100,789)</u>
	<u>2,020,738</u>	<u>487,051</u>	<u>4,669,338</u>
<b>Financing activities</b>			
Net proceeds from the issuance of Units (note 3)	-	38,420,000	28,670,464
Bank indebtedness	8,993,000	13,180,549	(2,404,240)
Long-term debt	(143,573)	7,500,000	(146,501)
Due from vendors	-	(1,260,113)	-
Distributions paid to unitholders	(1,647,377)	-	(4,292,331)
Distributions paid to non-controlling interest	(1,115,362)	-	(3,245,193)
	<u>6,086,688</u>	<u>57,840,436</u>	<u>18,582,199</u>
<b>Investing activities</b>			
Business acquisitions (note 4)	(1,177,746)	(56,196,253)	(15,199,333)
Deposit on future business acquisitions	(6,200,000)	-	(6,200,000)
Purchase of property and equipment	(722,757)	(1,824)	(1,707,943)
Pre-opening costs	(106,354)	-	(216,553)
Repayment from equity investee	5,538	-	65,512
	<u>(8,201,319)</u>	<u>(56,198,077)</u>	<u>(23,258,317)</u>
<b>Increase (Decrease) in cash and cash equivalents</b>	<u>(93,893)</u>	<u>2,129,410</u>	<u>(6,780)</u>
<b>Cash and cash equivalents balance, beginning of period</b>	<u>265,785</u>	<u>-</u>	<u>178,672</u>
<b>Cash and cash equivalents balance, end of period</b>	<u>171,892</u>	<u>2,129,410</u>	<u>171,892</u>
<b>Supplementary information</b>			
Interest paid	<u>142,664</u>	<u>11,070</u>	<u>390,224</u>

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

September 30, 2005

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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

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 new stores as described in Note 4, to repay existing indebtedness and for general corporate purposes.

## 4 Business acquisitions

During the nine month period ended September 30, 2005, the Fund completed the acquisition of 14 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.

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

	\$
Property and equipment	3,195,665
Goodwill and intangibles	<u>8,307,423</u>
	11,503,088
Net working capital	<u>3,696,245</u>
Cash paid	<u>15,199,333</u>

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements

September 30, 2005

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## 5 Bank indebtedness

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%.

## 6 Related party transactions

During the three and nine month period ended September 30, 2005, the Fund incurred professional fees of \$17,137 and \$118,014, respectively, to a law firm where one of the partners is a director of a subsidiary of the Fund. During the three and nine month period ended September 30, 2005, the Fund paid rent to companies controlled by directors of a subsidiary of the Fund in the amount \$20,298 and \$60,894, respectively. During the three and nine month period ended September 30, 2005, 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, in the amount \$19,122 and \$30,650, respectively. These transactions have been recorded at the exchange amount, which is the fair market value. Included in accounts payable and accrued liabilities is \$14,214 relating to these transactions.

## 7 Long-term debt

Interest is payable at the bank's prime rate plus 0.50%. As of September 30, 2005, the effective long-term debt rate of interest was 5.00%. The loan matures on April 30, 2006. 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 April 29, 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.

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements  
September 30, 2005

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## 8 Unitholders' equity

### Fund Units

Units outstanding and capital contributions are as follows:

	Number of units #	Issue costs \$	Net capital contributions \$
Balance – December 31, 2004	4,300,000	5,185,828	37,814,172
Units issued on March 2, 2005	1,830,000	1,341,536	28,670,464
Units issued on exchange of Liquor Stores LP Exchangeable LP Units during the quarter ended September 30, 2005	36,824	-	368,240
Balance – September 30, 2005	6,166,824	6,527,364	66,852,876

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 quarter ended September 30, 2005 were issued at the carrying amount of the Liquor Stores LP Exchangeable LP Units as per EIC-151.

### Distributions payable to Unitholders

Distributions to Unitholders are determined based on earnings, before amortization, but reduced by capital expenditures. Distributions totalling \$1,650,677 (\$0.26874 per Fund Unit) were declared by the Fund for the quarter ended September 30, 2005. Of the distributions declared during the quarter, \$1,098,252 were paid and \$552,425 were payable as of September 30, 2005. Distributions of \$1,647,377 were paid during the quarter, which included \$549,125 of distributions that were declared and payable as of June 30, 2005.

# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements  
September 30, 2005

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## 9 Non-controlling interest

	Liquor Stores LP Exchangeable LP Units	Liquor Stores LP Subordinated LP Units	Total
	#	#	#
Balance – December 31, 2004	2,075,000	2,125,000	4,200,000
Redemption of Liquor Stores LP Exchangeable LP Units for Fund Units during the quarter ended September 30, 2005	(36,824)	-	(36,824)
Balance – September 30, 2005	2,038,176	2,125,000	4,163,176
Fund Special Voting Units	2,038,176	2,125,000	4,163,176
	\$	\$	\$
Opening balance	20,935,999	21,440,481	42,376,480
Fund Special Voting Units – Amount	-	-	-
Earnings	1,352,741	1,386,942	2,739,683
Units exchanged for Fund Units	(368,240)	-	(368,240)
Distributions declared (Note 11)	(1,617,484)	(1,659,836)	(3,277,320)
	20,303,016	21,167,587	41,470,603

### 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 \$544,337 (\$0.26874 per Exchangeable LP Unit) and \$571,071 (\$0.26874 per Subordinated LP Unit) were declared by the Fund for the quarter ended September 30, 2005. Of the distributions declared during the quarter, \$371,756 were paid and \$753,652 were payable as of September 30, 2005. Distributions of \$1,115,362 were paid during the quarter, which included \$743,606 of distributions that were declared and payable as of June 30, 2005.



# Liquor Stores Income Fund

Notes to Interim Consolidated Financial Statements  
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## 10 Earnings per Unit

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net earnings (Numerator utilized in basic earnings per unit)	\$ 1,763,798	\$ 3,896,210
Non-controlling interest	1,202,077	2,739,683
Earnings (Numerator utilized in diluted earnings per unit)	<u>2,965,875</u>	<u>6,635,893</u>
Earnings per unit - basic	\$ 0.29	\$ 0.68
- diluted	\$ 0.29	\$ 0.67
Equivalent units outstanding, beginning of period	6,130,000	4,300,000
Weighted average of equivalent Units issued	7,126	1,423,500
Denominator utilized in basic earning per Unit	<u>6,137,126</u>	<u>5,723,500</u>
Exchangeable and Subordinated Units	4,192,874	4,197,599
Denominator utilized in diluted earning per Unit	<u>10,330,000</u>	<u>9,921,099</u>

## 11 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	549,125	743,606	743,606	1,292,731	1,292,731
July 15, 2005	August 15, 2005	549,126	549,126	185,878	185,878	735,004	735,004
August 15, 2005	September 15, 2005	549,126	549,126	185,878	185,878	735,004	735,004
September 15, 2005	October 17, 2005	552,425	-	753,652	-	1,306,077	-
		<u>4,486,566</u>	<u>3,934,141</u>	<u>3,277,320</u>	<u>2,523,668</u>	<u>7,763,886</u>	<u>6,457,809</u>

# **Liquor Stores Income Fund**

Notes to Interim Consolidated Financial Statements

**September 30, 2005**

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## **12 Seasonal nature of the business**

The Fund's results for the third 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 third and fourth quarters, while the first and second quarter typically experience 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.

## **13 Subsequent events**

Subsequent to September 30, 2005, the Fund completed the acquisitions of 4 retail liquor store businesses. The aggregate purchase price (including inventory) was approximately \$9,048,000 and was paid in cash from existing facilities and the proceeds from the issuance of Fund Units.

The purchase price will be allocated to the fair value of the acquired assets when determined.