

LIQUOR STORES INCOME FUND



April 10, 2007

Dear Unitholder of Liquor Barn Income Fund:

We are pleased to enclose the offer of Liquor Stores Income Fund to acquire all of the trust units of Liquor Barn Income Fund on the basis of 0.53 of a trust unit of Liquor Stores for each Liquor Barn trust unit. The terms and conditions of the offer are contained in the accompanying offer and takeover bid circular dated April 10, 2007. We urge you to review it and to act on this opportunity to receive a significant premium on your investment, and to continue to participate as a unitholder in the growth of a stronger and larger income trust.

A Significant Premium for Liquor Barn Unitholders of Approximately 34.6%

The exchange ratio of 0.53 of a Liquor Stores unit per Liquor Barn unit represents a value of \$11.30 per Liquor Barn unit and a premium of approximately 34.6%, based on the closing prices of the Liquor Stores units and the Liquor Barn units on the Toronto Stock Exchange (the "TSX") on April 9, 2007, the last trading day prior to the announcement of the offer, and a premium of approximately 35.7%, based on the volume weighted average trading prices of the Liquor Stores units and the Liquor Barn units on the TSX for the 20 trading days ended April 9, 2007. Liquor Barn unitholders are urged to obtain current market quotations for the Liquor Stores units and Liquor Barn units. We believe the premium we are offering represents a full and fair value for your Liquor Barn units.

An Increase in Cash Distributions and Improved Liquidity

Liquor Barn unitholders will realize an immediate 2.6% increase in their monthly cash distributions as, based on the exchange ratio of 0.53:1, Liquor Stores' current monthly distribution of \$0.125 per unit (\$1.50 annually) equates to a monthly distribution of \$0.06625 per Liquor Barn unit (\$0.795 annually) compared to Liquor Barn's current monthly distribution of \$0.0646 per unit (\$0.7752 annually). Liquor Barn unitholders should also benefit from improved liquidity of the combined larger income trust, which would have a combined market capitalization of approximately \$450 million (based on April 9, 2007 values), approximately 1.5 times the current market capitalization of Liquor Stores and almost four times that of Liquor Barn.

An Exceptional Strategic Fit, Creating the Leading Independent Liquor Retailer in Alberta and B.C. with a Strong Platform for Future Growth

The business operations of Liquor Stores and Liquor Barn are highly complementary and we believe that the rationale for the combination is compelling for the unitholders of both income trusts. The combination provides an excellent strategic fit and creates the leading independent liquor retailer in Alberta and British Columbia with an estimated combined market share of over 16% in Alberta and B.C. and approximately 19% in its core Alberta market. The combined entity will operate 176 liquor stores in Alberta and B.C., with pro forma revenue greater than \$320 million, providing a strong platform to pursue further growth opportunities.

Expanded "Safe Harbour" Equity Growth Amount

The combined fund will benefit from access to Liquor Stores' cumulative "safe harbour" equity growth amount of approximately \$235 million through 2010, of which approximately \$98 million is available in 2007, under the Federal Government's proposals to tax income trusts in its "Tax Fairness Plan". This compares to Liquor Barn's estimated remaining cumulative limit of approximately \$65 million after giving effect to its recent convertible debenture and trust unit offerings. Together, the two trusts will benefit from a combined cumulative "safe harbour" equity growth amount of approximately \$300 million through 2010.

Unitholder Participation in Value Creation Resulting From Acquisitions and New Store Development

The combined entity would discontinue Liquor Barn's practice of making related party acquisitions from Liquor Barn Devco Ltd. This will provide the public Liquor Barn unitholders with the opportunity to now participate fully in the growth and value creation from future store development and acquisitions.

Opportunity to Share in Synergies and Other Operational Benefits

The combination of both entities is expected to provide attractive opportunities to realize meaningful synergies through the elimination of redundant costs and the implementation of operational best practices. Based on cost estimates made by Liquor Barn's management at the time of its initial public offering, Liquor Stores' management estimates immediate cost savings of approximately \$1.5 million through the elimination of certain public company costs of Liquor Barn and duplicative head office and general and administration expenses. In addition, Liquor Stores' management believes that there is an attractive opportunity to enhance the operating margins of Liquor Barn, which are currently well below those of Liquor Stores, through the application of Liquor Stores' management expertise and operational best practices. Historically, Liquor Stores' operating margin as a percentage of sales has consistently and significantly exceeded that of Liquor Barn. See "Non-GAAP Measures" in the accompanying offer and circular.

An Experienced Senior Management Team with a Proven Track Record

The combined entity will benefit from the stability of Liquor Stores' senior management team, which has a proven record of operational excellence, successful integration of acquisitions, and delivery of value to unitholders. Since its initial public offering, the Liquor Stores unit price has increased 113% and has generated a total return of 148% including reinvestment of distributions. Over this period, management has successfully completed the acquisition and development of 55 stores, more than doubling the number of stores, and has increased distributions four times from \$1.00 per unit annualized to \$1.50 per unit annualized in aggregate, representing a 50% increase since the initial public offering.

Offer Supported by Liquor Barn's Second Largest Founding Unitholder Group

Mr. Terry Nyquvest and three other original founding unitholders of Liquor Barn, the "Spirits Liquor Mart Group", who management of Liquor Stores believe collectively represent the second largest unitholding in Liquor Barn with an aggregate of 808,942 Liquor Barn special voting units, or 5.8% of the currently outstanding Liquor Barn voting units, have entered into agreements with Liquor Stores to support the offer and merger.

An Opportunity to Defer Any Income Tax Gain

Through a merger alternative proposed by Liquor Stores, Liquor Barn unitholders will have the opportunity to exchange their Liquor Barn units for Liquor Stores units on a tax deferred "roll-over" basis for Canadian income tax purposes so as to defer the recognition of any gain (or loss) for Canadian income tax purposes.

The Need to Act

In order for the offer and merger to proceed, among other things, the number of Liquor Barn units held by Liquor Barn unitholders who elect to accept the offer or participate in the merger, together with the number of Liquor Barn units held as of 10:00 p.m. (Edmonton time) on May 17, 2007 by or on behalf of Liquor Stores or its subsidiaries, if any, together with any separately voted Liquor Barn voting units, must represent more than 66 2/3% of the then outstanding Liquor Barn voting units, unless the offer is withdrawn, varied or extended. As your Liquor Barn units are held in "book entry form" by the Canadian Depository for Securities Limited, in order to tender your Liquor Barn units to the offer, you will need to complete the documentation and follow the instructions provided by your broker or other nominee. For more information about the tendering process, please see Section 3 of the accompanying offer, "Manner of Acceptance".

Should you have any questions about the offer, please contact Georgeson Shareholder Communications Canada, Inc., the Information Agent for the offer, toll-free at 1-866-656-4120. Before you make your decision, you may also wish to consult your stockbroker or other financial advisor.

We hope you will give this offer your careful and immediate attention and that, like us, you are convinced of the benefits of combining these two income trusts into one larger and stronger entity, in addition to the significant premium you will immediately receive on your Liquor Barn units.

Yours sincerely,

LIQUOR STORES INCOME FUND

(signed) "Irv Kipnes"

Chief Executive Officer
Liquor Stores GP Inc.

This document is important and requires your immediate attention. If you are in any doubt as to how to deal with it, you should consult your investment dealer, stockbroker, bank manager, accountant, lawyer or other professional advisor. No securities commission or similar authority in Canada or the United States has in any way passed upon the merits of or approved or disapproved these securities. Any representation to the contrary is a criminal offence.

Information has been incorporated by reference in the Offer and Circular from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated by reference in the Offer and Circular may be obtained electronically at www.sedar.com, or on request and without charge from the Vice-President, Finance and Chief Financial Officer of Liquor Stores GP at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1 (Telephone: (780) 917 4179). For the purpose of the Province of Québec, the Offer and Circular contain information to be completed by consulting the permanent information record of the Offeror. A copy of this permanent information record may be obtained electronically at www.sedar.com or without charge from the Vice-President, Finance and Chief Financial Officer of Liquor Stores GP at the above-mentioned address and telephone number.

April 10, 2007

LIQUOR STORES INCOME FUND



OFFER TO PURCHASE

all of the outstanding trust units of

LIQUOR BARN INCOME FUND

on the basis of 0.53 of a trust unit of

Liquor Stores Income Fund for each trust unit of

Liquor Barn Income Fund (subject to adjustment as provided herein)

Liquor Stores Income Fund (the "**Offeror**" or "**Liquor Stores Fund**") hereby offers (the "**Offer**") to purchase, on and subject to the terms and conditions of the Offer, all of the outstanding trust units (the "**Liquor Barn Units**") of Liquor Barn Income Fund ("**Liquor Barn Fund**"), including Liquor Barn Units that may become outstanding after the date of the Offer upon the exercise of options, warrants or other conversion or exchange rights.

The Offer will be open for acceptance until 10:00 p.m. (Edmonton time) on May 17, 2007 (the "Expiry Time"), unless withdrawn, varied or extended.

The Offer includes a Merger Transaction (as herein defined) alternative pursuant to which holders of Liquor Barn Units will have the opportunity to exchange their Liquor Barn Units for trust units ("**Liquor Stores Units**") of the Offeror on a 0.53 for one basis on a tax-deferred "roll-over" basis for Canadian income tax purposes so as to defer the recognition of any gain (or loss) for Canadian income tax purposes.

The Offer is conditional upon, among other things, the following: (a) the number of Liquor Barn Units held by Electing Liquor Barn Unitholders (as herein defined), together with the number of Liquor Barn Units held as of the Expiry Time by or on behalf of the Offeror or its subsidiaries, if any, together with any separately voted Liquor Barn Voting Units (as herein defined), representing more than 66 2/3% of the then outstanding Liquor Barn Voting Units; and (b) the receipt of regulatory, stock exchange and third-party approvals on terms satisfactory to the Offeror, acting reasonably. The conditions of the Offer are described in Section 4 of the Offer, "**Conditions of the Offer**".

The Liquor Stores Units are listed and posted for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "LIQ.UN". The Liquor Barn Units are listed and posted for trading on the TSX under the symbol "LBN.UN". The closing prices of the Liquor Stores Units and the Liquor Barn Units on April 9, 2007, the last trading day prior to the announcement of the Offer, were \$21.33 and \$8.40, respectively.

THE OFFER REPRESENTS A VALUE OF \$11.30 PER LIQUOR BARN UNIT AND A PREMIUM OF APPROXIMATELY 34.6%, BASED ON THE CLOSING PRICES OF THE LIQUOR STORES UNITS AND THE LIQUOR BARN UNITS ON THE TSX ON APRIL 9, 2007 AND A PREMIUM OF APPROXIMATELY 35.7%, BASED ON THE VOLUME WEIGHTED AVERAGE TRADING PRICES OF THE LIQUOR STORES UNITS AND THE LIQUOR BARN UNITS ON THE TSX FOR THE 20 TRADING DAYS ENDED APRIL 9, 2007.

*Questions and requests for assistance
may be directed to the Information Agent
for the Offer:*

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario
M5J 2Y1

North American Toll Free Number:
1-866-656-4120

The Depositary for the Offer is:

CIBC MELLON TRUST COMPANY

199 Bay Street
Commerce Court West
Securities Level
Toronto, Ontario
M5L 1G9

Telephone: (416) 643-5500
Toll Free: 1-800-387-0825
E-Mail: inquiries@cibcmellon.com

The Dealer Manager for the Offer is:

RBC CAPITAL MARKETS

200 Bay Street, 4th Floor
Royal Bank Plaza, South Tower
Toronto, Ontario
M5J 2W7

Telephone: (416) 842-5596
Toll Free: 1-866-274-5613

In the accompanying Offer and Circular, unless otherwise specified, all references to "dollars" or "\$" are to Canadian dollars and all references to "US dollars" or "US\$" are to United States dollars.

No Person has been authorized to give any information or to make any representations in connection with the transactions other than those contained in the Offer and Circular and, if given or made, any such information or representations should be considered not to have been authorized by the Offeror.

Liquor Barn Unitholders should not construe the contents of the Offer and Circular as legal, tax or financial advice and should consult with their own professional advisors as to the relevant legal, tax, financial or other matters in connection therewith.

An investment in the Liquor Stores Units is subject to a number of risks that should be considered by an investor. See Section 17 of the Circular, "Risk Factors".

Registration of interests in and transfers of Liquor Barn Units may currently only be made through a book entry only system administered by CDS. As such, in order to tender their Liquor Barn Units to the Offer and make an Offer Election or a Merger Election, each as described herein, Liquor Barn Unitholders must complete the documentation and follow the instructions provided by their broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.

Questions regarding information contained in this Offer and Circular may be directed to the Information Agent, the Depositary or the Dealer Manager. Liquor Barn Unitholders may also contact their respective investment dealers, stockbrokers, bank managers, accountants, lawyers or other professional advisors for assistance. See also "Questions and Answers". Additional copies of the Offer and Circular may be obtained without charge on request from the Depositary.

Liquor Barn Unitholders should be aware that, during the currency of the Offer, the Offeror may, directly or indirectly, bid for and make purchases of Liquor Barn Units as permitted by applicable laws or regulations of Canada or its provinces or territories.

This document does not constitute an offer or a solicitation to any Person in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made to, nor will deposits be accepted from, or on behalf of, Liquor Barn Unitholders in any jurisdiction in which the making or acceptance of the Offer would not be in compliance with the laws of such jurisdiction. However, the Offeror or its agents may, in the sole discretion of the Offeror, take such action as the Offeror may deem necessary to extend the Offer to Liquor Barn Unitholders in such jurisdiction.

INFORMATION FOR U.S. LIQUOR BARN UNITHOLDERS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFER AND CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The Offer and the Merger are made for the securities of a Canadian trust. The Offer and the Merger are subject to Canadian disclosure requirements that are different from those of the United States. Financial statements of the Offeror included in the Offer and Circular, or incorporated by reference therein, as well as financial statements of Liquor Barn Fund, have been prepared in accordance with Canadian accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for Liquor Barn Unitholders in the U.S. to enforce their rights and any claim they may have arising under the U.S. federal securities laws, since the Offeror is located in a foreign country, and some or all of its officers (if any) and trustees and the officers and directors of Liquor Stores GP may be residents of a foreign country.

Liquor Barn Unitholders in the U.S. may not be able to sue the Offeror or its officers (if any) or trustees, or the officers or directors of Liquor Stores GP, in a foreign court for violations of the U.S. securities laws. It may be difficult to

compel a foreign trust and its affiliates, including its officers (if any) and trustees and the officers and directors of Liquor Stores GP to subject themselves to a U.S. court's judgment.

Liquor Barn Unitholders in the U.S. should be aware that the Offeror may purchase Liquor Barn Units otherwise than under the Offer, such as in open market or privately negotiated purchases.

Liquor Stores Units offered pursuant to the Offer and the Merger are being offered pursuant to an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended, provided by Rule 802 thereunder. No Liquor Stores Units will be delivered in the United States or to or for the account or for the benefit of a Person in the United States, unless the Offeror is satisfied that Liquor Stores Units may be delivered in the relevant jurisdiction without further action by the Offeror in reliance on such exemption or another exemption, or on a basis otherwise determined to be acceptable to the Offeror in its sole discretion. Ineligible Liquor Barn Unitholders who would otherwise receive Liquor Stores Units in exchange for their Liquor Barn Units may, at the sole discretion of the Offeror, have such Liquor Stores Units issued on their behalf to a selling agent, which shall, as agent for such Liquor Barn Unitholders, sell such Liquor Stores Units on their behalf over the facilities of the TSX and have the net proceeds of such sale, less any applicable withholding taxes, delivered to such Liquor Barn Unitholders.

Liquor Barn Unitholders should be aware that Liquor Stores Units issued pursuant to the Offer and the Merger will be "restricted securities" within the meaning of Rule 144 under the U.S. Securities Act of 1933, as amended, to the same extent and proportion that Liquor Barn Units tendered or exchanged or redeemed by the holder were restricted securities.

The tender of Liquor Barn Units under the Offer and the redemption or transfer of Liquor Barn Units under the Offer and the Merger may have tax consequences both in the United States and Canada. The consequences for holders who are resident in, or citizens of, the United States are not described in the Offer and Circular. Liquor Barn Unitholders are advised to consult their tax advisers to determine the particular tax consequences to them of acquiring the Liquor Stores Units.

Neither the fact that a registration statement or an application for a license has been filed under RSA 421-B with the state of New Hampshire nor the fact that a security is effectively registered or a Person is licensed in the state of New Hampshire constitutes a finding by the secretary of state that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any Person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of the foregoing.

FORWARD-LOOKING STATEMENTS

Certain statements in the Offer and Circular, and in certain documents incorporated by reference therein, are forward-looking statements, which reflect Liquor Stores GP management's current beliefs and expectations regarding the Offeror's and Liquor Stores LP's future growth, results of operations, performance, business prospects and opportunities. Such forward-looking statements are based on information currently available to management of Liquor Stores GP. Forward-looking statements involve significant risks and uncertainties. Many factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including industry risks associated with the retail liquor store business including: government regulation; competition; the Company'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 acquisitions; dependence on key personnel; supply interruption or delay; reliance on information and control systems; and dependence on capital markets to fund the Company's growth strategy beyond its available credit facilities. The risk factors also include risks associated with the structure of Liquor Stores Fund including: the dependence of Liquor Stores Fund on the Company; unpredictability and potential volatility of the trading price of the Liquor Stores Units including the effect of market interest rates on the price of Liquor Stores Units; the nature of the Liquor Stores Units; cash distributions are not guaranteed and will fluctuate with the Company's performance; the legal attributes of the Liquor Stores Units; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; the restrictions on the potential growth of the Company as a consequence of the payment by the Company of substantially all of its operating cash flow to Liquor Stores Fund; income tax related risks, including the risk of changes in the tax treatment of income trusts including those proposed in the 2006 Proposed Tax Changes; future sales of Liquor Stores Units by the holders of Liquor Stores Exchangeable LP Units and Liquor Stores

Subordinated LP Units; the right to approve certain material transactions by certain holders of Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units; investment eligibility of the Liquor Stores Units; the distribution of securities on redemption or termination of Liquor Stores Fund; and restrictions on non-resident Liquor Stores Unitholders and liquidity of Liquor Stores Units, among others. See Section 17 of the Circular, "Risk Factors". These factors should not be considered exhaustive. Although the forward-looking statements are based upon what Liquor Stores GP's management believes to be reasonable assumptions, the Offeror and Liquor Stores GP cannot assure investors that actual results will be consistent with these forward-looking statements. Such forward-looking statements are made as of the date of this Offer and Circular or as of the date specified in the documents incorporated by reference therein. Except as expressly otherwise required by law, neither the Offeror nor Liquor Stores GP assumes any obligation to update or revise such statements or any information contained in this Offer and Circular or to publicly release the results of any revisions to forward-looking statements to reflect new events, assumptions or circumstances that the Offeror or Liquor Stores GP may become aware of after the date of the Offer and Circular. Undue reliance should not be placed on forward-looking statements.

NOTICE TO HOLDERS OF LIQUOR BARN EXCHANGEABLE LP UNITS, LIQUOR BARN SUBORDINATED LP UNITS, LIQUOR BARN SPECIAL VOTING UNITS, LIQUOR BARN CONVERTIBLE DEBENTURES AND LIQUOR BARN OPTIONS

The Offer is made only for Liquor Barn Units and is not made for any Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Special Voting Units, Liquor Barn Convertible Debentures or Liquor Barn Options. Any holder of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options who wishes to accept the Offer should exercise the exchange, conversion or purchase rights associated with such securities in order to obtain Liquor Barn Units and deposit those Liquor Barn Units pursuant to the Offer. Any such exercise of exchange, conversion or purchase rights must be completed sufficiently in advance of the Expiry Time to ensure compliance with the procedures set forth in Section 3 of this Offer entitled "The Offer – Manner of Acceptance". If a holder of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options, as the case may be, does not exercise the exchange, conversion or purchase rights associated with such securities before the Expiry Time, such Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options, as the case may be, will remain outstanding in accordance with their terms and conditions. The tax consequences to holders of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures and Liquor Barn Options exercising their exchange, conversion or purchase rights are not described in this Offer or the Circular accompanying this Offer. Holders of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures and Liquor Barn Options should consult their tax advisors for advice with respect to potential income tax consequences to them in connection with the decision to exercise or not exercise the exchange, conversion or purchase rights associated with such securities. The Offer is also not made for Liquor Barn Special Voting Units. Liquor Barn Special Voting Units are issued in connection with or in relation to the Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units for the sole purpose of providing voting rights to the holders of such securities. See Section 6 of the Circular, "Certain Effects of the Offer".

RISK FACTORS

Although the Offeror intends to make distributions from its available cash to its unitholders, these cash distributions are not assured. The actual amount distributed will depend on numerous factors, including, among others, industry risks associated with the retail liquor store business including: government regulation; competition; the Company'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 acquisitions; dependence on key personnel; supply interruption or delay; reliance on information and control systems; and dependence on capital markets to fund the Company's growth strategy beyond its available credit facilities. The risk factors also include risks associated with the structure of Liquor Stores Fund including: the dependence of Liquor Stores Fund on the Company; unpredictability and potential volatility of the trading price of the Liquor Stores Units including the effect of market interest rates on the price of Liquor Stores Units; the nature of the Liquor Stores Units; cash distributions are not guaranteed and will fluctuate with the Company's performance; the legal attributes of the Liquor Stores Units; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; the restrictions on the potential growth of the Company as a consequence of the payment by the Company of substantially all of its operating cash flow to Liquor Stores Fund; income tax related risks, including the risk of changes in the tax treatment of income trusts including those proposed in the 2006 Proposed Tax Changes; future sales of Liquor Stores Units by the holders of Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units; the right to approve certain material

transactions by certain holders of Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units; investment eligibility of the Liquor Stores Units; the distribution of securities on redemption or termination of Liquor Stores Fund; and restrictions on non-resident Liquor Stores Unitholders and liquidity of Liquor Stores Units, among others. The market value of the Liquor Stores Units may deteriorate if the Offeror is unable to meet its cash distribution targets in the future, and that deterioration may be material. It is important for Liquor Barn Unitholders to consider the particular risk factors that may affect the industry in general and the business of Liquor Stores LP specifically, and therefore the stability of the distributions that are expected to be received, including, among others, the risks referred to above. See Section 17 of the Circular, "Risk Factors".

A return on an investment in Liquor Stores Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in the Liquor Stores Units by a Liquor Stores Unitholder is at risk, and the anticipated return on a Liquor Stores Unitholder's investment is based on certain performance assumptions. **Although Liquor Stores Fund intends to make distributions of its available cash to Liquor Stores Unitholders, these cash distributions are not guaranteed and may be reduced or suspended.** The ability of Liquor Stores Fund to make cash distributions and the actual amount distributed will depend on numerous factors disclosed in Liquor Stores Fund's continuous disclosure documents, including its financial performance, its debt covenants and obligations, working capital requirements and future capital requirements. In addition, the market value of the Liquor Stores Units may decline if Liquor Stores Fund is unable to meet its cash distribution targets in the future, and that decline may be significant. It is important for a person making an investment in Liquor Stores Units to consider the particular risk factors that may affect both Liquor Stores Fund and the industry in which Liquor Stores Fund, through its subsidiaries, operates and that may therefore affect the stability of the cash distributions on the Liquor Stores Units. See the risks described in the Offeror's AIF and management's discussion and analysis that are incorporated by reference herein, which describe Liquor Stores Fund's assessment of those risk factors, as well as the potential consequences to a holder if a risk should occur. See Section 17 of the Circular, "Risk Factors".

The after tax return to holders from an investment in Liquor Stores Units will depend, in part, on composition for income tax purposes of distributions paid by Liquor Stores Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital. That composition may change over time, thus affecting a holder's after tax return. Returns on capital are generally taxed as ordinary income or as dividends in the hands of the holder. Returns of capital are generally tax deferred (and reduce a holder's cost base in the Liquor Stores Unit for tax purposes). See Section 18 of the Circular, "Canadian Federal Income Tax Considerations".

NON-GAAP MEASURES

References in the Offer and Circular and the documents incorporated by reference therein to:

- "operating margin" are to net earnings before provision for interest, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest; and
- "distributable cash" are to cash available for distribution to Liquor Stores Unitholders in accordance with the distribution policies of the Offeror described in the Offeror's AIF.

Operating margin and distributable cash are measures that are not recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, operating margin and distributable cash may not be comparable to similar measures presented by other issuers including Liquor Barn Fund. Investors are cautioned that operating margin and distributable cash should not be construed as alternatives to net income or loss determined in accordance with GAAP as indicators of Liquor Barn Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. For a reconciliation of cash provided by operating activities to distributable cash, see the table on page 3 of the Offeror's management's discussion and analysis of financial condition and results of operation for the year ended December 31, 2006, which reconciliation is incorporated by reference herein.

INFORMATION CONCERNING LIQUOR BARN FUND

As of the date of the Offer and Circular the Offeror has not had access to the non-public books and records of Liquor Barn Fund and the Offeror is not in a position to independently assess or verify the information in Liquor Barn Fund's publicly filed documents, including its financial statements. As a result, all historical information regarding Liquor Barn Fund contained

herein, including all Liquor Barn Fund financial information and all pro forma financial information reflecting the pro forma effects of a combination of Liquor Barn Fund and the Offeror derived in part from Liquor Barn Fund's financial information, has been derived by necessity from Liquor Barn Fund's public reports and securities filings. See Section 17 of the Circular, "Risk Factors – Verification of Liquor Barn Fund Information in the Offer and Circular".

DISCLAIMER

The statements made in the Offer and in the Circular are, to the extent they are the responsibility of the Offeror's Trustees, the responsibility of the Offeror's Trustees in their capacity as trustees and not in their personal capacity, and, except as expressly otherwise required by law, in no event shall such trustees be personally liable for any statements contained therein nor shall resort be had to, or redress, recourse or satisfaction result from, the private and/or personal property of the Offeror's Trustees or of Liquor Stores Unitholders.

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DEFINITIONS

In the accompanying "Questions and Answers", "Summary", Offer and Circular, unless the context otherwise requires, the following terms have the meanings indicated:

"**2006 Proposed Tax Changes**" means, collectively, the Tax Fairness Plan issued by the Department of Finance on October 31, 2006, the Guidelines and the draft legislation in respect of the Tax Fairness Plan included in Bill C-52, tabled by the Minister of Finance in the House of Commons on March 29, 2007.

"**affected securities**" has the meaning ascribed thereto in Section 16 of the Circular, "Merger Transaction".

"**affiliate**" has the meaning ascribed thereto in National Instrument 45-106 - "Prospectus and Registration Exemptions".

"**AGLA**" means the *Gaming and Liquor Act* (Alberta), as amended, including the regulations promulgated thereunder.

"**AGLC**" means the Alberta Gaming and Liquor Commission (formerly the Alberta Liquor Control Board), established pursuant to the AGLA, which, among other things, administers the AGLA and controls, in accordance with the AGLA, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor in Alberta, and which, through the board of the AGLC, establishes policies, conducts hearings and makes decisions respecting licenses and registrations under the AGLA.

"**AMF**" means the Autorité des marchés financiers du Québec.

"**ASC**" means the Alberta Securities Commission.

"**associate**" has the meaning ascribed thereto in the Securities Act.

"**BCLCLB**" means the Liquor Control and Licensing Branch of the Province of British Columbia.

"**business day**" means any day on which major commercial banks are generally open for business in Edmonton and Toronto other than a Saturday, a Sunday or a day observed as a holiday in Edmonton or Toronto under applicable laws.

"**CBCA**" means the *Canada Business Corporations Act* and the regulations thereunder, as amended from time to time.

"**CDS**" means CDS & Co., the nominee of The Canadian Depository for Securities Limited, or such other nominee of The Canadian Depository for Securities Limited.

"**CDS Participants**" mean participants in the CDS book-entry system maintained by CDS.

"**Circular**" means the takeover bid circular accompanying the Offer and forming a part thereof.

"**Company**" means, collectively, Liquor Stores LP and Liquor Stores GP, its general partner.

"**CRA**" means the Canada Revenue Agency.

"**Dealer Manager**" means RBC Capital Markets.

"**Department of Finance**" means the Department of Finance (Canada).

"**Depository**" means CIBC Mellon Trust Company at its office at Calgary.

"**Devco**" means Liquor Barn Devco Ltd., a corporation incorporated in Alberta.

"**Electing Liquor Barn Unitholders**" means, collectively, Merger Electing Liquor Barn Unitholders and Offer Electing Liquor Barn Unitholders.

"Elected Liquor Barn Units" means Liquor Barn Units in respect of which an Offer Election or a Merger Election is made.

"encumbrances" means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, restriction, easement, right of pre-emption, privilege or any option, privilege or contract to create any of the foregoing.

"Exchange Ratio" means 0.53:1, subject to adjustment as provided for in the Offer.

"Expiry Date" means May 17, 2007 (in Edmonton) or such other date to which the Offer may be extended as provided in Section 5 of the Offer, "Extension, Variation or Change in the Offer", unless the Offer is withdrawn by the Offeror.

"Expiry Time" means 10:00 p.m. (Edmonton time) on the Expiry Date, or such later time and date as may be fixed by the Offeror from time to time as provided in Section 5 of the Offer, "Extension, Variation or Change in the Offer", unless the Offer is withdrawn by the Offeror.

"GAAP" means Canadian generally accepted accounting principles.

"Georgeson" means Georgeson Shareholder Communications Canada, Inc.

"Governmental Entity" means any (a) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) any subdivision, agent, commission, board, or authority of any of the foregoing, or (c) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, and includes a stock exchange and securities self-regulatory authority.

"Guidelines" means the guidelines released by the Department of Finance on December 15, 2006 in respect of the Tax Fairness Plan released by the Department of Finance on October 31, 2006.

"Information Agent" means Georgeson Shareholder Communications Canada, Inc.

"Laws" means all statutes, regulations, statutory rules, principles of law, orders, published policies and guidelines and terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity (including the AGLC, the BCLCLB, the ASC, the OSC, the AMF and the TSX), and the term "applicable" with respect to such Laws and in the context that refers to one or more Persons, means that such Laws apply to such Person or Persons or its or their business, undertaking, property or securities and emanate from a Governmental Entity (including the AGLC, the BCLCLB, the ASC, the OSC, the AMF and the TSX) having jurisdiction over the Person or Persons or its or their business, undertaking, property or securities.

"Letter of Acceptance and Transmittal" means the letter of acceptance and transmittal provided by the Offeror to CDS, as the sole registered holder of the Liquor Barn Units, for use in connection with the Offer.

"Liquor Barn \$8.40 Offering" means Liquor Barn Fund's announced offering of 3,980,000 Liquor Barn Units at a price of \$8.40 per Liquor Barn Unit scheduled to close on or about April 10, 2007.

"Liquor Barn Administration Agreement" means the administration agreement dated May 16, 2006 entered into between Liquor Barn Fund, Liquor Barn Operating Trust and Liquor Barn GP.

"Liquor Barn Board of Trustees" means the board of trustees of Liquor Barn Fund.

"Liquor Barn Convertible Debentures" means \$15.7 million aggregate principal amount of 8.00% convertible unsecured subordinated debentures with a maturity date of December 31, 2011 issued by Liquor Barn Fund on January 4, 2007.

"Liquor Barn Declaration of Trust" means the amended and restated declaration of trust governing Liquor Barn Fund dated April 3, 2006 as further amended and/or restated from time to time.

"Liquor Barn Development Agreement" means the development agreement dated May 17, 2006 between Liquor Barn Partnership, Liquor Barn GP and Devco.

"Liquor Barn Exchange Agreement" means the exchange agreement dated May 17, 2006 entered into among Liquor Barn Fund, Liquor Barn Operating Trust, Liquor Barn Partnership, Liquor Barn GP and the Liquor Barn Vendors.

"Liquor Barn Exchangeable LP Units" means the exchangeable limited partnership units of Liquor Barn Partnership.

"Liquor Barn Exchangeable Securities" means any securities, including the Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units, that are exchangeable, directly or indirectly, without the payment of additional consideration, for Liquor Barn Units.

"Liquor Barn Fund" means Liquor Barn Income Fund, a trust established under the laws of the Province of Alberta by the Liquor Barn Declaration of Trust.

"Liquor Barn Governance Documents" means, collectively, the Liquor Barn Declaration of Trust, the Liquor Barn Operating Trust Declaration of Trust, the Liquor Barn Limited Partnership Agreement, the Liquor Barn Operating Trust Note Indenture, the Liquor Barn Securityholders Agreement, the Liquor Barn Exchange Agreement and the Liquor Barn Administration Agreement.

"Liquor Barn GP" means Liquor Barn GP Inc., a corporation incorporated in Alberta and the general partner of Liquor Barn Partnership.

"Liquor Barn GP Units" means the ordinary general partner units of Liquor Barn Partnership held by Liquor Barn GP.

"Liquor Barn Limited Partnership Agreement" means the limited partnership agreement dated May 17, 2006 between the Liquor Barn Vendors, Liquor Barn GP and Liquor Barn Operating Trust.

"Liquor Barn LP Units" means the limited partnership units of Liquor Barn Partnership, including Liquor Barn Ordinary LP Units, Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units.

"Liquor Barn Operating Trust" means Liquor Barn Operating Trust, a trust established under the laws of the Province of Alberta pursuant to the Liquor Barn Operating Trust Declaration of Trust.

"Liquor Barn Operating Trust Declaration of Trust" means the declaration of trust dated May 5, 2006 pursuant to which the Liquor Barn Operating Trust was established.

"Liquor Barn Operating Trust Note Indenture" means the note indenture dated May 16, 2006 made between Liquor Barn Operating Trust and the note trustee, providing for the issuance of the Liquor Barn Operating Trust Notes.

"Liquor Barn Operating Trust Notes" means, collectively, the Series 1 Liquor Barn Operating Trust Notes, Series 2 Liquor Barn Operating Trust Notes and Series 3 Liquor Barn Operating Trust Notes of Liquor Barn Operating Trust issued under the Liquor Barn Operating Trust Note Indenture.

"Liquor Barn Options" means options to purchase Liquor Barn Units issued pursuant to Liquor Barn Fund's incentive unit option plan.

"Liquor Barn Ordinary LP Units" means the ordinary limited partnership units of Liquor Barn Partnership.

"Liquor Barn Partnership" means Liquor Barn Limited Partnership, a limited partnership formed under the laws of the Province of Alberta.

"Liquor Barn Partnership Special Resolution" means a resolution of the partners of Liquor Barn Partnership passed with the consent of the holders of more than 66 2/3% of the Liquor Barn LP Units and Liquor Barn GP Units, in the aggregate, voted on such resolution at a duly constituted meeting or by written resolution of partners holding more than 66 2/3% of the Liquor Barn LP Units and Liquor Barn GP Units, in the aggregate, entitled to vote at a duly constituted meeting.

"Liquor Barn Rights Plan" means any unitholder rights plan that may be adopted by Liquor Barn Fund.

"Liquor Barn Securityholders Agreement" means the agreement dated May 17, 2006 between Liquor Barn Operating Trust, Liquor Barn GP and the other parties thereto providing for, among other things, the governance of Liquor Barn GP.

"Liquor Barn Subordinated LP Units" means the subordinated exchangeable limited partnership units of Liquor Barn Partnership.

"Liquor Barn Special Voting Units" means the special voting units of Liquor Barn Fund, issued to or for the benefit of holders of Liquor Barn Exchangeable Securities.

"Liquor Barn Special Voting Unitholders" means the registered or beneficial holders of the issued and outstanding Liquor Barn Special Voting Units, as the context requires, and **"Liquor Barn Special Voting Unitholder"** means any one of them.

"Liquor Barn Supporting Securityholders" means 1241827 Alberta Inc., 1241816 Alberta Inc., Terdon Management Systems Inc. and 893713 Alberta Inc., companies owned by Mr. Terry Nyquvest and members of his family, each of which is a securityholder of Liquor Barn Fund and has entered into a Securityholder Support Agreement with Liquor Stores Fund.

"Liquor Barn Trustees" means the individuals who are trustees of Liquor Barn Fund from time to time.

"Liquor Barn Unitholders" means the registered or beneficial holders of the issued and outstanding Liquor Barn Units, as the context requires, and **"Liquor Barn Unitholder"** means any one of them.

"Liquor Barn Units" means trust units of Liquor Barn Fund, as currently constituted.

"Liquor Barn Vendors" means, collectively, the former owners of the liquor stores purchased by Liquor Barn Partnership in connection with its initial public offering and who hold Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units including the Liquor Barn Supporting Securityholders.

"Liquor Barn Voting Unitholders" means Liquor Barn Unitholders and Liquor Barn Special Voting Unitholders.

"Liquor Barn Voting Units" means, collectively, the Liquor Barn Units and the Liquor Barn Special Voting Units.

"Liquor Stores Exchangeable LP Units" means the exchangeable units of Liquor Stores LP.

"Liquor Stores Exchangeable Securities" means any securities that are exchangeable, directly or indirectly, for Liquor Stores Units.

"Liquor Stores Fund" means Liquor Stores Income Fund, and is also referred to herein as the **"Offeror"**.

"Liquor Stores GP" means Liquor Stores GP Inc., a corporation incorporated under the CBCA.

"Liquor Stores GP Common Shares" means common shares of Liquor Stores GP.

"Liquor Stores LP" means Liquor Stores Limited Partnership, a limited partnership formed under the laws of the Province of Alberta.

"Liquor Stores LP Units" means, collectively, the Liquor Stores Ordinary LP Units, the Liquor Stores Exchangeable LP Units and the Liquor Stores Subordinated LP Units.

"Liquor Stores Ordinary LP Units" means the ordinary limited partnership units of Liquor Stores LP.

"Liquor Stores Special Voting Units" means the special voting units of Liquor Stores Fund, issued to or for the benefit of holders of Liquor Stores Exchangeable Securities.

"Liquor Stores Subordinated LP Units" means the subordinated exchangeable units of Liquor Stores LP.

"Liquor Stores Units" means trust units of the Offeror, as currently constituted.

"Liquor Stores Unitholders" means the registered or beneficial holders of the issued and outstanding Liquor Stores Units, as the context requires, and **"Liquor Stores Unitholder"** means any one of them.

"Liquor Stores Vendors" means, collectively, The Liquor Depot Corporation, Liquor World Group Inc. and certain associated or managed entities.

"Liquor Stores Voting Units" means, collectively, the Liquor Stores Units and the Liquor Stores Special Voting Units.

"LSOT" means Liquor Stores Operating Trust, a trust established under the laws of the Province of Alberta.

"LSOT Notes" means, collectively, Series I and Series II promissory notes of LSOT issued under a note indenture made between LSOT and CIBC Mellon Trust Company.

"LSOT Units" means the trust units of LSOT.

"Material Adverse Change" means any change, effect, event or occurrence with respect to the condition (financial or otherwise), properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise), businesses, operations, taxation, results of operations or prospects of Liquor Barn Fund or the Offeror, as applicable, taken as a whole with their respective subsidiaries, and/or any change with respect to the businesses of Liquor Barn Fund or the Offeror or their respective subsidiaries, as applicable, or the Laws affecting such businesses, as applicable, or with respect to Canadian, U.S. or other financial markets generally, that, either alone or together with other such matters, is, or could reasonably be expected to be, material and adverse to Liquor Barn Fund or the Offeror, as applicable, taken as a whole with their respective subsidiaries.

"Material Adverse Effect" means in respect of any person, any effect (including the effect of any change with respect to the businesses of Liquor Barn Fund or the Offeror or their respective subsidiaries, as applicable, or the Laws affecting such businesses, as applicable, or with respect to Canadian, U.S. or international financial markets generally) that, either alone or together with other such matters, is, or could reasonably be expected to be, material and adverse to the condition (financial or otherwise), properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise), businesses, operations, taxation, results of operations or prospects of Liquor Barn Fund or the Offeror, as applicable, taken as a whole with their respective subsidiaries.

"Merger" means (i) the transfer of all of the assets and liabilities of Liquor Barn Fund to the Offeror in exchange for Liquor Stores Units and Liquor Stores Special Voting Units, and (ii) the distribution of such Liquor Stores Units and Liquor Stores Special Voting Units to the Liquor Barn Unitholders on the basis of 0.53 of a Liquor Stores Unit per Liquor Barn Unit and to the Liquor Barn Special Voting Unitholders on the basis of 0.53 of a Liquor Stores Special Voting Unit per Liquor Barn Special Voting Unit (subject to adjustment as provided herein) upon a redemption of their Liquor Barn Voting Units, on a tax-deferred "roll-over" basis (and the cancellation of any such Liquor Stores Units received by the Offeror itself).

"Merger Agreement" has the meaning ascribed thereto in Section 16 of the Circular, "Merger Transaction".

"Merger Elected Liquor Barn Units" means Liquor Barn Units deposited to the Offer and in respect of which a Merger Election is made.

"Merger Electing Liquor Barn Unitholders" means Liquor Barn Unitholders who (i) deposit their Liquor Barn Units to the Offer, (ii) make a Merger Election to participate in the Merger Transaction through their broker or other nominee, and subsequently through CDS, and (iii) whose Merger Elected Liquor Barn Units are not withdrawn from the Offer prior to 4:59 p.m. (Edmonton time) on the Expiry Date.

"Merger Election" means the election made by Liquor Barn Unitholders to participate in the Merger Transaction.

"Merger Transaction" means, collectively, the following transactions:

- (a) the direction through a broker or other nominee, and subsequently through CDS, to deposit Liquor Barn Units to the Offer and the provision of the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, through the execution of the Letter of Acceptance and Transmittal, as described under Section 3 of the Offer, "Manner of Acceptance" (but, for greater certainty, not the power of attorney contained in Part B of the Letter of Acceptance and Transmittal) and to withdraw such Liquor Barn Units from the Offer, effective at 9:00 p.m. (Edmonton time) on the Expiry Date; and
- (b) following the approval of the Special Resolution by the holders of Liquor Barn Voting Units (including the Electing Liquor Barn Unitholders, through the power of attorney contained in Part A of the Letter of Acceptance and Transmittal), representing more than 66 2/3% of the outstanding Liquor Barn Voting Units, the execution and delivery of the Merger Agreement and the consummation of the Merger and the transactions contemplated in the Merger Agreement, pursuant to which, among other things, Liquor Stores Units would be distributed to the then Liquor Barn Unitholders upon the redemption of all of the outstanding Liquor Barn Units and Liquor Stores Special Voting Units would be distributed to the then Liquor Barn Special Voting Unitholders upon the redemption of all the outstanding Liquor Barn Special Voting Units.

"**Minimum Condition**" has the meaning ascribed thereto in Section 4 of the Offer, "Conditions of the Offer".

"**nominee**" means a registered broker or dealer, financial institution or other intermediary that holds Liquor Barn Units on behalf of a Person who is not the registered holder of the Liquor Barn Units.

"**Non-Electing Liquor Barn Unitholders**" means Liquor Barn Unitholders that do not make an Offer Election or a Merger Election.

"**Offer**" means the offer to purchase all of the outstanding Liquor Barn Units made hereby to Liquor Barn Unitholders (as it may be amended) including any Liquor Barn Units that may become outstanding after the date of the Offer upon the exercise of any options, warrants or other conversion or exchange rights to acquire Liquor Barn Units.

"**Offer Documents**" means, collectively, the Offer and Circular and the Letter of Acceptance and Transmittal (as they each may be amended).

"**Offer Elected Liquor Barn Units**" means Liquor Barn Units deposited to the Offer and in respect of which an Offer Election is made.

"**Offer Electing Liquor Barn Unitholders**" means Liquor Barn Unitholders who (i) deposit their Liquor Barn Units to the Offer, (ii) make an Offer Election through their broker or other nominee, and subsequently through CDS, and (iii) whose Offer Elected Liquor Barn Units are not withdrawn from the Offer prior to 9:59 p.m. (Edmonton time) on the Expiry Date, but for greater certainty, do not include Merger Electing Liquor Barn Unitholders.

"**Offer Election**" means the election made by Liquor Barn Unitholders to deposit their Liquor Barn Units to, and have their Liquor Barn Units taken up under, the Offer.

"**Offer Period**" means the period commencing on the date of the Offer and ending at the Expiry Time.

"**Offeror**" or "**Liquor Stores Fund**" means Liquor Stores Income Fund.

"**Offeror's AIF**" has the meaning ascribed thereto in Section 19 of the Circular, "Documents Incorporated by Reference".

"**Offeror's Board of Trustees**" means the board of trustees of the Offeror.

"**Offeror's Declaration of Trust**" means the amended and restated declaration of trust establishing and governing the Offeror dated August 10, 2004, as further amended and/or restated from time to time.

"**Offeror's Trustees**" means those individuals who are trustees of the Offeror from time to time.

"OSC" means the Ontario Securities Commission.

"OSC Rule 61-501" means OSC Rule 61-501- *Insider Bids, Issuer Bids, Business Combinations and Related Party Transactions*.

"Other Property" has the meaning ascribed thereto in Section 3 of the Offer, "Manner of Acceptance".

"Permitted Distributions" means monthly distributions to Liquor Barn Unitholders made in conformity and consistency in all respects with Liquor Barn Fund's monthly distribution policies in effect as at the date hereof and having a record date for determination of Liquor Barn Unitholders entitled to such distributions that is prior to the Expiry Date, but not to exceed \$0.0646 per Liquor Barn Unit per such distribution per month (but which may be less than such amount).

"Person" means an individual, partnership, limited partnership, limited liability partnership, unincorporated association, organization, syndicate, corporation, trust, trustee, executor, administrator or other legal or personal representative.

"Policy Q-27" means Policy Statement No. Q-27 of the AMF.

"RBC Capital Markets" means RBC Dominion Securities Inc., a member company of RBC Capital Markets.

"Rights" has the meaning ascribed thereto in the Liquor Barn Rights Plan, if any.

"Securities Act" means the *Securities Act* (Alberta), and the rules and regulations thereunder, as amended from time to time.

"Securities Laws" means, collectively, the applicable securities Laws of each of the provinces and territories of Canada and the applicable federal and state securities Laws of the United States, and the respective rules and regulations made thereunder, together with all applicable rules, binding policies, orders, notices and rulings of the Securities Regulatory Authorities therein, and the applicable rules of the TSX.

"Securities Regulatory Authority" means all applicable securities regulatory authorities, including (i) the provincial and territorial securities regulatory authority in the provinces and territories of Canada in which each of the Offeror and Liquor Barn Fund is a reporting issuer (or the equivalent), (ii) all applicable federal and state securities regulatory authorities in the United States including, without limitation, the United States Securities and Exchange Commission, in each case having or claiming jurisdiction over the Offeror and/or Liquor Barn Fund, as applicable, and (iii) the TSX.

"Securityholder Support Agreements" means the agreements between Liquor Stores Fund and the Liquor Barn Supporting Securityholders pursuant to which the Liquor Barn Supporting Securityholders have agreed, among other things, to vote the securities of Liquor Barn Fund and Liquor Barn Partnership beneficially owned or controlled by the Liquor Barn Supporting Securityholders in favour of the Offer and the Merger, including the Special Resolution, and to otherwise support the Offer and Merger and other related matters.

"SIFT" means a specified investment flow-through trust or partnership, as defined in the 2006 Proposed Tax Changes.

"Soliciting Dealer Group" means the Dealer Manager and the other members of the soliciting dealer group to be assembled by the Dealer Manager.

"Special Resolution" has the meaning ascribed thereto in Section 16 of the Circular, "Merger Transaction".

"subsidiary" means, with respect to a specified Person, (a) any corporation, partnership, trust, limited partnership, joint venture, limited liability company, unlimited liability company or other organization, incorporated or unincorporated, which is a subsidiary as defined in the Securities Act; or (b) a partnership of which such specified Person or another of its subsidiaries is a general partner or owns beneficially more than 50% of the ownership interests.

"Tax Act" means the *Income Tax Act* (Canada), including all regulations made thereunder, and all amendments to such statute and regulations from time to time.

"TSX" means the Toronto Stock Exchange.

"United States" or **"U.S."** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

QUESTIONS AND ANSWERS

The following list of Questions and Answers is intended to address some of the key aspects of the Offer and Merger. This section is a summary only and is qualified by the detailed provisions contained elsewhere in the Offer and Circular. Liquor Barn Unitholders are urged to read the Offer and Circular in their entirety. Capitalized terms used in these Questions and Answers, where not otherwise defined in this section are defined in the Offer and Circular. See "Definitions".

1. What is the Offer? What is the Merger Transaction?

The Offer

The Offer is an offer by Liquor Stores Fund to purchase all of the issued and outstanding Liquor Barn Units on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit. An exchange of Liquor Stores Units for Liquor Barn Units under the Offer will be treated as a taxable disposition for Canadian income tax purposes. **To deposit your Liquor Barn Units to the Offer, you must make an Offer Election through your broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.**

The Merger Transaction

Under the Merger Transaction alternative, Liquor Barn Unitholders have the opportunity to exchange their Liquor Barn Units for Liquor Stores Units on a 0.53 for one basis on a tax-deferred "roll-over" basis for Canadian income tax purposes so as to defer the recognition of any gain (or loss) for Canadian income tax purposes. **To participate in the Merger Transaction, you must deposit your Liquor Barn Units to the Offer and make a Merger Election through your broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.**

If for any reason no election is made by a Liquor Barn Unitholder with respect to Liquor Barn Units tendered to the Offer, such Liquor Barn Unitholder will be deemed to have made a Merger Election in respect of such Liquor Barn Units.

2. Who is Making the Offer and Proposing the Merger Transaction Alternative?

The Offer and the Merger Transaction are being made and provided by Liquor Stores Fund, a trust that indirectly participates in the retail liquor industry in Alberta and British Columbia through its 75.6% interest in Liquor Stores LP, which operates the largest number of private liquor stores in Canada by number of stores (currently 105 stores). Liquor Stores Fund has been listed on the TSX since September 28, 2004 and trades under the symbol "LIQ.UN". As at April 9, 2007, Liquor Stores Fund had a market capitalization of approximately \$290 million. Its revenues for the year ended December 31, 2006 were approximately \$222 million and its assets at that date were approximately \$187 million.

3. Why is Liquor Stores Fund Making the Offer? What are the Benefits of the Offer?

The business operations of Liquor Stores Fund and Liquor Barn Fund are highly complementary and Liquor Stores Fund believes that the rationale for the combination is compelling for the unitholders of both income trusts. The combination provides an excellent strategic fit and creates the leading independent liquor retailer in Alberta and British Columbia with an estimated combined market share of over 16% in Alberta and B.C. and approximately 19% in its core Alberta market. The combined entity will operate 176 liquor stores in Alberta and B.C., with pro forma revenue greater than \$320 million, providing a strong platform to pursue further growth opportunities. The combined fund would benefit from access to Liquor Stores Fund's cumulative "safe harbour" equity growth amount of approximately \$235 million through 2010, of which approximately \$98 million is available in 2007, under the 2006 Proposed Tax Changes. Together, the two trusts will benefit from a combined cumulative "safe harbour" equity growth amount of approximately \$300 million through 2010. In addition, the combined entity would discontinue Liquor Barn Fund's practice of making related party acquisitions from Devco. This will provide the public Liquor Barn Unitholders with the opportunity to now participate fully in the growth and value creation from future store development and acquisitions.

The combination of both entities is expected to provide attractive opportunities to realize meaningful synergies through the elimination of redundant costs and the implementation of operational best practices. Liquor Stores Fund's management

estimates immediate cost savings of approximately \$1.5 million through the elimination of certain public company costs of Liquor Barn Fund and duplicative head office and general and administration expenses. In addition, Liquor Stores Fund's management believes that there is an attractive opportunity to enhance the operating margins of Liquor Barn Fund, which are currently well below those of Liquor Stores Fund, through the application of Liquor Stores Fund's management expertise and operational best practices. Historically, Liquor Stores Fund's operating margin as a percentage of sales has consistently and significantly exceeded that of Liquor Barn Fund. See "Non-GAAP Measures".

4. What Will I Receive for My Liquor Barn Units Under the Offer and Under the Merger Transaction? What Premium Does That Represent?

Under the Offer and Merger Transaction, you will receive Liquor Stores Units for your Liquor Barn Units on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit. For instance, if you own 1,000 Liquor Barn Units, you will receive 530 Liquor Stores Units under the Offer or the Merger Transaction. Essentially, you will receive both a substantial premium over the recent trading value of your Liquor Barn Units as well as the opportunity to continue as a unitholder in a larger income trust with a stronger competitive position. The Exchange Ratio of 0.53 of a Liquor Stores Unit per Liquor Barn Unit (subject to adjustment as provided under the Offer and the Merger, as applicable) represents a value of \$11.30 per Liquor Barn Unit and a premium of approximately 34.6%, based on the closing prices of the Liquor Stores Units (\$21.33) and the Liquor Barn Units (\$8.40) on the TSX on April 9, 2007, the last trading day prior to the announcement of the Offer, and a premium of approximately 35.7%, based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading days ended April 9, 2007. **You are urged to obtain current market quotations for the Liquor Stores Units and Liquor Barn Units.**

5. If the Offer and Merger Transaction are Completed, What Distributions Will I Receive as a Liquor Stores Unitholder?

Liquor Barn Unitholders will realize an immediate 2.6% increase in their monthly cash distributions as, based on the Exchange Ratio of 0.53:1, Liquor Stores Fund's current monthly distribution of \$0.125 per unit (\$1.50 per unit annually) equates to a monthly distribution of \$0.06625 per Liquor Barn Unit (\$0.795 per unit annually) compared to Liquor Barn Fund's current monthly distribution of \$0.0646 per unit (\$0.7752 per unit annually).

Since the completion of its initial public offering on September 28, 2004, Liquor Stores Fund has increased distributions four times from \$0.0833 per month per unit (\$1.00 per unit annualized) to the current rate of \$0.125 per month per unit (\$1.50 per unit annualized), a 50% increase. However, there can be no assurance regarding the amounts of income to be generated by the subsidiaries of the Offeror and paid to the Offeror. The actual amount distributed in respect of the Liquor Stores Units will depend upon numerous factors, including profitability, debt covenants, fluctuations in working capital, the sustainability of margins and capital expenditures.

6. Do any Liquor Barn Voting Unitholders Support the Offer and Merger?

The Liquor Barn Supporting Securityholders have entered into the Securityholders Support Agreements with Liquor Stores Fund pursuant to which they have agreed, among other things, to vote all securities of Liquor Barn Fund and its subsidiaries that they own or control in favour of the Offer and Merger. The Liquor Barn Supporting Securityholders, referred to as the "Spirits Liquor Mart Group", are companies owned by Mr. Terry Nyquvest and members of his family. The Spirits Liquor Mart Group were the second largest founding vendor group of Liquor Barn Fund having contributed 17 of the 58 retail liquor stores purchased by Liquor Barn Fund on completion of its initial public offering. The Liquor Barn Supporting Securityholders hold an aggregate of 808,942 Liquor Barn Special Voting Units, representing 5.8% of the currently outstanding Liquor Barn Voting Units (after giving effect to the Liquor Barn \$8.40 Offering).

7. What Do I Need To Do Now?

You are urged to carefully review this Offer and Circular, and to seek advice from your stockbroker or other financial advisor. If you wish to deposit your Liquor Barn Units to the Offer and make either an Offer Election or a Merger Election, you should contact your broker or other nominee to do so.

8. How Do I Deposit My Liquor Barn Units to the Offer and Make Either an Offer Election or a Merger Election?

To deposit your Liquor Barn Units to the Offer and make either an Offer Election or a Merger Election, you must complete the documentation and follow the instructions provided by your broker or other nominee. If you have any questions, you can contact Georgeson at 1-866-656-4120.

9. What are the Conditions to the Offer?

The Offer is conditional upon a number of things that are described in Section 4 of the Offer, "Conditions of the Offer". You are advised to consider the conditions described there, but the key conditions include the following:

- (a) the number of Liquor Barn Units held by Electing Liquor Barn Unitholders, together with the number of Liquor Barn Units held as of the Expiry Time by or on behalf of the Offeror or its subsidiaries, if any, together with any separately voted Liquor Barn Voting Units, must represent more than 66 2/3% of the then outstanding Liquor Barn Voting Units (the "**Minimum Condition**"); and
- (b) the receipt of regulatory, stock exchange and third-party approvals on terms satisfactory to Liquor Stores Fund, acting reasonably.

10. When Will the Offer and Merger Transaction be Completed?

The Offer is open until 10:00 p.m. (Edmonton time) on May 17, 2007 and will be completed only if all of the conditions of the Offer have been satisfied or have been waived by Liquor Stores Fund. In certain circumstances, the Offer may also be extended or it may be terminated. Liquor Stores Fund's current intention is to complete the Merger immediately following and conditional on the take-up under the Offer (or the satisfaction or waiver of all conditions thereunder) so as to provide the most consistent treatment possible to all Liquor Barn Unitholders, whether they are exchanging Liquor Barn Units for Liquor Stores Units under the Offer or as a result of the Merger Transaction.

11. What Happens if I Do Not Deposit My Liquor Barn Units to the Offer and Make Either an Offer Election or a Merger Election but the Offer and Merger are Supported by More Than Two-Thirds of the Liquor Barn Voting Unitholders?

As explained in Section 16 of the Circular, "Merger Transaction", if the Special Resolution is approved and if the Merger is completed, Non-Electing Liquor Barn Unitholders will receive Liquor Stores Units under the Merger as if they had made a Merger Election. However, as the Offer and the Merger Transaction are subject to, among other things, a 66 2/3% approval condition, you are encouraged to deposit your Liquor Barn Units to the Offer in order to ensure that the transactions described in the Offer and Circular are successful.

12. Will Liquor Barn Units Still be Listed on the Toronto Stock Exchange if the Offer is Successful?

If the Offer and Merger Transaction are completed, the Liquor Barn Units will be de-listed from the Toronto Stock Exchange upon completion of such transactions.

13. Are the Liquor Stores Units That I Will Receive Under the Offer and Under the Merger Transaction Listed on the Toronto Stock Exchange?

The Liquor Stores Units are currently listed and posted for trading on the TSX. It is a condition to the Offer that the Liquor Stores Units to be issued in connection with the Offer and the Merger Transaction be conditionally approved for listing on the TSX, subject to satisfaction of customary conditions. Conditional listing approval for the Liquor Stores Units to be issued under the Offer and the Merger Transaction was obtained on April 9, 2007.

14. Will I Have to Pay Any Fees or Commissions?

Liquor Barn Unitholders will not be required to pay any fee or commission to the Offeror if they make use of the services of a member of the Soliciting Dealer Group to accept the Offer or the Merger.

15. How Will the Exchange of My Liquor Barn Units be Treated for Tax Purposes?

A disposition of Liquor Barn Units held as capital property by an Offer Electing Liquor Barn Unitholder in exchange for Liquor Stores Units will give rise to a capital gain (or a capital loss) for Canadian tax purposes, equal to the amount by which the proceeds of disposition of the Liquor Barn Units, net of any costs of disposition, exceed (or are less than) the adjusted cost base of the Liquor Barn Units to the Offer Electing Liquor Barn Unitholder immediately prior to the disposition. For these purposes, the proceeds of disposition of the Liquor Barn Units will generally be equal to the aggregate of the fair market value of the Liquor Stores Units received in exchange therefor.

The Merger will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act. Accordingly, for Canadian tax purposes, where a Merger Electing Liquor Barn Unitholder or a Non-Electing Liquor Barn Unitholder disposes of Liquor Barn Units to Liquor Barn Fund in exchange for Liquor Stores Units on the redemption of Liquor Barn Units pursuant to the Merger, the Liquor Barn Unitholder's proceeds of disposition for the Liquor Barn Units disposed of, and the cost to the Liquor Barn Unitholder of the Liquor Stores Units received in exchange therefor, will be deemed to be equal to the adjusted cost base to the Liquor Barn Unitholder of the Liquor Barn Units immediately prior to their disposition, resulting in a tax-deferred "roll-over" for Canadian tax purposes.

Subsequent to the exchange of Liquor Barn Units for Liquor Stores Units pursuant to the Offer or the Merger, a former Liquor Barn Unitholder will be subject to taxation as a Liquor Stores Unitholder. See Section 18 of the Circular, "Canadian Federal Income Tax Considerations".

16. Who Can I Contact if I Have Questions?

*Questions and requests for assistance
may be directed to the Information Agent
for the Offer:*

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario
M5J 2Y1

North American Toll Free Number:
1-866-656-4120

The Depositary for the Offer is:

CIBC MELLON TRUST COMPANY

199 Bay Street
Commerce Court West
Securities Level
Toronto, Ontario
M5L 1G9

Telephone: (416) 643-5500
Toll Free: 1-800-387-0825
E-Mail: inquiries@cibcmellon.com

The Dealer Manager for the Offer is:

RBC CAPITAL MARKETS

200 Bay Street, 4th Floor
Royal Bank Plaza, South Tower
Toronto, Ontario
M5J 2W7

Telephone: (416) 842-5596
Toll Free: 1-866-274-5613

You may also contact your investment dealer, stockbroker, bank manager, accountant, lawyer or professional advisor for assistance.

SUMMARY

The following is a summary only and is qualified by the detailed provisions contained elsewhere in the Offer and Circular. Liquor Barn Unitholders are urged to read the Offer and Circular in their entirety. Capitalized terms used in this summary, where not otherwise defined herein, are defined in the Offer and Circular. See "Definitions". The information concerning Liquor Barn Fund contained herein and in the Offer and Circular is based upon publicly available documents or records of Liquor Barn Fund on file with Securities Regulatory Authorities and other public sources at the time of the Offer and has not been independently verified by the Offeror.

1. The Offer and the Merger Transaction

The Offer

The Offer is an offer by Liquor Stores Fund to purchase all of the issued and outstanding Liquor Barn Units, including Liquor Barn Units that may become outstanding after the date of the Offer upon the exercise of options, warrants or other conversion or exchange rights, on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit. An exchange of Liquor Stores Units for Liquor Barn Units under the Offer will be treated as a taxable disposition for Canadian income tax purposes. **To deposit your Liquor Barn Units to the Offer, you must make an Offer Election through your broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.**

The Offeror is offering to purchase, on and subject to the terms and conditions hereinafter specified (including, if the Offer is extended or amended, the terms and conditions of any extension or amendment), all of the issued and outstanding Liquor Barn Units on the basis of the Exchange Ratio (being 0.53 of a Liquor Stores Unit for each Liquor Barn Unit, subject to adjustment as provided under the Offer).

The Exchange Ratio of 0.53 of a Liquor Stores Unit per Liquor Barn Unit (subject to adjustment as provided under the Offer and the Merger Agreement) represents a value of \$11.30 per Liquor Barn Unit and a premium of approximately 34.6%, based on the closing prices of the Liquor Stores Units and the Liquor Barn Units on the TSX on April 9, 2007, the last trading day prior to the announcement of the Offer, and a premium of approximately 35.7%, based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading days ended April 9, 2007. **Liquor Barn Unitholders are urged to obtain current market quotations for the Liquor Stores Units and Liquor Barn Units.**

The Offer is made only for Liquor Barn Units and is not made for any options, warrants or other conversion or exchange rights to acquire Liquor Barn Units (other than any Rights). Any holder of such options, warrants or other conversion or exchange rights to purchase Liquor Barn Units (other than any Rights), including a holder of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options, who wishes to accept the Offer must exercise the options, warrants or other conversion or exchange rights (other than any Rights) and deposit the Liquor Barn Units through their broker or other nominee under and in accordance with the Offer. Any such exercise must be in sufficient time to comply with the procedures referred to in Section 3 of the Offer, "Manner of Acceptance".

No fractional Liquor Stores Units will be issued under the Offer. If CDS, as the registered holder of all of the Liquor Barn Units, would otherwise be entitled to receive a fractional Liquor Stores Unit under the Offer, the number of Liquor Stores Units issuable to CDS will be rounded up to the next whole number. Liquor Barn Unitholders should consult their broker or other nominee to confirm whether fractional Liquor Stores Units or cash in lieu thereof will be paid to them by their broker or other nominee under the Offer.

The obligation of the Offeror to take up and pay for Liquor Barn Units pursuant to the Offer is subject to certain conditions. See Section 4 of the Offer, "Conditions of the Offer". The accompanying Circular is incorporated by reference in and forms a part of the Offer. See Section I of the Offer, "The Offer".

The Merger Transaction

Under the Merger Transaction alternative, Liquor Barn Unitholders have the opportunity to exchange their Liquor Barn Units for Liquor Stores Units on a 0.53 for one basis on a tax-deferred "roll-over" basis for Canadian income tax purposes so as to

defer the recognition of any gain (or loss) for Canadian income tax purposes. **To participate in the Merger Transaction, you must deposit your Liquor Barn Units to the Offer and make a Merger Election through your broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.**

If for any reason no election is made by a Liquor Barn Unitholder with respect to Liquor Barn Units tendered to the Offer, such Liquor Barn Unitholder will be deemed to have made a Merger Election in respect of such Liquor Barn Units.

2. The Offeror

The Offeror is an unincorporated open-ended trust established under the laws of the Province of Alberta by the Offeror's Declaration of Trust. The Offeror owns all of the LSOT Notes and LSOT Units, and holds, indirectly through LSOT, a 75.6% interest in Liquor Stores LP. The Offeror receives, indirectly through LSOT, distributions of distributable cash of Liquor Stores LP.

The Offeror is a reporting issuer (or the equivalent) in each of the provinces of Canada. On September 28, 2004, the Offeror completed an initial public offering of 4,300,000 Liquor Stores Units at a price of \$10 per Liquor Stores Unit for aggregate gross proceeds of approximately \$43 million. The Offeror used the proceeds of the initial public offering to indirectly acquire a 50.6% interest in Liquor Stores LP. Liquor Stores LP used these proceeds and borrowings under its credit facility to acquire 50 retail liquor stores and related assets for total consideration of approximately \$55.4 million in cash, 2,075,000 Liquor Stores Exchangeable LP Units, 2,125,000 Liquor Stores Subordinated LP Units and 4,200,000 Liquor Stores GP Common Shares and the assumption of certain associated accounts payable and current liabilities.

LSOT is an unincorporated trust established under the laws of the Province of Alberta. LSOT holds Liquor Stores Ordinary LP Units and Liquor Stores GP Common Shares, representing 75.6% of the Liquor Stores LP Units and Liquor Stores GP Common Shares, respectively.

Liquor Stores LP is a limited partnership formed under the laws of the Province of Alberta, with Liquor Stores GP as its general partner.

The principal and head office of each of Liquor Stores Fund, LSOT, Liquor Stores GP and Liquor Stores LP is located at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1.

The affairs of the Offeror are supervised by the Offeror's Board of Trustees who, among other things, oversee the investments and affairs of the Offeror, represent the Offeror as an indirect shareholder of Liquor Stores GP and a direct unitholder and noteholder of LSOT, and effect distributions from the Offeror to the Liquor Stores Unitholders. See Section 1 of the Circular, "The Offeror".

3. Liquor Barn Fund

Liquor Barn Fund is a trust established under the laws of the Province of Alberta by the Liquor Barn Declaration of Trust. Liquor Barn Fund's head office is located at Suite 152, 5004 – 98th Avenue, Edmonton, Alberta, T6A 3X6. Liquor Barn Fund is a reporting issuer (or the equivalent) in each of the provinces of Canada.

According to publicly available information, Liquor Barn Fund holds all of the trust units and notes of Liquor Barn Operating Trust and, indirectly through Liquor Barn Operating Trust, an ownership interest of approximately 61.4% in Liquor Barn Partnership. Management of Liquor Stores Fund believes that after giving effect to the Liquor Barn \$8.40 Offering, Liquor Barn Fund will hold, indirectly through Liquor Barn Operating Trust, an ownership interest of approximately 72.4% in Liquor Barn Partnership. Liquor Barn Fund also owns all of the outstanding shares of Liquor Barn GP, which is the general partner of Liquor Barn Partnership.

As of April 3, 2007, Liquor Barn Fund operated 71 retail liquor stores, of which 61 are located in Alberta and 10 are located in British Columbia. Liquor Barn Partnership is the second largest liquor store retailer in Alberta by number of stores and, in Liquor Barn Partnership management's judgement, the third largest by revenue.

The affairs of Liquor Barn Fund are supervised by the Liquor Barn Board of Trustees who are responsible for, among other things, representing Liquor Barn Fund as the holder of all of the shares of Liquor Barn GP and all of the units and notes of Liquor Barn Operating Trust and effecting payments of distributions from Liquor Barn Fund to its unitholders.

4. **Purpose of the Offer and the Offeror's Plans for Liquor Barn Fund**

The purpose of the Offer is to enable the Offeror to acquire all of the Liquor Barn Units. If the conditions to the Offer are satisfied or waived by the Offeror and the Offer is completed, it is the Offeror's current intention to complete the Merger immediately following and conditional on the take-up under the Offer so as to provide the most consistent treatment possible to all Liquor Barn Unitholders, whether they are exchanging Liquor Barn Units for Liquor Stores Units under the Offer or as a result of the Merger Transaction.

If the Offer and the Merger Transaction are successful, the Offeror intends to complete a detailed review of Liquor Barn Fund and its subsidiaries and their respective assets, structures, capitalization, operations, properties, policies, management and personnel with a view to integrating the business carried on by Liquor Barn Partnership with that carried on by Liquor Stores LP and seeking to maximize potential synergies. In connection therewith, the Offeror expects that it will take such steps as may be available to it to, directly or indirectly, combine the operations of Liquor Barn Partnership and Liquor Stores LP. See Section 4 of the Circular, "Purpose of the Offer and the Offeror's Plans for Liquor Barn Fund".

5. **Expected Benefits of and Reasons to Accept the Offer**

If the Offer and the Merger Transaction are successful, they will result in, among other things, the integration of the businesses carried on by the subsidiaries of the Offeror and by the subsidiaries of Liquor Barn Fund. The benefits described below are based on market and business conditions existing as of the date hereof and reflect Liquor Stores Fund's best estimate of the effects of such integration. There can be no assurance that the benefits discussed below will ultimately be achieved.

A Significant Premium for Liquor Barn Unitholders of Approximately 34.6%

The Exchange Ratio of 0.53 of a Liquor Stores Unit per Liquor Barn Unit represents a value of \$11.30 per Liquor Barn Unit and a premium of approximately 34.6%, based on the closing prices of the Liquor Stores Units and the Liquor Barn Units on the TSX on April 9, 2007, the last trading day prior to the announcement of the Offer, and a premium of approximately 35.7%, based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading days ended April 9, 2007. **Liquor Barn Unitholders are urged to obtain current market quotations for the Liquor Stores Units and Liquor Barn Units.**

An Increase in Cash Distributions and Improved Liquidity

Liquor Barn Unitholders will realize an immediate 2.6% increase in their monthly cash distributions as, based on the Exchange Ratio of 0.53:1 Liquor Stores Fund's current monthly distribution of \$0.125 per unit (\$1.50 annually) equates to a monthly distribution of \$0.06625 per Liquor Barn Unit (\$0.795 annually) compared to Liquor Barn Fund's current monthly distribution of \$0.0646 per unit (\$0.7752 annually). Liquor Barn Unitholders should also benefit from improved liquidity of the combined larger income trust, which would have a combined market capitalization of approximately \$450 million (based on April 9, 2007 values), approximately 1.5 times the current market capitalization of Liquor Stores Fund and almost four times that of Liquor Barn Fund.

An Exceptional Strategic Fit, Creating the Leading Independent Liquor Retailer in Alberta and B.C. with a Strong Platform for Future Growth

The business operations of Liquor Stores Fund and Liquor Barn Fund are highly complementary and Liquor Stores Fund believes that the rationale for the combination is compelling for the unitholders of both income trusts. The combination provides an excellent strategic fit and creates the leading independent liquor retailer in Alberta and British Columbia with an estimated combined market share of over 16% in Alberta and B.C. and approximately 19% in its core Alberta market. The combined entity will operate 176 liquor stores in Alberta and B.C., with pro forma revenue greater than \$320 million, providing a strong platform to pursue further growth opportunities.

Expanded "Safe Harbour" Equity Growth Amount

The combined fund will benefit from access to Liquor Stores Fund's cumulative "safe harbour" equity growth amount of approximately \$235 million through 2010, of which approximately \$98 million is available in 2007, under the 2006 Proposed Tax Changes. This compares to Liquor Barn Fund's estimated remaining cumulative limit of approximately \$65 million after giving effect to its recent convertible debenture and trust unit offerings. Together, the two trusts will benefit from a combined cumulative "safe harbour" equity growth amount of approximately \$300 million through 2010.

Unitholder Participation in Value Creation Resulting From Acquisitions and New Store Development

The combined entity would discontinue Liquor Barn Fund's practice of making related party acquisitions from Devco. This will provide the public Liquor Barn Unitholders with the opportunity to now participate fully in the growth and value creation from future store development and acquisitions. See Section 6 of the Circular, "Certain Effects of the Offer – Liquor Barn Development Agreement".

Opportunity to Share in Synergies and Other Operational Benefits

The combination of both entities is expected to provide attractive opportunities to realize meaningful synergies through the elimination of redundant costs and the implementation of operational best practices. Based on cost estimates made by Liquor Barn Fund's management at the time of its initial public offering, Liquor Stores Fund's management estimates immediate cost savings of approximately \$1.5 million through the elimination of certain public company costs of Liquor Barn Fund and duplicative head office and general and administration expenses. In addition, Liquor Stores Fund's management believes that there is an attractive opportunity to enhance the operating margins of Liquor Barn Fund, which are currently well below those of Liquor Stores Fund, through the application of Liquor Stores Fund's management expertise and operational best practices. Historically, Liquor Stores Fund's operating margin as a percentage of sales has consistently and significantly exceeded that of Liquor Barn Fund. See "Non-GAAP Measures".

An Experienced Senior Management Team with a Proven Track Record

The combined entity will benefit from the stability of Liquor Stores Fund's senior management team, which has a proven record of operational excellence, successful integration of acquisitions, and delivery of value to unitholders. Since its initial public offering on September 28, 2004, the trading price of the Liquor Stores Units has increased 113% from \$10.00 to \$21.33 at April 9, 2007, and has generated a total return of 148% including reinvestment of distributions. Over this period, management has successfully completed the acquisition and development of 55 stores more than doubling the number of stores, and has increased distributions four times from \$1.00 per unit annually to \$1.50 per unit annually in aggregate, representing a 50% increase since the initial public offering.

Offer and Merger Transaction has the Endorsement and Support of Liquor Barn's Second Largest Founding Unitholder Group

The Liquor Barn Supporting Securityholders, companies owned by Mr. Terry Nyquvest and members of his family (referred to as the "Spirits Liquor Mart Group"), have entered into the Securityholder Support Agreements with Liquor Stores Fund. The Liquor Barn Supporting Securityholders were the second largest founding vendor group of Liquor Barn Fund, having contributed 17 of the 58 retail liquor stores purchased by Liquor Barn Fund on completion of its initial public offering. Pursuant to the Securityholder Support Agreements they have, among other things, agreed to deposit under the Offer or the Merger Transaction any Liquor Barn Units they own or control, to vote all Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Special Voting Units and Liquor Barn Units they own or control in favour of any resolutions relating to the Offer and Merger, including the Special Resolution, and, effective on completion of the Offer and Merger, to appoint Liquor Stores Fund as voting trustee of the Liquor Barn Supporting Securityholders to exercise all voting rights attached to the Liquor Barn Supporting Securityholders' Liquor Barn Fund and Liquor Barn Partnership securities. The Liquor Barn Supporting Securityholders hold an aggregate of 808,942 Liquor Barn Special Voting Units, representing 5.8% of the currently outstanding Liquor Barn Voting Units (after giving effect to the Liquor Barn \$8.40 Offering). These Liquor Barn Special Voting Units are associated with the 404,471 Liquor Barn Exchangeable LP Units and 404,471 Liquor Barn Subordinated LP Units owned by the Liquor Barn Supporting Securityholders. See Section 20 of the Circular, "Acceptance of Offer".

See Section 5 of the Circular, "Expected Benefits of and Reasons to Accept the Offer".

6. **Pro Forma Financial Information**

Liquor Barn Unitholders should refer to the pro forma financial information contained in **Schedule "A"** to the Offer and Circular, "Pro Forma Consolidated Financial Statements". The pro forma consolidated financial statements do not reflect any synergies that might arise from the acquisition by Liquor Stores Fund of Liquor Barn Fund nor do they include any restructuring or integration costs that may be incurred by Liquor Stores Fund. The pro forma consolidated financial statements reflect the operations of Liquor Barn Fund for a part year from commencement of active operations on May 17, 2006, the date Liquor Barn Fund completed its initial public offering.

7. **Time for Acceptance**

The Offer is open for acceptance commencing on the date hereof until the Expiry Time, unless withdrawn, varied or extended by the Offeror. The Expiry Time is 10:00 p.m. (Edmonton time) on May 17, 2007. The Offer may be extended by the Offeror. See Section 2 of the Offer, "Time for Acceptance" and Section 5 of the Offer, "Extension, Variation or Change in the Offer".

8. **Manner of Acceptance**

Registration of interests in and transfers of Liquor Barn Units may currently only be made through a book entry only system administered by CDS. As such, in order to tender their Liquor Barn Units to the Offer and make an Offer Election or a Merger Election, Liquor Barn Unitholders must complete the documentation and follow the instructions provided by their broker or other nominee prior to the Expiry Time. **Brokers and other nominees may set a deadline that is earlier than this deadline, and as such Liquor Barn Unitholders should contact their broker or other nominee for assistance.** CDS will be required to complete and return the Letter of Acceptance and Transmittal in respect of all Liquor Barn Units tendered to the Offer by CDS Participants on behalf of Liquor Barn Unitholders. See Section 3 of the Offer, "Manner of Acceptance".

Notwithstanding anything to the contrary contained in the Offer or the Circular or the Letter of Acceptance and Transmittal, Offer Electing Liquor Barn Unitholders will be deemed to have deposited any Rights associated with such Offer Elected Liquor Barn Units, and any such Rights will also be deemed to be taken up if the associated Offer Elected Liquor Barn Units are taken up by the Offeror. No additional payment will be made for any Rights and no amount of the consideration to be paid by the Offeror will be allocated to any Rights.

9. **Conditions**

The Offeror will have the right to withdraw or terminate the Offer (or amend the Offer), and will not be required to accept for payment, take up, purchase or pay for and/or may extend the period of time during which the Offer is open and/or may postpone taking up and paying for any Liquor Barn Units deposited under the Offer, unless all of the conditions described in Section 4 of the Offer, "Conditions of the Offer", are satisfied or waived by the Offeror at or prior to the time the Offeror proposes to accept Liquor Barn Units for take up under the Offer. The Offer is conditional upon, among other things, the following: (a) the number of Liquor Barn Units held by Electing Liquor Barn Unitholders, together with the number of Liquor Barn Units held as of the Expiry Time by or on behalf of the Offeror or its subsidiaries, if any, together with any separately voted Liquor Barn Voting Units, must represent more than 66 2/3% of the then outstanding Liquor Barn Voting Units; and (b) the receipt of regulatory, stock exchange and third-party approvals on terms satisfactory to the Offeror, acting reasonably. See Section 4 of the Offer, "Conditions of the Offer".

10. **Take Up of and Payment for Deposited Liquor Barn Units**

Upon and subject to the terms and conditions of the Offer, the Offeror will be obliged to take up and pay for Liquor Barn Units duly and validly deposited pursuant to the Offer in accordance with the terms hereof and not validly withdrawn within 10 days after the Expiry Time. Any Liquor Barn Units taken up will be required to be paid for as soon as possible and in any event not later than three business days after they are taken up. Any Liquor Barn Units deposited pursuant to the Offer after the first date on which Liquor Barn Units have been taken up and paid for by the Offeror will be required to be taken up and paid for within 10 days of such deposit. See Section 6 of the Offer, "Take up of and Payment for Deposited Liquor Barn Units".

11. Merger Transaction

The Merger Transaction

If the Merger is completed, Liquor Barn Unitholders that make a Merger Election will receive Liquor Stores Units in exchange for their Liquor Barn Units on a tax-deferred "roll-over" basis for Canadian income tax purposes pursuant to the mechanics of the Merger. By making a Merger Election through their broker or other nominee, Merger Electing Liquor Barn Unitholders, through CDS, on behalf of the Merger Electing Liquor Barn Unitholders, will deposit the Merger Elected Liquor Barn Units to the Offer and then will withdraw such Merger Elected Liquor Barn Units from the Offer, effective at 9:00 p.m. (Edmonton time) on the Expiry Date. Accordingly, if the Merger is completed, Merger Elected Liquor Barn Units will not be taken-up and paid for under the Offer but such Merger Elected Liquor Barn Units will participate in the Merger.

Prior to their withdrawal as outlined above, Merger Electing Liquor Barn Unitholders will provide the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, through the execution of the Letter of Acceptance and Transmittal, as described under Section 3 of the Offer, "Manner of Acceptance". As a consequence, all Merger Electing Liquor Barn Unitholders will be approving the Special Resolution.

Following the approval of the Special Resolution the Offeror intends to enter into the Merger Agreement.

Liquor Stores Fund and Liquor Barn Fund will agree in the Merger Agreement to jointly elect to have section 132.2 of the Tax Act (and similar provincial legislation) apply with respect to the Merger. Liquor Stores Fund will determine the elected amounts for the assets of Liquor Barn Fund.

The Offeror's current intention is to complete the Merger (including the subsequent distribution of Liquor Stores Units to Liquor Barn Unitholders upon the redemption of the outstanding Liquor Barn Units) immediately following and conditional on the take-up under the Offer (or the satisfaction or waiver of all conditions thereunder) so as to provide the most consistent treatment possible to all Liquor Barn Unitholders, whether they are exchanging Liquor Barn Units for Liquor Stores Units under the Offer or as a result of the Merger.

The approval of a majority of the votes cast by minority holders of Liquor Barn Units (including Liquor Barn Units held by Electing Liquor Barn Unitholders) of the Special Resolution is also required. The Offeror has applied to the OSC and the AMF to obtain relief under OSC Rule 61-501 and Policy Q-27, respectively, from the requirements, in the event that the Offeror takes up and pays for Liquor Barn Units under the Offer, to (a) call a meeting of Liquor Barn Unitholders to approve the Merger, and (b) send an information circular to Liquor Barn Unitholders in connection with the Merger, in each case provided that minority approval shall have been obtained, albeit not at a meeting of Liquor Barn Unitholders, but by written resolution.

In order not to provide the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, withdrawals of Merger Elected Liquor Barn Units must be effected prior to 4:59 p.m. (Edmonton time) on the Expiry Date via CDS and through a Merger Electing Liquor Barn Unitholder's broker or other nominee or as otherwise permitted at law. A notice of withdrawal of such Merger Elected Liquor Barn Units must actually be received by the Depositary prior to 4:59 p.m. (Edmonton time) on the Expiry Date in a manner such that the Depositary has a written or printed copy of such notice of withdrawal. Merger Electing Liquor Barn Unitholders should contact their broker or other nominee for assistance. No further action on the part of CDS or the Merger Electing Liquor Barn Unitholders is required to withdraw such Merger Elected Liquor Barn Units from the Offer as at 9:00 p.m. (Edmonton time) on the Expiry Date.

A Merger Electing Liquor Barn Unitholder's broker or other nominee may set deadlines for the withdrawal of Merger Elected Liquor Barn Units prior to 4:59 p.m. (Edmonton time) on the Expiry Date that are earlier than those specified above. Merger Electing Liquor Barn Unitholders should contact their broker or other nominee for assistance.

If the Special Resolution is approved and if the Merger is completed, Non-Electing Liquor Barn Unitholders will receive Liquor Stores Units under the Merger as if they had made a Merger Election.

Summary of Merger Agreement

Conditional on the approval of the Special Resolution, Liquor Stores Fund intends to sign and deliver, on behalf of Liquor Barn Fund, a merger agreement (the "**Merger Agreement**") with the Offeror prior to 10:00 p.m. (Edmonton time) on the Expiry Date. Pursuant to the Merger Agreement, and subject to the terms and conditions thereof, the Offeror would agree to acquire all of the assets and assume all of the liabilities of Liquor Barn Fund in return for Liquor Stores Units and Liquor Stores Special Voting Units.

The closing of the transactions under the Merger Agreement would occur, subject to the terms and conditions of the Merger Agreement, on such date (not later than 120 days after the Expiry Date) as is specified in writing by Liquor Stores Fund, which is currently expected to occur immediately following and conditional on the take-up under the Offer. Liquor Barn Fund would agree to then redeem all outstanding Liquor Barn Units, subject to any adjustments as provided for in the Merger Agreement, and distribute the Liquor Stores Units to the former holders of Liquor Barn Units on the same terms as under the Offer, namely on the basis of 0.53 of a Liquor Stores Unit per Liquor Barn Unit (subject to adjustment as provided under the Offer). Any Liquor Stores Units received by the Offeror as a holder of Liquor Barn Units at such time would be cancelled. Notwithstanding the foregoing, the Offeror may retain or reacquire one Liquor Barn Unit in its discretion to keep Liquor Barn Fund in existence.

The closing of the transactions contemplated in the Merger Agreement would be subject to the take-up of Offer Elected Liquor Barn Units under the Offer or the satisfaction or waiver of all conditions under the Offer. If any of the conditions were not satisfied or waived by the Offeror, then the Offeror would be entitled to terminate the Merger Agreement, without prejudice to any other remedies (including damages or equitable remedies) that it may have. Each party to the Merger Agreement would be responsible for its own expenses, and the Merger Agreement would be governed by the laws of Alberta.

Special Resolution

If the Offer is completed, Electing Liquor Barn Unitholders would, through the execution by CDS of the Letter of Acceptance and Transmittal (see Part A of the Letter of Acceptance and Transmittal), together with Liquor Barn Special Voting Unitholders, approve a special resolution, substantially as set forth below:

"Capitalized terms used and not defined in this resolution have the meanings given to them in the Offer and Circular of Liquor Stores Income Fund dated April 10, 2007 (the "**Offer and Circular**"):

- (a) The Merger Transaction (as described in Section 16, "Merger Transaction", of the Offer and Circular), and any ancillary matters in connection therewith, are approved and Liquor Stores Fund is authorized to execute, on behalf of Liquor Barn Fund, the Merger Agreement in connection with the Merger Transaction on substantially the terms described in the Offer and Circular;
- (b) The amendment to the Liquor Barn Declaration of Trust to provide, in connection with the Merger, following the transfer of all of the assets and liabilities of Liquor Barn Fund to the Offeror in exchange for Liquor Stores Units and Liquor Stores Special Voting Units, for the retention or reacquisition of one Liquor Barn Unit by Liquor Stores Fund as provided in the Merger Agreement, if applicable, and subject to the foregoing, for the redemption of all outstanding Liquor Barn Units and Liquor Barn Special Voting Units and the distribution of such Liquor Stores Units and Liquor Stores Special Voting Units to the Liquor Barn Unitholders on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit and to the Liquor Barn Special Voting Unitholders on the basis of 0.53 of a Liquor Stores Special Voting Unit for each Liquor Barn Special Voting Unit (subject to adjustment as provided under the Offer and the Merger Agreement), on a tax-deferred "roll-over" basis for Canadian income tax purposes (and the cancellation of any such Liquor Stores Units received by the Offeror itself) in full and final satisfaction of such Liquor Barn Voting Unitholders' rights, is approved and Liquor Stores Fund is authorized to execute an amendment to the Liquor Barn Declaration of Trust in connection with the foregoing;
- (c) The amendment of the Liquor Barn Declaration of Trust to thereafter permit Liquor Stores Fund, notwithstanding anything to the contrary contained therein, to vote, execute and deliver any

instruments of proxy, authorizations, requisitions, resolutions or consents in respect of any Liquor Barn Units taken up under the Offer or otherwise acquired which are at the time beneficially owned by the Offeror, if determined necessary or appropriate by Liquor Stores Fund, is approved and Liquor Stores Fund is authorized to execute an amendment to the Liquor Barn Declaration of Trust in connection with the foregoing;

- (d) The Liquor Barn Trustees and all directors and officers of Liquor Barn Fund and its subsidiaries are directed to cooperate in all respects with the Offeror and Liquor Stores GP; and
- (e) Any trustee of Liquor Stores Fund, any officer or director of Liquor Stores GP, and any other Persons designated by Liquor Stores Fund in writing, is authorized to execute and deliver all documents and do all acts or things, on behalf of Liquor Barn Fund or otherwise, as may be necessary or desirable to give effect to this special resolution."

In addition to approval of the foregoing Special Resolution, the Offeror would have to approve the entering into of, and enter into, the Merger Agreement on the Offeror's part.

The power of attorney granted to Liquor Stores Fund in the Letter of Acceptance and Transmittal to vote, execute and deliver any instruments of proxy, authorizations, resolutions or consents in respect of the Special Resolution will only be used and relied upon if Liquor Stores Fund intends to proceed with the take-up and payment for Liquor Barn Units deposited under the Offer and the completion of the Merger Transaction.

Distributions

In the event that Liquor Stores Fund takes-up and pays for Offer Elected Liquor Barn Units under the Offer and Liquor Barn Fund is unable to (because of its financial position or otherwise), or does not, declare and make a cash distribution in an amount per Liquor Barn Unit, at any time thereafter and prior to the completion of the Merger, that is at least equal to the cash distributions per Liquor Stores Unit declared and paid by Liquor Stores Fund in the same period multiplied by the Exchange Ratio (the "**Equivalent Liquor Stores Fund Distribution**"), then at the time of completion of the Merger, the Merger Electing Liquor Barn Unitholders and Non-Electing Liquor Barn Unitholders will receive an additional amount, without interest, up to the amount of the Equivalent Liquor Stores Fund Distribution, so as to ensure they receive, before taxes, the same value as if they had their Liquor Barn Units taken up under the Offer. Liquor Stores Fund has determined that the payment of such amount in cash may result in adverse tax consequences to such Liquor Barn Unitholders or to Liquor Barn Fund in connection with the Merger, and as such this amount will be paid in Liquor Stores Units (the value of which will be based on the lesser of the previous three and ten trading day volume weighted average trading prices of the Liquor Stores Units on the TSX for the period ended on the closing date of the Offer). As the Merger is expected to be completed immediately following the take-up under the Offer, or the satisfaction or waiver of all conditions under the Offer, no such additional amounts are expected to be payable.

The Offeror reserves the right to permit a Merger Election to be made in a manner other than that set forth in Section 16 of the Circular, "Merger Transaction".

See "Special Resolution" and "Summary of Merger Agreement" in Section 16 of the Circular, "Merger Transaction". See also Section 3 of the Offer, "Manner of Acceptance" and Section 18 of the Circular, "Canadian Federal Income Tax Considerations".

12. **Regulatory Matters, Etc.**

Certain notifications to and/or approvals from applicable regulatory authorities or counterparties to agreements will be required in connection with the Offer and Merger. See Section 15 of the Circular, "Regulatory Matters, Etc."

13. **Risk Factors**

There are certain risks inherent in an investment in the Liquor Stores Units and in the activities of the Offeror that Liquor Barn Unitholders should carefully consider. See Section 17 of the Circular, "Risk Factors".

14. **Canadian Federal Income Tax Considerations**

A disposition of Liquor Barn Units held as capital property by an Offer Electing Liquor Barn Unitholder in exchange for Liquor Stores Units will give rise to a capital gain (or a capital loss) for Canadian tax purposes, equal to the amount by which the proceeds of disposition of the Liquor Barn Units, net of any costs of disposition, exceed (or are less than) the adjusted cost base of the Liquor Barn Units to the Offer Electing Liquor Barn Unitholder immediately prior to the disposition. For these purposes, the proceeds of disposition of the Liquor Barn Units will generally be equal to the aggregate of the fair market value of the Liquor Stores Units received in exchange therefor.

The Merger will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act. Accordingly, for Canadian tax purposes, where a Merger Electing Liquor Barn Unitholder or a Non-Electing Liquor Barn Unitholder disposes of Liquor Barn Units to Liquor Barn Fund in exchange for Liquor Stores Units on the redemption of Liquor Barn Units pursuant to the Merger, the Liquor Barn Unitholder's proceeds of disposition for the Liquor Barn Units disposed of, and the cost to the Liquor Barn Unitholder of the Liquor Stores Units received in exchange therefor, will be deemed to be equal to the adjusted cost base to the Liquor Barn Unitholder of the Liquor Barn Units immediately prior to their disposition, resulting in a tax-deferred "roll-over" for Canadian tax purposes.

Subsequent to the exchange of Liquor Barn Units for Liquor Stores Units pursuant to the Offer or the Merger, a former Liquor Barn Unitholder will be subject to taxation as a Liquor Stores Unitholder. See Section 18 of the Circular, "Canadian Federal Income Tax Considerations".

15. **Depositary and Information Agent**

CIBC Mellon Trust Company has been retained as the Depositary, and Georgeson has been retained as the Information Agent, for the Offer. The Depositary and/or the Information Agent may contact Liquor Barn Unitholders by mail, telephone, teletype, telegraph and personal interview and may request banks, brokers, dealers and other nominees to forward materials relating to the Offer to beneficial owners of Liquor Barn Units. See Section 23 of the Circular, "Depositary and Information Agent".

16. **Financial Advisor and Soliciting Dealer Group**

The Offeror has engaged the services of RBC Capital Markets to act as financial advisor and Dealer Manager in connection with the Offer, in the latter case to solicit acceptances of the Offer. The Dealer Manager intends to form a Soliciting Dealer Group comprised of members of the Investment Dealers Association of Canada and members of the TSX and the TSX Venture Exchange to solicit acceptances of the Offer from persons who are resident in Canada. Each member of the Soliciting Dealer Group, including the Dealer Manager, is referred to herein as a "Soliciting Dealer". The Offeror has agreed to pay to each Soliciting Dealer a fee for each Liquor Barn Unit deposited through such Soliciting Dealer and taken up by the Offeror under the Offer or acquired pursuant to the Merger Transaction. See Section 24 of the Circular, "Financial Advisor and Soliciting Dealer Group".

Liquor Barn Unitholders will not be required to pay any fee or commission to the Offeror if they make use of the services of a member of the Soliciting Dealer Group to accept the Offer or the Merger.

OFFER

The accompanying Circular, which is incorporated into and forms part of the Offer, contains important information that should be read carefully before making a decision with respect to the Offer.

TO: THE HOLDERS OF UNITS OF LIQUOR BARN INCOME FUND

April 10, 2007

1. The Offer

The Offeror hereby offers to purchase, on and subject to the terms and conditions hereinafter specified (including, if the Offer is extended or amended, the terms and conditions of any extension or amendment), all of the issued and outstanding Liquor Barn Units on the basis of the Exchange Ratio (being 0.53 of a Liquor Stores Unit for each Liquor Barn Unit, subject to adjustment as provided herein).

The Offer is made only for Liquor Barn Units and is not made for any options, warrants or other exchange or conversion rights to acquire Liquor Barn Units (other than any Rights). Any holder of such options, warrants or other exchange or conversion rights to purchase Liquor Barn Units (other than any Rights), including a holder of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options, who wishes to accept the Offer must exercise the options, warrants or other exchange or conversion rights (other than any Rights) and deposit the Liquor Barn Units through his, her or its broker or other nominee under and in accordance with the Offer. Any such exercise must be in sufficient time to comply with the procedures referred to in Section 3 of this Offer, "Manner of Acceptance". If a holder of Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Convertible Debentures or Liquor Barn Options, as the case may be, does not exercise the exchange, conversion or purchase rights associated with such securities before the Expiry Time, such securities will remain outstanding in accordance with their terms and conditions.

No fractional Liquor Stores Units will be issued under the Offer. If CDS, as the registered holder of all of the Liquor Barn Units, would otherwise be entitled to receive a fractional Liquor Stores Unit under the Offer, the number of Liquor Stores Units issuable to CDS will be rounded up to the next whole number. Liquor Barn Unitholders should consult their broker or other nominee to confirm whether fractional Liquor Stores Units or cash in lieu thereof will be paid to them by their broker or other nominee under the Offer.

The obligation of the Offeror to take up and pay for Liquor Barn Units pursuant to the Offer is subject to certain conditions. See Section 4 of the Offer, "Conditions of the Offer". The accompanying Circular is incorporated by reference in and forms a part of the Offer.

An exchange of Liquor Stores Units for Liquor Barn Units under the Offer will be treated as a taxable disposition for Canadian income tax purposes. Under the Merger Transaction alternative, Liquor Barn Unitholders have the opportunity to exchange their Liquor Barn Units for Liquor Stores Units on a 0.53 for one basis on a tax-deferred "roll-over" basis for Canadian income tax purposes so as to defer the recognition of any gain (or loss) for Canadian income tax purposes. **To participate in the Merger Transaction, you must deposit your Liquor Barn Units to the Offer and make a Merger Election through your broker or other nominee prior to 10:00 p.m. (Edmonton time) on May 17, 2007. Your broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your broker or other nominee for assistance.** See Section 16 of the Circular, "Merger Transaction" and Section 3 of the Offer, "Manner of Acceptance".

If for any reason no election is made by a Liquor Barn Unitholder with respect to Liquor Barn Units tendered to the Offer, such Liquor Barn Unitholder will be deemed to have made a Merger Election in respect of such Liquor Barn Units.

2. Time for Acceptance

The Offer is open for acceptance commencing on the date hereof until the Expiry Time, unless withdrawn, varied or extended by the Offeror. The Expiry Time is 10:00 p.m. (Edmonton time) on May 17, 2007. The Offer may be extended by the Offeror. See Section 5 of the Offer, "Extension, Variation or Change in the Offer".

3. Manner of Acceptance

The following should be carefully reviewed by Liquor Barn Unitholders wishing to deposit their Liquor Barn Units to the Offer and make an Offer Election. Liquor Barn Unitholders that wish to make a Merger Election should see Section 16 of the Circular, "Merger Transaction".

Registration of interests in and transfers of Liquor Barn Units may currently only be made through a book entry only system administered by CDS. As such, in order to deposit their Liquor Barn Units to the Offer and make an Offer Election or a Merger Election, Liquor Barn Unitholders must complete the documentation and follow the instructions provided by their broker or other nominee prior to the Expiry Time. **Brokers and other nominees may set a deadline that is earlier than this deadline, and as such Liquor Barn Unitholders should contact their broker or other nominee for assistance.** CDS will be required to complete and return the Letter of Acceptance and Transmittal in respect of all Liquor Barn Units deposited to the Offer by CDS Participants on behalf of Liquor Barn Unitholders.

Pursuant to the terms of the Letter of Acceptance and Transmittal, if for any reason an election is not made with respect to Liquor Barn Units tendered to the Offer, such Liquor Barn Units will be deemed to be Merger Elected Liquor Barn Units. In addition, given the settlement rules of the TSX, Liquor Barn Unitholders who purchase Liquor Barn Units less than 3 trading days prior to the Expiry Date should contact their broker or other nominee to confirm how to make an election to participate in the Offer.

Notwithstanding anything to the contrary contained in the Offer or the Circular or the Letter of Acceptance and Transmittal, Offer Electing Liquor Barn Unitholders will be deemed to have deposited any Rights associated with such Offer Elected Liquor Barn Units, and any such Rights will also be deemed to be taken up if the associated Offer Elected Liquor Barn Units are taken up by the Offeror. No additional payment will be made for any Rights and no amount of the consideration to be paid by the Offeror will be allocated to any Rights.

All Offer Electing Liquor Barn Unitholders hereby expressly acknowledge and agree to be bound by the terms of the Letter of Acceptance and Transmittal and that the Offeror may enforce such terms against such Offer Electing Liquor Barn Unitholders. A copy of the Letter of Acceptance and Transmittal may be obtained at www.sedar.com, or without charge from the Vice-President, Finance and Chief Financial Officer of Liquor Stores GP at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1. (Telephone: (780) 917-4179).

Liquor Barn Unitholders who are residents of certain U.S. states and who do not qualify as exempt investors in such U.S. states, who would otherwise receive Liquor Stores Units in exchange for their Offer Elected Liquor Barn Units may, at the discretion of the Offeror, have such Liquor Stores Units issued on their behalf to a selling agent, which shall, as agent for such Liquor Barn Unitholders (and without liability except for gross negligence or wilful misconduct), sell such Liquor Stores Units on their behalf over the facilities of the TSX and have the net proceeds of such sale, less any applicable withholding taxes, delivered to such Liquor Barn Unitholders. Liquor Stores Fund will have no liability for any such proceeds received or the remittance thereof to such Liquor Barn Unitholders. Liquor Barn Unitholders who are residents of Idaho, Iowa, Kansas, Maine, Michigan, Missouri, Ohio, South Carolina, South Dakota, Vermont and the U.S. Virgin Islands are eligible to receive Liquor Stores Units in exchange for their Offer Elected Liquor Barn Units. Liquor Barn Unitholders who are residents of states other than those listed above may receive Liquor Stores Units in exchange for their Offer Elected Liquor Barn Units only to the extent that they qualify as exempt under the laws of the respective states in which they reside. **Liquor Barn Unitholders who are not residents of the states listed above should consult with their brokers or other nominees or legal advisors to determine whether or not they qualify as exempt investors. Each Offer Electing Liquor Barn Unitholder who instructs its broker or other nominee to deposit its Liquor Barn Units in the Offer and make an Offer Election will be deemed to have represented to such broker or other nominee and to the Offeror that either (i) it is a resident of one of the states listed above or (ii) it is an exempt investor under the laws of the state where such Offer Electing Liquor Barn Unitholder resides, unless such Offer Electing Liquor Barn Unitholder advises its broker or other nominee and the Offeror in writing that these representations would not be true.**

All questions as to the validity, form, eligibility (including timely receipt) and acceptance of any Offer Elected Liquor Barn Units and accompanying documents will be determined by the Offeror in its sole discretion. Offer Electing Liquor Barn Unitholders agree that such determinations will be final and binding. The Offeror reserves the absolute right to reject any and all deposits which it determines not to be in proper form or which may be unlawful to accept under the laws of any jurisdiction. The Offeror reserves the absolute right to waive any defect or irregularity in the deposit of any Offer Elected Liquor Barn Units and

accompanying documents. There is no duty or obligation on the part of the Offeror, the Depositary, the Information Agent or the Dealer Manager (or any of their respective trustees, directors, officers, employees, agents or representatives) or any other Person to give notice of any defects or irregularities in any deposit of Offer Elected Liquor Barn Units and no liability will be incurred by any of them for not giving any such notice. The Offeror's interpretation of the terms and conditions of the Offer and Circular and the Letter of Acceptance and Transmittal will be final and binding.

The completion of the Letter of Acceptance and Transmittal by CDS, on behalf of the Offer Electing Liquor Barn Unitholders, will constitute an agreement between CDS, on behalf of the Offer Electing Liquor Barn Unitholders, and the Offeror in accordance with the terms and conditions of the Offer, including the representation and warranty by the Offer Electing Liquor Barn Unitholder that: (i) each Offer Electing Liquor Barn Unitholder has full power and authority to deposit, sell, assign and transfer the Offer Elected Liquor Barn Units, (ii) each Offer Electing Liquor Barn Unitholder owns the Offer Elected Liquor Barn Units free and clear of all liens, restrictions, charges, encumbrances, claims, equities and rights of others of any nature whatsoever and has not sold, assigned or transferred, or agreed to sell, assign or transfer, any of such Offer Elected Liquor Barn Units being deposited to any other Person, (iii) the deposit of such Offer Elected Liquor Barn Units complies with Securities Laws, and (iv) if and when such Offer Elected Liquor Barn Units are taken up by the Offeror, the Offeror will acquire good title thereto, free and clear of all liens, restrictions, charges, encumbrances, claims, equities and rights of others of any nature whatsoever.

The execution of the Letter of Acceptance and Transmittal irrevocably approves, and irrevocably constitutes and appoints Liquor Stores Fund, and any other Persons designated by Liquor Stores Fund in writing, as the true and lawful agents, attorneys and attorneys-in-fact of CDS, on behalf of the beneficial owners of the Elected Liquor Barn Units (see Part A of the Letter of Acceptance and Transmittal), effective from and after 5:00 p.m. (Edmonton time) on the Expiry Date, with full power of substitution, in the name of and on behalf of CDS and the beneficial owners of the Elected Liquor Barn Units (such power of attorney being deemed to be an irrevocable power coupled with an interest), to vote, execute and deliver any instruments of proxy, authorizations, resolutions or consents, in respect of special resolutions:

- (a) regarding the Merger Transaction, and any ancillary matters in connection therewith including, without limitation, to approve and execute, on behalf of Liquor Barn Fund, the Merger Agreement in connection with the Merger Transaction;
- (b) regarding the amendment to the Liquor Barn Declaration of Trust to provide for, in connection with the Merger, following the transfer of all of the assets and liabilities of Liquor Barn Fund to the Offeror in exchange for Liquor Stores Units and Liquor Stores Special Voting Units, the retention or reacquisition of one Liquor Barn Unit by Liquor Stores Fund as provided in the Merger Agreement, if applicable, and subject to the foregoing, the redemption of all outstanding Liquor Barn Units and Liquor Barn Special Voting Units and the distribution of such Liquor Stores Units and Liquor Stores Special Voting Units to the Liquor Barn Unitholders on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit and to the Liquor Barn Special Voting Unitholders on the basis of 0.53 of a Liquor Stores Special Voting Unit for each Liquor Barn Special Voting Unit (subject to adjustment as provided under the Offer and the Merger Agreement), on a tax-deferred "roll-over" basis for Canadian income tax purposes (and the cancellation of any such Liquor Stores Units received by the Offeror itself) in full and final satisfaction of such Liquor Barn Voting Unitholders' rights, and authorizing Liquor Stores Fund to execute such amendment to the Liquor Barn Declaration of Trust in connection therewith;
- (c) regarding the amendment of the Liquor Barn Declaration of Trust to thereafter permit Liquor Stores Fund, notwithstanding anything to the contrary contained therein, to vote, execute and deliver any instruments of proxy, authorizations, requisitions, resolutions or consents in respect of the Liquor Barn Units taken up under the Offer or otherwise acquired which are at the time beneficially owned by the Offeror, if determined necessary or appropriate by Liquor Stores Fund, and authorizing Liquor Stores Fund to execute such amendment to the Liquor Barn Declaration of Trust in connection therewith;
- (d) directing that the Liquor Barn Trustees and all directors and officers of Liquor Barn Fund and its subsidiaries cooperate in all respects with the Offeror and Liquor Stores GP; and
- (e) authorizing any trustee of Liquor Stores Fund, any officer or director of Liquor Stores GP and any other Persons designated by Liquor Stores Fund in writing, to execute and deliver all documents and do all acts or things, on behalf of Liquor Barn Fund or otherwise, as may be necessary or desirable to give effect to such special resolutions;

such special resolutions and Merger Agreement being on substantially the terms described in Section 16 of the Circular, "Merger Transaction". See also Part A of the Letter of Acceptance and Transmittal.

The power of attorney granted to Liquor Stores Fund in the Letter of Acceptance and Transmittal to vote, execute and deliver any instruments of proxy, authorizations, resolutions or consents in respect of the Special Resolution will only be used and relied upon if Liquor Stores Fund intends to proceed with the take-up and payment for Liquor Barn Units deposited under the Offer and the completion of the Merger Transaction.

In addition, the execution of the Letter of Acceptance and Transmittal irrevocably constitutes and appoints Liquor Stores Fund, and any other Persons designated by Liquor Stores Fund in writing, as the true and lawful agents, attorneys and attorneys-in-fact of CDS, on behalf of the beneficial owners of the Offer Elected Liquor Barn Units, with respect to the Offer Elected Liquor Barn Units, including any Rights and any and all rights and benefits arising from the Offer Elected Liquor Barn Units, including any and all dividends, distributions (other than Permitted Distributions), payments, securities, property or other interests that may be accrued, declared, issued, transferred, made or distributed on or in respect of the Offer Elected Liquor Barn Units, or any of them, on or after April 10, 2007, and any dividends, distributions or payments on such dividends, distributions, payments, securities, property or other interests (collectively, including any Rights, the "**Other Property**"), effective from and after 10:00 p.m. (Edmonton time) on the Expiry Date (the "**Effective Time**"), with full power of substitution, in the name of and on behalf of CDS and the beneficial owners of the Offer Elected Liquor Barn Units (such power of attorney being deemed to be an irrevocable power coupled with an interest) (see Part B of the Letter of Acceptance and Transmittal):

- (a) to register or record the transfer and/or cancellation of such Offer Elected Liquor Barn Units (and any Other Property) on the appropriate registers (as applicable);
- (b) to exercise any and all rights in respect of such Offer Elected Liquor Barn Units (and any Other Property), including, without limitation, to vote any or all such Offer Elected Liquor Barn Units (and any Other Property), to execute and deliver any and all instruments of proxy, authorizations or consents in a form and on terms satisfactory to Liquor Stores Fund in respect of any or all such Offer Elected Liquor Barn Units (and any Other Property), to revoke any such instrument, authorization or consent given prior to or after the Effective Time, to designate in such instrument, authorization or consent and/or designate in any such instruments of proxy any Person or Persons as the proxy of CDS, on behalf of the beneficial owners of such Offer Elected Liquor Barn Units, in respect of such Offer Elected Liquor Barn Units (and any Other Property), for all purposes including, without limitation, in connection with any meeting or meetings (whether annual, special or otherwise, or any adjournment thereof) or resolutions of Liquor Barn Unitholders;
- (c) to execute, endorse and negotiate, for and in the name of and on behalf of CDS, on behalf of the beneficial owners of such Offer Elected Liquor Barn Units, any and all cheques or other instruments representing any Other Property that may be payable to or to the order of, or endorsed in favour of CDS, on behalf of the beneficial owners of such Offer Elected Liquor Barn Units, and/or designate in any instruments of proxy any Person(s) as the proxy or the proxy nominee(s) of CDS, on behalf of the beneficial owners of such Offer Elected Liquor Barn Units, in respect of such Other Property for all purposes; and
- (d) to exercise any other rights of a holder of such Offer Elected Liquor Barn Units (and any Other Property).

An Offer Electing Liquor Barn Unitholder also agrees, pursuant to the terms of the Letter of Acceptance and Transmittal, not (without Liquor Stores Fund's prior express written consent) to vote any of the Offer Elected Liquor Barn Units (or any Other Property) at any meeting (whether annual, special or otherwise and any adjournments thereof including, without limitation, any meeting to consider the Merger Transaction) of Liquor Barn Unitholders and, not (without Liquor Stores Fund's prior express written consent) to exercise any of the other rights or privileges attached to the Offer Elected Liquor Barn Units (or any Other Property), and agrees to execute and deliver to the Offeror any and all instruments of proxy, authorizations or consents in respect of the Offer Elected Liquor Barn Units (and any Other Property) and to appoint in any such instruments of proxy, authorizations or consents the Person or Persons specified by Liquor Stores Fund as the proxy of the holder of the Offer Elected Liquor Barn Units (and any Other Property) and acknowledges that upon such appointment, except for the foregoing, all prior proxies and other authorizations (including without limitation, all appointments of any agent, attorney or attorney-in fact) or consents given by the holder of such Offer Elected Liquor Barn Units (and any Other Property) with respect thereto shall be revoked, and (without Liquor Stores Fund's prior express written consent) no subsequent proxies or other authorizations or consents may be given by such Person with respect thereto.

An Offer Electing Liquor Barn Unitholder also agrees, pursuant to the terms of the Letter of Acceptance and Transmittal, that if, on or after April 10, 2007, Liquor Barn Fund should declare or pay any distribution (other than Permitted Distributions) on the Liquor Barn Units or pay, declare, allot, reserve or issue any securities, rights or other interests with respect to any Liquor Barn Unit that are payable or distributable to Liquor Barn Unitholders on a record date (and time) that is prior to the time of transfer by CDS of a securities ledger position for the Liquor Barn Units tendered to the Offer to a ledger account maintained on behalf of the Offeror by a CDS Participant designated by the Offeror following acceptance thereof for purchase pursuant to the Offer, then the amount of the distributions (other than Permitted Distributions), payments, rights or interests relating to the Liquor Barn Units deposited to the Offer by CDS and not validly withdrawn will be required to be received and held by CDS for the account of the Offeror in the event it takes up such Liquor Barn Units. Alternatively, if any such distribution (other than a Permitted Distribution), payment, right or interest is delivered or paid to any Offer Electing Liquor Barn Unitholder, then, if the Offeror takes up and pays for such Offer Elected Liquor Barn Units, at the sole discretion of the Offeror, the Offeror may deduct the full amount or value of such distribution (other than a Permitted Distribution), payment, right or interest from the price payable to such Liquor Barn Unitholder (as calculated by the Offeror in its sole discretion) under the Offer or, at the election of the Offeror, such amount may be required to be returned or paid back in full to the Offeror by such Offer Electing Liquor Barn Unitholder.

The Offeror reserves the right to permit the Offer to be accepted in a manner other than that set forth in this Section 3.

4. **Conditions of the Offer**

The Offeror will have the right to withdraw or terminate the Offer (or amend the Offer), and will not be required to accept for payment, take up, purchase or pay for (and/or may extend the period of time during which the Offer is open and/or may postpone taking up and paying for) any Liquor Barn Units deposited under the Offer, unless all of the following conditions are satisfied or waived by the Offeror at or prior to the time the Offeror proposes to accept Liquor Barn Units for take up under the Offer:

- (a) the number of Liquor Barn Units held by Electing Liquor Barn Unitholders, together with the number of Liquor Barn Units held as of the Expiry Time by or on behalf of the Offeror or its subsidiaries, if any, together with any separately voted Liquor Barn Voting Units, must represent more than 66 2/3% of the then outstanding Liquor Barn Voting Units (the "**Minimum Condition**");
- (b) the Offeror shall be satisfied, in its reasonable judgment, that immediately prior to the completion of the Merger, there are outstanding at least 150 beneficial Liquor Barn Unitholders each holding not less than 100 Liquor Barn Units;
- (c) the number of Liquor Barn Ordinary LP Units held directly or indirectly by Liquor Barn Fund represent more than 66 2/3% of the then outstanding Liquor Barn LP Units;
- (d) the Offeror shall have obtained or received, on terms satisfactory to the Offeror acting reasonably all regulatory and third party (to the extent determined by the Offeror to be material) approvals, consents, clearances, waivers, licenses, permits, reviews, orders, rulings, decisions and exemptions that, in the Offeror's reasonable judgment, are necessary to complete the Offer and the Merger Transaction;
- (e) the Liquor Stores Units to be issued under the Offer and under the Merger Transaction shall have been conditionally approved for listing on the TSX on terms reasonably satisfactory to the Offeror;
- (f) no order, ruling or determination having the effect of suspending the issuance or ceasing the trading of the Liquor Stores Units or the Liquor Barn Units shall have been issued or made by any stock exchange or Securities Regulatory Authority and be continuing in effect and no proceedings for that purpose shall have been instituted or shall be pending or, to the knowledge of the Offeror, contemplated or threatened by any stock exchange or Securities Regulatory Authority;
- (g) there shall not be pending or threatened any suit, action or proceeding, before any Governmental Entity or Securities Regulatory Authority in any jurisdiction, in each case unless the same is acceptable to the Offeror acting reasonably;

- (i) seeking to cease trade, make illegal, delay or otherwise directly or indirectly restrain, restrict or prohibit the acquisition by the Offeror of the Liquor Barn Units under the Offer, the making or consummation of the Offer or the Merger Transaction or seeking to obtain from Liquor Barn Fund or the Offeror or any of their respective subsidiaries any material damages directly or indirectly in connection with the Offer or the Merger Transaction;
 - (ii) seeking to prohibit or limit the ownership or operation by the Offeror of any portion of the business or assets of Liquor Barn Fund or any of its subsidiaries or to compel the Offeror to dispose of or hold separate any portion of the business or assets of Liquor Barn Fund or any of its subsidiaries;
 - (iii) seeking to impose limitations on the ability of the Offeror to acquire or hold, or exercise full rights of ownership of, any assets of Liquor Barn Fund or any of its subsidiaries or any Liquor Barn Units;
 - (iv) seeking to prohibit the Offeror from effectively controlling the activities or undertaking of Liquor Barn Fund or any of its subsidiaries; or
 - (v) which otherwise is considered by the Offeror to be reasonably likely to have a Material Adverse Effect on Liquor Barn Fund or the Offeror;
- (h) there shall not be any judgment, injunction, order, decree or stay proposed, sought, enacted, enforced, promulgated, amended, issued or deemed applicable to the Offer or the Merger Transaction or Liquor Barn Fund or any of its subsidiaries, nor shall there have been passed any Law by any court or Governmental Entity in any jurisdiction, that might, directly or indirectly, result in any of the consequences referred to in paragraph (g) above, or that would or might prohibit, prevent, restrict, enjoin or delay the consummation of the Offer or the Merger Transaction, in each case unless the same is acceptable to the Offeror acting reasonably;
- (i) there shall not exist any prohibition at Law against the Offeror making the Offer or the Merger Transaction or taking up and paying for the Liquor Barn Units under the Offer or completing the Merger Transaction;
- (j) the Offeror shall have determined in its reasonable judgment that: (i) none of Liquor Barn Fund, any of its subsidiaries or any third party has taken or proposed to take any action, or failed to take any action, or disclosed a previously undisclosed action or event, which might make it inadvisable for the Offeror to proceed with the Offer, the taking up and paying for the Liquor Barn Units under the Offer or to proceed with the Merger Transaction including, without limitation, any amendments to the Liquor Barn Governance Documents or the Liquor Barn Development Agreement; and (ii) none of Liquor Barn Fund or any of its subsidiaries are not in compliance in any material respect with any material contract to which Liquor Barn Fund or any of its subsidiaries is a party at such time, including, without limitation, the Liquor Barn Governance Documents, in each case unless the same is acceptable to the Offeror acting reasonably;
- (k) the Offeror shall have determined in its reasonable judgment that none of the following exists or has occurred (which has not been cured or waived to the Offeror's satisfaction acting reasonably) or been threatened (i) any material right, franchise or licence of Liquor Barn Fund or any of its subsidiaries has been impaired or otherwise adversely affected, or (ii) any covenant, term or condition of any of Liquor Barn Fund's, or of any of its subsidiaries', instruments or agreements exists, in either case which might make it inadvisable for the Offeror to proceed with the Offer, or the taking up and paying for Liquor Barn Units under the Offer or to proceed with the Merger Transaction (including, but not limited to, any default (other than a default under Liquor Barn Fund's credit facilities) that may ensue as a result of the Offeror completing the Offer, the taking up and paying for Liquor Barn Units under the Offer, or proceeding with the Merger Transaction), in each case unless the same is acceptable to the Offeror acting reasonably;
- (l) Liquor Barn Fund shall not have entered into or effectuated any other agreement or transaction with any Person on or after April 10, 2007 having the effect of impairing the Offeror's ability to acquire Liquor Barn Fund or its assets or of any of its subsidiaries or its assets or otherwise diminishing the expected economic value to the Offeror of the acquisition of Liquor Barn Fund or any of its subsidiaries or its assets, in each case including, but not limited to, (i) any issuance of securities or options to purchase securities of Liquor Barn Fund or any of its

subsidiaries, (ii) any payments or distributions, other than Permitted Distributions, (iii) any agreement or understanding relating to the sale, disposition of or other dealing with the businesses or assets of Liquor Barn Fund, any of its subsidiaries or any part thereof or interest therein or relating to the rights of Liquor Barn Fund or any of its subsidiaries to manage, operate or control the conduct of the businesses or any part thereof, in each case out of the ordinary course, or (iv) any transaction not in the ordinary course of business, in each case unless the same is acceptable to the Offeror acting reasonably;

- (m) the Offeror shall have been provided to its satisfaction with, or shall have been given access to its reasonable satisfaction to, in a timely manner, all non-public information relating to Liquor Barn Fund and any of its subsidiaries as may be given, provided or made available by Liquor Barn Fund and any of its subsidiaries at any time after the announcement of the Offer, or within 120 days prior to the announcement of the Offer, to any other potential acquiror of any Liquor Barn Units or of a significant portion of the assets or securities of Liquor Barn Fund or any of its subsidiaries, or to any other potential acquiror considering (or seeking such information in order to consider) any takeover bid, merger, amalgamation, statutory arrangement or similar business combination with or involving Liquor Barn Fund and any of its subsidiaries;
- (n) the Offeror shall have determined in its reasonable judgment that no Material Adverse Change shall have occurred in respect of Liquor Barn Fund or any of its subsidiaries;
- (o) there shall not have occurred or been proposed any change to the Tax Act (other than the 2006 Proposed Tax Changes in their current form), any other applicable tax legislation or the interpretation of the provisions of the Tax Act or such other legislation that, in the reasonable judgment of the Offeror, is or would be detrimental to the Offeror or Liquor Barn Fund or any of their respective subsidiaries or any of their respective conditions (financial or otherwise), properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise), businesses, operations, results of operations, or prospects;
- (p) the Offeror shall not have become aware of any material misstatement, untrue statement of a material fact, or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made and at the date it was made (after giving effect to all subsequent filings prior to the date of the Offer in relation to all matters covered in earlier filings) in any document filed by or on behalf of Liquor Barn Fund or any of its subsidiaries with any Securities Regulatory Authority, in each case unless the same is acceptable to the Offeror acting reasonably;
- (q) there shall not have occurred, developed or come into effect or existence: (i) any event, action, state, condition or major financial occurrence of national or international consequence; (ii) any natural disaster or any acts of terrorism, sabotage, military action, police action or war (whether or not declared) or any escalation or worsening thereof; (iii) any other calamity or crisis; or (iv) any law, regulation, action, government regulation, inquiry or other occurrence of any nature whatsoever which materially adversely affects or involves the financial markets in Canada, the United States or elsewhere generally including any suspension of trading, or the financial condition, business, operations, assets, affairs or prospects of the Offeror or Liquor Barn Fund or any of their respective subsidiaries, in each case unless the same is acceptable to the Offeror acting reasonably; and
- (r) the Offeror shall have determined in its reasonable judgment and to its reasonable satisfaction that: (i) the Liquor Barn Rights Plan does not and will not adversely affect the Offer, the Merger Transaction or the Offeror either before or on consummation of the Offer or the Merger Transaction; (ii) the Liquor Barn Board of Trustees shall have redeemed all Rights issued under the Liquor Barn Rights Plan or shall have waived the application of the Liquor Barn Rights Plan to the Offeror's reasonable satisfaction, to the purchase of Liquor Barn Units by the Offeror under the Offer and, if applicable, the consummation of the Merger Transaction; (iii) if applicable, a binding cease trading order or a binding injunction, in either case reasonably satisfactory to the Offeror, shall have been issued that has the effect of prohibiting or preventing the exercise of the Rights or the issue of Liquor Barn Units upon the exercise of the Rights; (iv) a court of competent jurisdiction shall have ordered that the Rights are illegal, of no force or effect or may not be exercised in relation to the Offer and such order shall have become non-appealable; or (v) the Rights and the Liquor Barn Rights Plan shall otherwise have been held by a court of competent jurisdiction unexercisable or unenforceable in relation to the purchase by the Offeror of Liquor Barn Units under the Offer.

The foregoing conditions are for the sole benefit of the Offeror and may be asserted by the Offeror regardless of the circumstances giving rise to any such assertion (other than any intentional action or inaction by the Offeror or any of its subsidiaries) or may be waived by the Offeror in whole or in part at any time and from time to time in its sole discretion, without prejudice to any other rights which the Offeror may have. The failure by the Offeror at any time to exercise any of the foregoing rights will not be deemed a waiver of any such rights and each such right will be deemed an ongoing right which may be asserted at any time and from time to time. Any determination by the Offeror concerning the events described in the foregoing conditions will be final and binding on the Offeror and the Liquor Barn Unitholders.

Any waiver of a condition or the withdrawal of the Offer will be effective upon written notice (or other communication confirmed in writing) being given by the Offeror to that effect to the Depositary at its principal office in Calgary, Alberta. The Offeror, forthwith after giving any such notice, will make a public announcement of such waiver or withdrawal and, to the extent required by applicable Law, cause the Depositary as soon as is practicable thereafter to notify the Liquor Barn Unitholders and the holders of options, warrants or other exchange or conversion rights to acquire Liquor Barn Units in the manner set forth in Section 9 of this Offer, "Notice and Delivery". If the Offer is withdrawn, the Offeror will not be obligated to take up, accept for payment or pay for any Liquor Barn Units deposited under the Offer.

5. Extension, Variation or Change in the Offer

The Offer is open for acceptance until, but not after, the Expiry Time, unless the Offer is withdrawn or the Offer Period is extended.

Subject as hereinafter described, the Offeror may, in its sole discretion, at any time and from time to time, extend or vary the Expiry Time or vary the Offer by giving written notice (or other communication confirmed in writing) of such extension or variation to the Depositary at its principal office in Calgary, Alberta. Upon the giving of such notice or other communication extending or varying the Expiry Time, the Expiry Time will be, and will be deemed to be, so extended or varied. The Offeror, as soon as practicable thereafter, will cause the Depositary to provide a copy of the notice, in the manner set forth in Section 9 of this Offer, "Notice and Delivery", to CDS as the registered holder of all of the Liquor Barn Units. The Offeror will, as soon as practicable after giving notice of an extension or variation to the Depositary, make a public announcement of the extension or variation to the extent and in the manner required by applicable Law. Any notice of extension or variation will be deemed to have been given and to be effective on the day on which it is delivered or otherwise communicated to the Depositary at its principal office in Calgary, Alberta.

Where the terms of the Offer are varied (including if the Offeror waives any condition of the Offer), the Offer Period will not expire before 10 days after notice of the variation has been given to Liquor Barn Unitholders and the holders of options, warrants or other exchange or conversion rights to acquire Liquor Barn Units, unless otherwise permitted by applicable Law and subject to abridgement or elimination of that period pursuant to such orders as may be granted by Canadian courts and/or Securities Regulatory Authorities.

If, before the Expiry Time, or after the Expiry Time but before the expiry of all rights of withdrawal with respect to the Offer, a change occurs in the information contained in the Offer or the Circular, as amended from time to time, that would reasonably be expected to affect the decision of a Liquor Barn Unitholder to accept or reject the Offer (other than a change that is not within the control of the Offeror or an affiliate of the Offeror unless it is a change in a material fact relating to the Liquor Stores Units), the Offeror will give written notice of such change to the Depositary at its principal office in Calgary, Alberta and will cause the Depositary to provide as soon as practicable thereafter a copy of such notice in the manner set forth in Section 9 of this Offer, "Notice and Delivery", to CDS, as the registered holder of all of the Liquor Barn Units, and to the holders of options, warrants or other exchange or conversion rights to acquire Liquor Barn Units, if required by applicable Law. As soon as possible after giving notice of a change in information to the Depositary, the Offeror will make a public announcement of the change in information. Any notice of change in information will be deemed to have been given and to be effective on the day on which it is delivered or otherwise communicated to the Depositary at its principal office in Calgary, Alberta.

Notwithstanding the foregoing but subject to applicable Law, the Offer may not be extended by the Offeror if all of the terms and conditions of the Offer (other than those waived by the Offeror) have been fulfilled or complied with, unless the Offeror first takes up all Liquor Barn Units then deposited under the Offer and not validly withdrawn. An extension without taking up is required in certain cases where withdrawal rights apply.

During any such extension, or in the event of any variation or change in information, all Liquor Barn Units previously deposited and not taken up or withdrawn will remain subject to the Offer and may be accepted for purchase by the Offeror in accordance with the terms hereof, subject to the provisions set out in Section 7 of this Offer, "Right to Withdraw Deposited Liquor Barn Units". An extension or variation of the Expiry Time, a variation of the Offer or a change in information contained in the Offer or the Circular does not, unless otherwise expressly stated, constitute a waiver by the Offeror of any of its rights set out in Section 4 of this Offer, "Conditions of the Offer".

If the consideration being offered for the Liquor Barn Units under the Offer is increased, the increased consideration will be required to be paid to all Offer Electing Liquor Barn Unitholders whose Liquor Barn Units are taken up under the Offer, whether or not such Liquor Barn Units were taken up before the increase. If the Offeror purchases Liquor Barn Units other than pursuant to the Offer during the period of time within which Liquor Barn Units may be deposited pursuant to the Offer, the Liquor Barn Units acquired other than pursuant to the Offer will be required to be counted to determine whether the Minimum Condition has been fulfilled.

6. **Take Up Of and Payment For Deposited Liquor Barn Units**

Upon and subject to the terms and conditions of the Offer, the Offeror will be obliged to take up and pay for Liquor Barn Units duly and validly deposited pursuant to the Offer in accordance with the terms hereof and not validly withdrawn within 10 days after the Expiry Time. Any Liquor Barn Units taken up will be required to be paid for as soon as possible, and in any event not later than three business days after they are taken up. Any Liquor Barn Units deposited pursuant to the Offer after the first date on which Liquor Barn Units have been taken up and paid for by the Offeror will be required to be taken up and paid for within 10 days of such deposit.

For the purposes of the Offer, the Offeror will be deemed to have taken up and accepted for payment Liquor Barn Units validly deposited under the Offer and not validly withdrawn if, as and when the Offeror gives written notice to the Depositary, at its principal office in Calgary, Alberta, to that effect and as required by applicable Law.

Subject to applicable Laws, the Offeror reserves the right, in its sole discretion, to delay taking up or paying for any Liquor Barn Units or to terminate the Offer and not take up or pay for any Liquor Barn Units if any condition specified in Section 4 of this Offer, "Conditions of the Offer", is not satisfied or waived by the Offeror. The Offeror also reserves the right, in its sole discretion and notwithstanding any other condition of the Offer, to delay taking up and paying for Liquor Barn Units in order to comply, in whole or in part, with any applicable Law. The Offeror will not, however, take up and pay for any Liquor Barn Units deposited under the Offer unless it simultaneously takes up and pays for all Liquor Barn Units then validly deposited under the Offer and not validly withdrawn.

The Offeror will pay for Liquor Barn Units validly deposited pursuant to the Offer and not validly withdrawn through the issuance of a global certificate representing the Liquor Stores Units being issued in exchange therefor to CDS for the account of the CDS Participants of the Offer Electing Liquor Barn Unitholders. Under no circumstances will interest or other amounts accrue or be paid by the Offeror to Offer Electing Liquor Barn Unitholders on the purchase price of such Liquor Barn Units purchased by the Offeror, regardless of any delay in making such payment. No distributions with a record date prior to the date of issuance will be payable on such Liquor Stores Units.

7. **Right to Withdraw Deposited Liquor Barn Units**

Withdrawals of Liquor Barn Units deposited pursuant to the Offer must be effected via CDS and through a Liquor Barn Unitholder's broker or other nominee. A notice of withdrawal of Liquor Barn Units deposited must actually be received by the Depositary in a manner such that the Depositary has a written or printed copy of such notice of withdrawal. Liquor Barn Unitholders should contact their broker or other nominee for assistance.

Except as otherwise provided in this Section 7, all deposits of Liquor Barn Units pursuant to the Offer are irrevocable. Unless otherwise required or permitted by applicable Law, any Liquor Barn Units deposited in acceptance of the Offer may be withdrawn on behalf of the Offer Electing Liquor Barn Unitholder:

- (a) at any time when the Liquor Barn Units have not been taken up by the Offeror;

- (b) if the Liquor Barn Units have not been paid for by the Offeror within three business days after having been taken up; or
- (c) at any time before the expiration of 10 days from the date upon which either:
 - (i) a notice of change relating to a change which has occurred in the information contained in the Offer or the Circular, as amended from time to time, that would reasonably be expected to affect the decision of a Liquor Barn Unitholder to accept or reject the Offer (other than a change that is not within the control of the Offeror or an affiliate of the Offeror unless it is a change in a material fact relating to the Liquor Stores Units), in the event that such change occurs before the Expiry Time or after the Expiry Time but before the expiry of all rights of withdrawal in respect of the Offer; or
 - (ii) a notice of variation concerning a variation in the terms of the Offer (other than a variation consisting solely of an increase in the consideration offered for the Liquor Barn Units where the Expiry Time is not extended for more than 10 days),

is delivered to CDS as the registered holder of all of the outstanding Liquor Barn Units, and to the holders of options, warrants or other exchange or conversion rights to acquire Liquor Barn Units (subject to abridgement of that period pursuant to such order or orders as may be granted by applicable courts or Securities Regulatory Authorities) and only if such deposited Liquor Barn Units have not been taken up by the Offeror at the date of the notice.

A Liquor Barn Unitholder's broker or other nominee may set deadlines for the withdrawal of Liquor Barn Units deposited to the Offer that are earlier than those specified above. Liquor Barn Unitholders should contact their broker or other nominee for assistance.

All questions as to the validity (including timely receipt) and form of notices of withdrawal will be determined by the Offeror in its sole discretion, and such determination will be final and binding. There will be no obligation on the Offeror, the Depositary, the Information Agent, the Dealer Manager or any other Person to give any notice of any defects or irregularities in any withdrawal and no liability will be incurred by any of them for failure to give any such notice.

If the Offeror is delayed in taking up or paying for Liquor Barn Units or is unable to take up and pay for Liquor Barn Units, then, without prejudice to the Offeror's other rights, Liquor Barn Units deposited under the Offer may not be withdrawn except to the extent that Offer Electing Liquor Barn Unitholders are entitled to withdrawal rights as set forth in this Section 7 or pursuant to applicable Law.

Any Liquor Barn Units withdrawn will be deemed to be not validly deposited for the purposes of the Offer, but may be redeposited subsequently at or prior to the Expiry Time by following the procedures described in Section 3 of this Offer, "Manner of Acceptance".

In addition to the foregoing rights of withdrawal, certain provinces of Canada provide securityholders with statutory rights of rescission in certain circumstances. See Section 28 of the Circular, "Offerees' Statutory Rights". Such rights may have to be exercised by CDS on behalf of an Offer Electing Liquor Barn Unitholder. Offer Electing Liquor Barn Unitholders should contact their broker or other nominee for assistance.

8. Changes in Capitalization; Distributions; Liens

If, on or after the date of the Offer, Liquor Barn Fund should divide, combine or otherwise change any of the Liquor Barn Units or its capitalization, or disclose that it has taken or intends to take any such action, the Offeror, in its sole discretion, may make such adjustments as it considers appropriate to the Exchange Ratio and the other terms of the Offer (including the type of securities offered to be purchased) to reflect that division, combination or other change.

Liquor Barn Units acquired pursuant to the Offer will be transferred by the Liquor Barn Unitholders and acquired by the Offeror free and clear of all liens, charges, encumbrances, claims, equities and rights of others of any nature whatsoever and

together with all rights and benefits arising therefrom, including the right to all Other Property, but excluding all rights to Permitted Distributions.

If Liquor Barn Fund should, on or after April 10, 2007, declare or pay any distribution (other than Permitted Distributions) on the Liquor Barn Units or pay, declare, allot, reserve or issue any securities, rights or other interests with respect to any Liquor Barn Unit that are payable or distributable to Liquor Barn Unitholders on a record date (and time) that is prior to the time of transfer by CDS of a securities ledger position for the Liquor Barn Units tendered to the Offer to a ledger account maintained on behalf of the Offeror by a CDS Participant designated by the Offeror following acceptance thereof for purchase pursuant to the Offer, then the amount of the distributions (other than Permitted Distributions), payments, rights or interests relating to Liquor Barn Units deposited to the Offer by CDS and not validly withdrawn will be required to be received and held by CDS for the account of the Offeror in the event it takes up such Liquor Barn Units. Alternatively, if any such distribution (other than a Permitted Distribution), payment, right or interest is delivered or paid to any Offer Electing Liquor Barn Unitholder, then, if the Offeror takes up and pays for such Offer Elected Liquor Barn Units, at the sole discretion of the Offeror, the Offeror may deduct the full amount or value of such distribution (other than a Permitted Distribution), payment, right or interest from the price payable to such Liquor Barn Unitholder (as calculated by the Offeror in its sole discretion) under the Offer or, at the election of the Offeror, such amount may be required to be returned or paid back in full to the Offeror by such Offer Electing Liquor Barn Unitholder.

9. Notice and Delivery

Without limiting any other lawful means of giving notice, any notice that the Offeror or the Depositary may give or cause to be given under the Offer will be deemed to have been properly given if it is mailed by ordinary mail to CDS and to holders of options, warrants or other exchange or conversion rights to acquire Liquor Barn Units and, unless otherwise specified by applicable Law, will be deemed to have been received on the first business day following mailing. These provisions apply notwithstanding any accidental omission to give notice and notwithstanding any interruption of mail services in Canada following mailing.

The Offeror understands that, upon receipt of any such notice, CDS will provide a notice to its CDS Participants in accordance with the applicable CDS policies and procedures for the book entry system then in effect.

10. Liquor Barn Units Not Deposited Under the Offer or the Merger Transaction

If the Minimum Condition is satisfied, a sufficient number of Liquor Barn Voting Units will have been voted in favour of the Special Resolution to permit the Offeror to effect the Merger Transaction. See Section 16 of the Circular, "Merger Transaction".

11. Market Purchases

The Offeror reserves the right to, and may, purchase Liquor Barn Units as permitted by Law, including by making purchases through the facilities of the TSX, subject to applicable Law, at any time and from time to time before the Expiry Time. In no event will the Offeror make any such purchases of Liquor Barn Units through the facilities of the TSX until the third clear trading day following the date of the Offer. The aggregate number of Liquor Barn Units acquired by the Offeror through the facilities of the TSX during the Offer Period will not exceed 5% of the number of Liquor Barn Units outstanding on the date of the Offer and the Offeror will issue and file a press release containing the information prescribed by Law forthwith after the close of business of the TSX on each day on which any such Liquor Barn Units have been purchased. Any Liquor Barn Units so purchased will be counted in determining whether the Minimum Condition has been fulfilled.

For the purposes of this Section 11, "the Offeror" includes the Offeror, any Person or company acting jointly or in concert with the Offeror, any Person or company that is a "control person" (as defined by Securities Laws) of the Offeror and any associate or affiliate of any such "control person".

Although the Offeror has no present intention to sell Liquor Barn Units taken up under the Offer, it reserves the right to make or to enter into an arrangement, commitment or understanding at or prior to the Expiry Time to sell any of such Liquor Barn Units after the Expiry Time.

12. Other Terms of the Offer

No stockbroker, investment dealer or other Person (including the Information Agent, the Depositary or the Dealer Manager) has been authorized to give any information or make any representation on behalf of the Offeror other than as contained herein or in the accompanying Circular, and if any such information is given or made it must not be relied upon as having been authorized.

The Offer and the accompanying Circular constitute the takeover bid circular required under Securities Laws with respect to the Offer.

The Offer and all contracts resulting from the acceptance hereof will be governed by, and construed in accordance with, the laws of the Province of Alberta and the laws of Canada applicable therein. Each party to a contract resulting from an acceptance of the Offer unconditionally and irrevocably attorns to the jurisdiction of the courts of the Province of Alberta.

The provisions of the Offer Documents, including the instructions contained herein and therein, as applicable, form part of the terms and conditions of the Offer. The Offeror, in its sole discretion, will be entitled to make a final and binding determination of all questions relating to the interpretation of the Offer, the Circular and the Letter of Acceptance and Transmittal, the validity of any acceptance of the Offer and the validity of any withdrawals of Liquor Barn Units.

The Offeror reserves the right to transfer to one or more Persons affiliated or associated with it the right to purchase all or any portion of the Liquor Barn Units deposited pursuant to the Offer but any such transfer will not relieve the Offeror of its obligations under the Offer and in no way will prejudice the rights of CDS or the Offer Electing Liquor Barn Unitholders to receive payment for Liquor Barn Units validly deposited and accepted for payment pursuant to the Offer. In addition, the Offeror reserves the right to sell, following completion of the Offer, to one or more Persons affiliated or associated with it or to third Persons, any portion of the Liquor Barn Units acquired under the Offer.

LIQUOR STORES INCOME FUND

By its attorney Liquor Stores GP Inc.

(signed) "Irv Kipnes"

Chief Executive Officer

Dated: April 10, 2007

CIRCULAR

This Circular is furnished in connection with the accompanying Offer dated April 10, 2007 by the Offeror to purchase all the issued and outstanding Liquor Barn Units, including Liquor Barn Units that become outstanding during the Offer Period. Liquor Barn Unitholders should refer to the Offer for details of its terms and conditions, including details as to deposit, acceptance and payment arrangements and withdrawal rights.

The information concerning Liquor Barn Fund contained in the Offer and this Circular has been taken from or is based upon publicly available documents and records of Liquor Barn Fund on file with Canadian Securities Regulatory Authorities and other public sources at the time of the Offer, and has not been independently verified by the Offeror. Although the Offeror has no knowledge that would indicate that any of the statements contained herein and taken from or based on such information are untrue or incomplete, it does not assume any responsibility for the accuracy or completeness of such information, or for any failure by Liquor Barn Fund to disclose publicly events or acts that may have occurred or that may affect the significance or accuracy of any such information and that are unknown to the Offeror. Unless otherwise indicated, information concerning Liquor Barn Fund is given as at April 3, 2007.

1. The Offeror

The Offeror is an unincorporated open-ended trust established under the laws of the Province of Alberta by the Offeror's Declaration of Trust. The Offeror owns all of the LSOT Notes and LSOT Units, and holds, indirectly through LSOT, a 75.6% interest in Liquor Stores LP. The Offeror receives, indirectly through LSOT, distributions of distributable cash of Liquor Stores LP.

The Offeror is a reporting issuer (or the equivalent) in each of the provinces of Canada. On September 28, 2004, the Offeror completed an initial public offering of 4,300,000 Liquor Stores Units at a price of \$10 per Liquor Stores Unit for aggregate gross proceeds of approximately \$43 million. The Offeror used the proceeds of the initial public offering to indirectly acquire a 50.6% interest in Liquor Stores LP. Liquor Stores LP used these proceeds and borrowings under its credit facility to acquire 50 retail liquor stores and related assets for total consideration of approximately \$55.4 million in cash, 2,075,000 Liquor Stores Exchangeable LP Units, 2,125,000 Liquor Stores Subordinated LP Units and 4,200,000 Liquor Stores GP Common Shares and the assumption of certain associated accounts payable and current liabilities.

LSOT is an unincorporated trust established under the laws of the Province of Alberta. LSOT holds Liquor Stores Ordinary LP Units and Liquor Stores GP Common Shares, representing 75.6% of the Liquor Stores LP Units and Liquor Stores GP Common Shares, respectively.

Liquor Stores LP is a limited partnership formed under the laws of the Province of Alberta, with Liquor Stores GP as its general partner.

The principal and head office of each of Liquor Stores Fund, LSOT, Liquor Stores GP and Liquor Stores LP is located at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1.

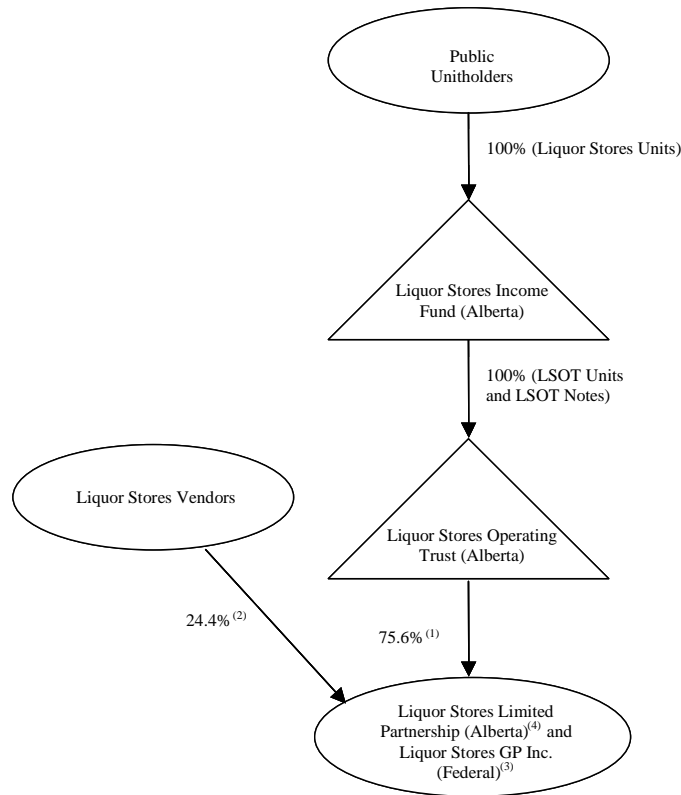
The affairs of the Offeror are supervised by the Offeror's Board of Trustees who, among other things, oversee the investments and affairs of the Offeror, represent the Offeror as an indirect shareholder of Liquor Stores GP and a direct unitholder and noteholder of LSOT, and effect distributions from the Offeror to the Liquor Stores Unitholders.

For more information on the business of the Offeror please see "General Development of the Business" on pages 4 and 5, and "Description of the Business", on pages 5 to 10, inclusive, of the Offeror's AIF, which is incorporated by reference herein.

As of the date hereof, the Offeror does not beneficially own, directly or indirectly, any Liquor Barn Units.

Organizational Chart

The following chart sets out the structure of Liquor Stores Fund as at the date hereof.



Notes:

- (1) Liquor Stores Ordinary LP Units and Liquor Stores GP Common Shares, representing 75.6% of the Liquor Stores LP Units and Liquor Stores GP Common Shares.
- (2) Liquor Stores Exchangeable LP Units, Liquor Stores Subordinated LP Units and Liquor Stores GP Common Shares representing, collectively, 24.4% of the Liquor Stores LP Units and Liquor Stores GP Common Shares.
- (3) The Liquor Stores GP holds all of the outstanding ordinary general partner units of Liquor Stores LP.
- (4) Liquor Stores LP currently operates 105 retail liquor stores.

Liquor Stores LP

Liquor Stores LP is the largest liquor retailer in Alberta by number of stores. It is management's belief that in Alberta Liquor Stores LP is the second largest liquor store operator by revenue. Liquor Stores LP currently operates 105 stores, 97 of which are located in Alberta and eight of which are located in British Columbia. Liquor Stores LP's predecessors have been in the retail liquor store business since privatization of the Alberta retail liquor distribution system in 1993.

Recent Events

The Offeror's recent events include:

Fourth Increase in Cash Distributions. On February 7, 2007, Liquor Stores Fund announced an increase in its monthly distribution level to \$0.125 per unit (\$1.50 per unit annualized) from \$0.1167 per unit (\$1.40 per unit annualized) effective with its distribution to be paid on April 13, 2007, to Liquor Stores Unitholders of record on March 30, 2007. This is the fourth increase in distributions since the completion of Liquor Stores Fund's initial public offering on September 28, 2004, at which time Liquor Stores Fund's monthly distribution level was set at \$0.0833 per unit (\$1.00 per unit annualized). In May 2005, Liquor Stores Fund increased its monthly distributions from \$0.0833 per unit to \$0.08958 per unit (\$1.075 per unit annualized), in January 2006, Liquor Stores Fund increased its monthly distribution level to \$0.10 per unit (\$1.20 per unit annualized) from \$0.08958 per unit and in November 2006, Liquor Stores Fund increased its monthly distribution level to \$0.1167 per unit from \$0.10 per unit.

Distributions

The Offeror has increased its cash distributions four times, from \$0.0833 per month per unit (\$1.00 per unit annualized) after its initial public offering to the current rate of \$0.125 per month per unit (\$1.50 per unit annualized), representing a 50% increase since the Offeror's initial public offering.

The following table sets forth the amount of monthly cash distributions declared by Liquor Stores Fund since the commencement of operations on September 28, 2004.

Year	Distribution per Unit
2004	
October	0.09160 ⁽¹⁾
November	0.08330
December	0.08330
2005	
January	0.08330
February	0.08330
March	0.08330
April	0.08330
May	0.08958
June	0.08958
July	0.08958
August	0.08958
September	0.08958
October	0.08958
November	0.08958
December	0.08958
2006	
January	0.10000
February	0.10000
March	0.10000
April	0.10000
May	0.10000
June	0.10000
July	0.10000
August	0.10000
September	0.10000
October	0.11670
November	0.11670
December	0.11670
2007	
January	0.11670
February	0.11670
March	0.12500

Note:

- (1) Representing the first distribution of Liquor Stores Fund in respect of the period from September 28, 2006 to October 31, 2006.

2. **Liquor Barn Fund**

Liquor Barn Fund is a trust established under the laws of the Province of Alberta by an amended and restated declaration of trust dated April 3, 2006 as further amended and/or restated from time to time. Liquor Barn Fund's head office is located at Suite 152, 5004 - 98th Avenue, Edmonton, Alberta, T6A 3X6. Liquor Barn Fund is a reporting issuer (or the equivalent) in each of the provinces of Canada.

According to publicly available information, Liquor Barn Fund holds all of the trust units and notes of Liquor Barn Operating Trust and, indirectly through Liquor Barn Operating Trust, an ownership interest of approximately 61.4% in Liquor Barn Partnership. Management of Liquor Stores Fund believes that after giving effect to the Liquor Barn \$8.40 Offering, Liquor Barn Fund will hold, indirectly through Liquor Barn Operating Trust, an ownership interest of approximately 72.4% in Liquor Barn Partnership. Liquor Barn Fund also owns all of the outstanding shares of the Liquor Barn GP, which is the general partner of Liquor Barn Partnership.

As of April 3, 2007, Liquor Barn Fund operated 71 retail liquor stores, of which 61 are located in Alberta and 10 are located in British Columbia. Liquor Barn Partnership is the second largest liquor store retailer in Alberta by number of stores and, in Liquor Barn Partnership management's judgment, the third largest by revenue.

The affairs of Liquor Barn Fund are supervised by the Liquor Barn Board of Trustees who are responsible for, among other things, representing Liquor Barn Fund as the holder of all of the shares of Liquor Barn GP and all of the units and notes of Liquor Barn Operating Trust and effecting payments of distributions from Liquor Barn Fund to its unitholders.

Liquor Barn Voting Units

Based upon publicly available information, Liquor Stores Fund believes that, as of the date hereof, after giving effect to the Liquor Barn \$8.40 Offering, there are approximately 10,123,326 Liquor Barn Units and 3,855,419 Liquor Barn Special Voting Units outstanding, for a total of approximately 13,978,745 Liquor Barn Voting Units.

Liquor Barn Units and Liquor Barn Special Voting Units. The beneficial interests in Liquor Barn Fund are divided into interests of two classes, described and designated as "Liquor Barn Units" and "Liquor Barn Special Voting Units", respectively. The number of Liquor Barn Units and Liquor Barn Special Voting Units that may be issued pursuant to the Liquor Barn Declaration of Trust is unlimited.

Each Liquor Barn Unit represents an equal undivided beneficial interest in any distributions from Liquor Barn Fund, whether of net income, net realized capital gains or other amounts (other than net income and net realized capital gains distributed to redeeming Liquor Barn Unitholders), and in the net assets of Liquor Barn Fund in the event of termination or winding-up of Liquor Barn Fund. The Liquor Barn Units are not subject to future calls or assessments, and entitle the Liquor Barn Unitholders thereof to one vote for each whole Liquor Barn Unit held at all meetings of Liquor Barn Voting Unitholders. Except for the redemption right provided in the Liquor Barn Declaration of Trust, the Liquor Barn Units have no conversion, retraction, redemption or pre-emptive rights.

Except for the right to attend and vote at meetings of Liquor Barn Voting Unitholders or in respect of written resolutions of Liquor Barn Voting Unitholders, Liquor Barn Special Voting Units do not confer any rights on the holders thereof. Liquor Barn Special Voting Units are not entitled to any interest or share in Liquor Barn Fund, in any distribution from Liquor Barn Fund whether of net income, net realized capital gains or other amounts, or in the net assets of Liquor Barn Fund in the event of a termination or winding-up of Liquor Barn Fund. Liquor Barn Special Voting Units may be redeemed by the holder at any time for no consideration.

Liquor Barn Special Voting Units may be issued in series and are only issued in connection with or in relation to Liquor Barn Exchangeable Securities, in each case for the sole purpose of providing voting rights to the holders of such securities in respect of all resolutions of Liquor Barn Voting Unitholders. Liquor Barn Special Voting Units are not transferable separately from the Liquor Barn Exchangeable Securities to which they are attached. Upon the exchange, redemption or conversion of a Liquor Barn Exchangeable Security for Liquor Barn Units, the Liquor Barn Special Voting Unit that is attached to such Liquor Barn Exchangeable Security will immediately be cancelled without any further action of the Liquor Barn Trustees, and the former holder of such Liquor Barn Special Voting Unit will cease to have any rights with respect thereto.

No certificates will be issued for fractional Liquor Barn Units and no holder of a fraction of a Liquor Barn Unit, as such, is entitled to vote at a meeting of the Liquor Barn Voting Unitholders.

Issued and outstanding Liquor Barn Units and Liquor Barn Special Voting Units may be subdivided or consolidated from time to time by the Liquor Barn Trustees without the approval of Liquor Barn Voting Unitholders.

Issuance of Liquor Barn Units. The Liquor Barn Declaration of Trust provides that Liquor Barn Fund may issue Liquor Barn Units or rights to acquire Liquor Barn Units at those times, to those persons, for the consideration and on the terms and conditions that the Liquor Barn Board of Trustees determine, including pursuant to any Liquor Barn Unitholder rights plan, distribution reinvestment plan, unit purchase plan or any incentive option or other compensation plan established by Liquor Barn Fund. Liquor Barn Units may also be issued in satisfaction of any non-cash distributions of Liquor Barn Fund to Liquor Barn Unitholders on a pro rata basis to the extent that Liquor Barn Fund does not have available cash to fund such distributions.

Liquor Barn Options

According to publicly available information, there are currently 211,100 Liquor Barn Options issued and outstanding pursuant to Liquor Barn Funds' incentive unit option plan that have been issued to certain employees, officers, directors and trustees at a weighted average exercise price of \$10.18 per Liquor Barn Unit. Options issued under the plan vest equally over three years on each anniversary date. All Liquor Barn Options must be exercised over specified periods not to exceed 10 years from the date granted. At December 31, 2006, 496,963 Liquor Barn Units remained reserved for issuance under the option plan.

Liquor Barn Convertible Debentures

The Liquor Barn Convertible Debentures are convertible into Liquor Barn Units at the option of the holder at a conversion price of \$8.60 per Liquor Barn Unit. Interest on the Liquor Barn Convertible Debentures, at a rate of 8.0% per annum, will be paid semi-annually on June 30 and December 31 of each year, commencing on June 30, 2007.

Recent Events

According to publicly available information, Liquor Barn Fund's recent events include:

Liquor Barn Convertible Debenture Offering. On January 4, 2007, Liquor Barn Fund announced that it had closed its private placement of \$15.7 million aggregate principal amount of Liquor Barn Convertible Debentures previously announced on December 12, 2006. TD Securities Inc. acted as sole underwriter in connection with the offering. The Liquor Barn Convertible Debentures are convertible into Liquor Barn Units at the option of the holder at a conversion price of \$8.60 per Liquor Barn Unit. Interest on the Liquor Barn Convertible Debentures, at a rate of 8.0% per annum, will be paid semi-annually on June 30 and December 31 of each year, commencing on June 30, 2007.

Liquor Barn \$8.40 Offering. On March 20, 2007, Liquor Barn Fund announced that it had entered into an agreement to sell 3,980,000 Liquor Barn Units on a bought deal basis at a price of \$8.40 per Liquor Barn Unit to a syndicate of investment dealers for gross proceeds of \$33,432,000. The offering is scheduled to close on or about April 10, 2007, and is subject to regulatory approval.

New Chief Financial Officer. On January 24, 2007, Liquor Barn Fund announced the resignation of J. Leslie Wright, its Chief Financial Officer. Mr. Wright remained with Liquor Barn Fund until the completion of its fiscal 2006 financial reporting period, and his resignation was effective as of March 22, 2007. On March 23, 2007, Richard Hughes was appointed as Liquor Barn Fund's Chief Financial Officer.

Distributions

The following chart sets out the amount of monthly cash distributions declared by Liquor Barn Fund since the commencement of operations on May 17, 2006.

Year	Distribution per Unit
2006	
June.....	0.0917 ⁽¹⁾
July	0.0646
August.....	0.0646
September	0.0646
October	0.0646
November	0.0646
December.....	0.0646
2007	
January.....	0.0646
February.....	0.0646
March.....	0.0646

Note:

- (1) Representing the first distribution of Liquor Barn Fund in respect of the period from May 17, 2006 to June 30, 2006.

Based on the Exchange Ratio, Liquor Stores Fund's current monthly distribution of \$0.125 per Liquor Stores Unit (\$1.50 annually) represents an equivalent of \$0.06625 per month per Liquor Barn Unit (\$0.795 annually), which represents an increase of 2.6% from the current \$0.0646 (\$0.7752 annually) Liquor Barn Fund monthly distribution. See Section 5 of this Circular, "Expected Benefits of and Reasons to Accept the Offer – An Increase in Cash Distributions and Improved Liquidity".

Additional Information Regarding Liquor Barn Fund

In connection with the Offer, Liquor Barn Unitholders may wish to review the following documents of Liquor Barn Fund filed with the Canadian Securities Regulatory Authorities, as well as any similar documents filed by Liquor Barn Fund after the date hereof, all of which may be obtained at www.sedar.com:

- (a) the annual information form of Liquor Barn Fund dated March 14, 2007;
- (b) the financial statements, together with the accompanying report of the auditors, for the fiscal period ended December 31, 2006 of Liquor Barn Fund;
- (c) management's discussion and analysis of financial condition and results of operations of Liquor Barn Fund for the period from April 3, 2006 to December 31, 2006;
- (d) the material change reports of Liquor Barn Fund: (i) dated January 14, 2007, announcing the completion of the issuance by Liquor Barn Fund of the \$15.7 million aggregate principal amount Liquor Barn Convertible Debentures; and (ii) dated March 21, 2007, announcing that Liquor Barn Fund had entered into an agreement to sell 3,980,000 Liquor Barn Units on a bought deal basis at a price of \$8.40 per Liquor Barn Unit to a syndicate of investment dealers for gross proceeds of \$33,432,000;
- (e) the business acquisition report of Liquor Barn Fund dated June 23, 2006; and
- (f) all material change reports, financial statements, management's discussion and analysis and information circulars filed by Liquor Barn Fund after the date of the Offer and this Circular.

3. Background to the Offer

Liquor Stores Fund has had discussions with Liquor Barn Fund on several occasions over the last 10 months concerning a potential business combination of Liquor Stores Fund and Liquor Barn Fund. In early November 2006, Irv Kipnes, the Chief Executive Officer of Liquor Stores GP, contacted Dr. John Mather, the President and Chief Executive Officer of Liquor Barn GP, to renew discussions regarding the possibility of a potential business combination. On December 7, 2006, at Dr. Mather's invitation, Mr. Kipnes provided a letter to Dr. Mather in which Liquor Stores Fund outlined a framework for a process designed to advance discussions regarding a potential business combination, together with a form of mutual confidentiality and standstill agreement that Liquor Stores Fund was prepared to execute. The letter included a list of certain limited non-public information of Liquor Barn Fund that Liquor Stores Fund wished to review in order to enable it to better assess the value of Liquor Barn Fund and thereafter present a proposal for Liquor Barn Fund's consideration. Mr. Kipnes and Dr. Mather, together with other members of senior management of Liquor Stores Fund and Liquor Barn Fund, met in early December to further explore the process for advancing discussions regarding a potential business combination. These discussions were interrupted by the holiday season without a confidentiality and standstill agreement being entered into or any non-public information being provided to Liquor Stores Fund.

Subsequent to the meeting with representatives of Liquor Barn Fund, Mr. Kipnes was contacted by two founding unitholders of Liquor Barn Fund, including Mr. Terry Nyquvest, who expressed an interest in seeing a business combination implemented between the two funds and encouraged Liquor Stores Fund to pursue discussions with Liquor Barn Fund.

On December 12, 2006, Liquor Barn Fund announced the offering of \$15.7 million principal amount of Liquor Barn Convertible Debentures convertible into Liquor Barn Units at a conversion price of \$8.60 per unit, which offering was completed on January 4, 2007.

During December 2006 and January 2007, Liquor Stores Fund, with the assistance of its financial advisor, RBC Capital Markets, continued its evaluation of Liquor Barn Fund's publicly available information and the strategic rationale for the combination of the two funds, which included an evaluation of the opportunities for enhanced growth and realization of meaningful synergies. On February 1, 2007, following a meeting on January 29, 2007 between Mr. Kipnes and Dr. Mather, Liquor Stores Fund delivered a non-binding proposal to Dr. Mather and Mr. King, the Chair of the Liquor Barn Board of Trustees, indicating that Liquor Stores Fund was prepared to offer, subject to the receipt of board approval, the completion of due diligence and the negotiation of definitive transaction documents, 0.53 of a Liquor Stores Unit for each Liquor Barn Unit. The written proposal also indicated that the proposed business combination could be structured to include a tax deferred "roll-over" for Liquor Barn Unitholders.

During the next several weeks, Mr. Kipnes had several follow-up discussions and exchanges with Dr. Mather and Mr. King. On February 5, 2007, Dr. Mather advised Mr. Kipnes that the Liquor Barn Board of Trustees was meeting later in the week to evaluate the proposal and would be retaining a financial advisor to assist them with the evaluation process, and as a consequence Liquor Barn Fund did not expect to be in a position to respond to Liquor Stores Fund's proposal until later the following week. Following a discussion with Mr. King on February 7, 2007, Mr. Kipnes provided Mr. King with a memorandum prepared by Liquor Stores Fund's legal counsel outlining the timing and procedural considerations involved in completing a merger of Liquor Stores Fund and Liquor Barn Fund. Later in February, Dr. Mather and Mr. King advised Mr. Kipnes that the Liquor Barn Board of Trustees had retained TD Securities Inc. to provide it with financial advice with respect to the proposal made by Liquor Stores Fund and that the Liquor Barn Board of Trustees was expecting to meet later in the month to complete its assessment of and provide a response to the proposal. On March 8, 2007, at which time the exchange ratio of 0.53:1 proposed by Liquor Stores Fund represented a value of \$10.66 per Liquor Barn Unit and a premium of approximately 22.6%, based on the closing prices of the Liquor Stores Units and the Liquor Barn Units on the TSX on March 7, 2007, and a premium of approximately 17.7% based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading day period ended March 7, 2007, Dr. Mather advised Mr. Kipnes that the Liquor Barn Board of Trustees had met and that Liquor Barn Fund had determined that it was not interested in pursuing a proposed business combination with Liquor Stores Fund. Mr. Dinning, the Chair of the Offeror's Board of Trustees, subsequently spoke to Mr. King, who reiterated Liquor Barn Fund's position as communicated by Dr. Mather.

On March 20, 2007, at which time the exchange ratio of 0.53:1 proposed by Liquor Stores Fund represented a value of \$11.55 per Liquor Barn Unit and a premium of approximately 32.0%, based on the closing prices of the Liquor Stores Units and the Liquor Barn Units on the TSX on March 20, 2007, and a premium of approximately 25.1% based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading day period ended

March 20, 2007, Liquor Barn Fund announced that it had entered into an agreement to sell 3,980,000 Liquor Barn Units on a bought deal basis at a price of \$8.40 per Liquor Barn Unit. Mr. Dinning met with Mr. King on March 21, 2007 and discussed generally Liquor Stores Fund's continuing interest in a business combination with Liquor Barn Fund and Liquor Barn Fund's decision not to pursue Liquor Stores Fund's proposal.

Liquor Stores Fund subsequently determined to make this Offer and entered into the Securityholder Support Agreements with the Liquor Barn Supporting Securityholders after the close of markets on April 9, 2007.

4. **Purpose of the Offer and the Offeror's Plans For Liquor Barn Fund**

The purpose of the Offer is to enable the Offeror to acquire all of the Liquor Barn Units. If the conditions to the Offer are satisfied or waived by the Offeror and the Offer is completed, it is the Offeror's current intention to complete the Merger immediately following and conditional upon the take-up under the Offer so as to provide the most consistent treatment possible to all Liquor Barn Unitholders, whether they are exchanging Liquor Barn Units for Liquor Stores Units under the Offer or as a result of the Merger Transaction.

If the Offer and Merger Transaction are successful, the Offeror intends to complete a detailed review of Liquor Barn Fund and its subsidiaries and their respective assets, structures, capitalization, operations, properties, policies, management and personnel with a view to integrating the business carried on by Liquor Barn Partnership with that carried on by Liquor Stores LP and seeking to maximize potential synergies. In connection therewith, the Offeror expects that it will take such steps as may be available to it to, directly or indirectly, combine the operations of Liquor Barn Partnership and Liquor Stores LP. See Section 6 of this Circular, "Certain Effects of the Offer".

5. **Expected Benefits of and Reasons to Accept the Offer**

If the Offer and the Merger Transaction are successful, they will result in, among other things, the integration of the businesses carried on by the subsidiaries of the Offeror and by the subsidiaries of Liquor Barn Fund. The benefits described below are based on market and business conditions existing as of the date hereof and reflect Liquor Stores Fund's best estimate of the effects of such integration. There can be no assurance that the benefits discussed below will ultimately be achieved.

A Significant Premium for Liquor Barn Unitholders of Approximately 34.6%

The Exchange Ratio of 0.53 of a Liquor Stores Unit per Liquor Barn Unit represents a value of \$11.30 per Liquor Barn Unit and a premium of approximately 34.6%, based on the closing prices of the Liquor Stores Units and the Liquor Barn Units on the TSX on April 9, 2007, the last trading day prior to the announcement of the Offer, and a premium of approximately 35.7%, based on the volume weighted average trading prices of the Liquor Stores Units and the Liquor Barn Units on the TSX for the 20 trading days ended April 9, 2007. **Liquor Barn Unitholders are urged to obtain current market quotations for the Liquor Stores Units and Liquor Barn Units.**

An Increase in Cash Distributions and Improved Liquidity

Liquor Barn Unitholders will realize an immediate 2.6% increase in their monthly cash distributions as, based on the Exchange Ratio of 0.53:1, Liquor Stores Fund's current monthly distribution of \$0.125 per unit (\$1.50 annually) equates to a monthly distribution of \$0.06625 per Liquor Barn Unit (\$0.795 annually) compared to Liquor Barn Fund's current monthly distribution of \$0.0646 per unit (\$0.7752 annually). Liquor Barn Unitholders should also benefit from improved liquidity of the combined larger income trust, which would have a combined market capitalization of approximately \$450 million (based on April 9, 2007 values), approximately 1.5 times the current market capitalization of Liquor Stores Fund and almost four times that of Liquor Barn Fund.

An Exceptional Strategic Fit, Creating the Leading Independent Liquor Retailer in Alberta and B.C. with a Strong Platform for Future Growth

The business operations of Liquor Stores Fund and Liquor Barn Fund are highly complementary and Liquor Stores Fund believes that the rationale for the combination is compelling for the unitholders of both income trusts. The combination provides an excellent strategic fit and creates the leading independent liquor retailer in Alberta and British Columbia with an estimated

combined market share of over 16% in Alberta and B.C. and approximately 19% in its core Alberta market. The combined entity will operate 176 liquor stores in Alberta and B.C., with pro forma revenue greater than \$320 million, providing a strong platform to pursue further growth opportunities.

Expanded "Safe Harbour" Equity Growth Amount

The combined fund will benefit from access to Liquor Stores Fund's cumulative "safe harbour" equity growth amount of approximately \$235 million through 2010, of which approximately \$98 million is available in 2007, under the 2006 Proposed Tax Changes. This compares to Liquor Barn Fund's estimated remaining cumulative limit of approximately \$65 million after giving effect to its recent convertible debenture and trust unit offerings. Together, the two trusts will benefit from a combined cumulative "safe harbour" equity growth amount of approximately \$300 million through 2010.

Unitholder Participation in Value Creation Resulting From Acquisitions and New Store Development

The combined entity would discontinue Liquor Barn Fund's practice of making related party acquisitions from Devco. This will provide the public Liquor Barn Unitholders with the opportunity to now participate fully in the growth and value creation from future store development and acquisitions. See Section 6 of the Circular, "Certain Effects of the Offer – Liquor Barn Development Agreement".

Opportunity to Share in Synergies and Other Operational Benefits

The combination of both entities is expected to provide attractive opportunities to realize meaningful synergies through the elimination of redundant costs and the implementation of operational best practices. Based on cost estimates made by Liquor Barn Fund's management at the time of its initial public offering, Liquor Stores Fund's management estimates immediate cost savings of approximately \$1.5 million through the elimination of certain public company costs of Liquor Barn Fund and duplicative head office and general and administration expenses. In addition, Liquor Stores Fund's management believes that there is an attractive opportunity to enhance the operating margins of Liquor Barn Fund, which are currently well below those of Liquor Stores Fund, through the application of Liquor Stores Fund's management expertise and operational best practices. Historically, Liquor Stores Fund's operating margin as a percentage of sales has consistently and significantly exceeded that of Liquor Barn Fund. See "Non-GAAP Measures".

An Experienced Senior Management Team with a Proven Track Record

The combined entity will benefit from the stability of Liquor Stores Fund's senior management team, which has a proven record of operational excellence, successful integration of acquisitions, and delivery of value to unitholders. Since its initial public offering on September 28, 2004, the trading price of the Liquor Stores Units has increased 113% from \$10.00 to \$21.33 at April 9, 2007, and has generated a total return of 148% including reinvestment of distributions. Over this period, management has successfully completed the acquisition and development of 55 stores more than doubling the number of stores, and has increased distributions four times from \$1.00 per unit annually to \$1.50 per unit annually in aggregate, representing a 50% increase since the initial public offering.

Offer and Merger Transaction has the Endorsement and Support of Liquor Barn's Second Largest Founding Unitholder Group

The Liquor Barn Supporting Securityholders, companies owned by Mr. Terry Nyquvest and members of his family (referred to as the "Spirits Liquor Mart Group"), have entered into the Securityholder Support Agreements with Liquor Stores Fund. The Liquor Barn Supporting Securityholders were the second largest founding vendor group of Liquor Barn Fund, having contributed 17 of the 58 retail liquor stores purchased by Liquor Barn Fund on completion of its initial public offering. Pursuant to the Securityholder Support Agreements they have, among other things, agreed to deposit under the Offer or the Merger Transaction any Liquor Barn Units they own or control, to vote all Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Special Voting Units and Liquor Barn Units they own or control in favour of any resolutions relating to the Offer and Merger, including the Special Resolution, and, effective on completion of the Offer and Merger, to appoint Liquor Stores Fund as voting trustee of the Liquor Barn Supporting Securityholders to exercise all voting rights attached to the Liquor Barn Supporting Securityholders' Liquor Barn Fund and Liquor Barn Partnership securities. The Liquor Barn Supporting Securityholders hold an aggregate of 808,942 Liquor Barn Special Voting Units, representing 5.8% of the currently

outstanding Liquor Barn Voting Units (after giving effect to the Liquor Barn \$8.40 Offering). These Liquor Barn Special Voting Units are associated with the 404,471 Liquor Barn Exchangeable LP Units and 404,471 Liquor Barn Subordinated LP Units owned by the Liquor Barn Supporting Securityholders. See Section 20 of this Circular, "Acceptance of Offer".

6. **Certain Effects of the Offer**

Listing of the Liquor Barn Units

The purchase of Liquor Barn Units pursuant to the Offer will reduce the number of holders of Liquor Barn Units and the number of Liquor Barn Units that might otherwise trade publicly and is likely to adversely affect the liquidity and market value of the remaining Liquor Barn Units held by the public. If the Offeror takes up and pays for less than all of the outstanding Liquor Barn Units under the Offer, the Liquor Barn Units may no longer meet the standards for continued listing on the TSX. According to its published guidelines, the TSX would give consideration to delisting Liquor Barn Units if, among other things, the Liquor Barn Units did not substantially meet its standards for continued listing. The successful completion of the Merger Transaction would result in the delisting of the Liquor Barn Units from the TSX.

Liquor Barn Convertible Debentures

Holders of Liquor Barn Convertible Debentures should note that if the Offer and Merger Transaction is completed, holders of Liquor Barn Convertible Debentures will cease to have the right to acquire Liquor Barn Units on conversion of their Liquor Barn Convertible Debentures but rather will have the right to convert their Liquor Barn Convertible Debentures into the kind and amount of securities or property that such holder would have received in connection with the Offer and Merger Transaction had the Liquor Barn Convertible Debentures held by such holder been converted into Liquor Barn Units immediately prior to the completion of the Offer and Merger Transaction.

The trust indenture in respect of the Liquor Barn Convertible Debentures contains covenants relating to, among other things, a "Change of Control" of Liquor Barn Fund. A Change of Control of Liquor Barn Fund means an acquisition by any Person (as defined in such trust indenture) or one or more members of a group of Persons, acting jointly or in concert, of Liquor Barn Units or securities convertible into or carrying the right to acquire Liquor Barn Units which results in such Person or group of Persons owning or controlling 66 2/3% or more of the outstanding Liquor Barn Units (assuming, in the case of securities convertible into or carrying the right to acquire Liquor Barn Units, the conversion or the exercise of such right).

Upon the occurrence of a Change of Control, Liquor Barn Fund would be obligated to make an offer to purchase all outstanding Liquor Barn Convertible Debentures at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to but excluding the date of acquisition by Liquor Barn Fund or a related party of such Liquor Barn Convertible Debentures, in accordance with the procedures set out in the trust indenture.

Liquor Barn Exchangeable LP Units and Subordinated LP Units

Holders of Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units should note that if the Offer and Merger Transaction is completed, holders of Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units will cease to have the right to acquire Liquor Barn Units on exchange of their Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units but rather will have the right to exchange their Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units for the kind and amount of securities or property that such holder would have received in connection with the Offer and Merger Transaction had the Liquor Barn Exchangeable LP Units or Liquor Barn Subordinated LP Units held by such holder been exchanged for Liquor Barn Units immediately prior to the completion of the Offer and Merger Transaction.

The Offeror understands that according to the Liquor Barn Limited Partnership Agreement and the Liquor Barn Exchange Agreement governing the Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units, the following provisions will also apply as a consequence of the making or completion of the Offer and Merger Transaction:

- provided that not less than 20% of the Liquor Barn Units (excluding Liquor Barn Units held by the Offeror), assuming the exchange of all outstanding Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units, are taken up and paid for pursuant to the Offer, or upon the completion of an Acquisition Transaction (as defined in the Liquor Barn Limited Partnership Agreement) (which would include the Merger Transaction), the rights attaching to the Liquor

Barn Subordinated LP Units shall thereafter be the same as the rights attaching to the Liquor Barn Exchangeable LP Units; and

- Liquor Barn GP is required to take such steps as it may deem necessary to permit the holders of Liquor Barn Exchangeable LP Units or Liquor Barn Subordinated LP Units to exchange (including conditionally) Liquor Barn Exchangeable LP Units or Liquor Barn Subordinated LP Units, as the case may be, for the purpose of tendering the Liquor Barn Units acquired on such exchange to the Offer or participating in the Merger Transaction.

If the Offer and Merger Transaction are completed, based on Liquor Barn's publicly filed documents, and after giving effect to the Liquor Barn \$8.40 Offering, the Offeror believes that it will own, indirectly through Liquor Barn Operating Trust, 10,123,326 Liquor Barn Ordinary LP Units representing a 72.4% interest in Liquor Barn Partnership and the remaining 3,855,419 Liquor Barn Exchangeable LP Units and Liquor Barn Subordinated LP Units representing a 27.6% interest in Liquor Barn Partnership will be held by the Liquor Barn Vendors. Subject to certain limitations contained in the Liquor Barn Securityholders Agreement described below, the Offeror believes that it would hold, indirectly, a sufficient number of Liquor Barn LP Units to pass Liquor Barn Partnership Special Resolutions in respect of Liquor Barn Partnership.

The Liquor Barn Securityholders Agreement continues until the earlier of the date on which the Liquor Barn Vendors no longer hold any Liquor Barn LP Units or Liquor Barn GP and the Liquor Barn Vendors then holding outstanding Liquor Barn LP Units agree to terminate such agreement. Among other things, the Liquor Barn Securityholders Agreement provides that for so long as Dr. Mather holds or controls, directly or indirectly, through the Liquor Barn Vendors, not less than one million Outstanding Units (as defined in the Liquor Barn Securityholders Agreement) Dr. Mather has certain rights including (i) the right to nominate one individual as a director of the board of directors of Liquor Barn GP, (ii) the Liquor Barn GP board shall have no more than six directors without Dr. Mather's consent, (iii) a quorum for board meetings is four directors, at least one of whom is a nominee of Liquor Barn Fund and one of whom is a nominee of Dr. Mather (provided that if a quorum is not achieved at a board meeting the quorum requirement does not apply at the next succeeding meeting), (iv) any amendment to the Liquor Barn Securityholders Agreement, Liquor Barn Exchange Agreement, Liquor Barn Limited Partnership Agreement and Liquor Barn Operating Trust Declaration of Trust, in addition to any other approvals required by their respective terms, requires the prior written approval of both Liquor Stores Fund and Dr. Mather; and (v) Liquor Barn GP may not withdraw as general partner of Liquor Barn Partnership without the prior written consent of both Liquor Barn Fund and Dr. Mather.

Liquor Barn Options

The Offeror has not had access to the documentation relating to the Liquor Barn Options as this documentation has not been publicly filed by Liquor Barn Fund. The Offeror expects that if the Offer and Merger Transaction is completed, holders of Liquor Barn Options will cease to have the right to acquire Liquor Barn Units on exercise of their Liquor Barn Options but rather will have the right to receive the kind and amount of securities or property that such holder would have received in connection with the Offer and Merger Transaction had the Liquor Barn Options held by such holder been exercised immediately prior to the completion of the Offer and Merger Transaction. However, there is no assurance that this is the case.

Liquor Barn Credit Facility

Based on the publicly filed documentation in connection with Liquor Barn Fund's credit facility, the completion of the Offer and Merger Transaction would constitute an event of default and entitle the lender to require repayment of the credit facility. The Offeror has sufficient availability under its \$61.5 million credit facility to repay the approximately \$24.6 million outstanding under Liquor Barn Fund's credit facility as at April 2, 2007 in such event.

Severance Arrangements

Liquor Barn Fund's public disclosure does not discuss the severance payments or other benefits, if any, to which the executives of Liquor Barn GP are entitled if their employment is terminated following a change of control.

Liquor Barn Development Agreement

Liquor Barn Partnership is party to the Liquor Barn Development Agreement with Devco. Devco is managed by the executive officers of Liquor Barn GP and all of the outstanding shares of Devco are held by Dr. John Mather, the Chief Executive

Officer and a director of Liquor Barn GP. Under the Liquor Barn Development Agreement, Liquor Barn Partnership has an option to acquire all stores sourced, developed or acquired by Devco and a right to match any offer received from a third party for any store developed by Devco. Liquor Barn Partnership also has the option to provide mezzanine financing to Devco for the development of liquor stores. Devco is entitled to utilize the executive officers of Liquor Barn GP up to a maximum of 25% of their time on a fee for service basis to assist with Devco's sourcing, development and acquisition of liquor stores.

The Liquor Barn Development Agreement has an initial term of 10 years and is automatically renewable for further five-year terms until terminated by either party on written notice given by that party prior to the end of the term or renewal term, as the case may be, or in the event of a change of control of Devco.

The Offeror sources all new store development and acquisition opportunities internally and devotes substantial senior management and other resources to this function. If the Offer and Merger are completed, the Offeror intends to apply this practice to the combined entity, including Liquor Barn Partnership. Accordingly, the Offeror does not anticipate that it will need to purchase liquor stores from or that it will provide mezzanine financing to Devco pursuant to the Liquor Barn Development Agreement as the acquisition and development function for the combined entity will be undertaken internally. The Offeror may consider acquisition opportunities that are made available to it pursuant to the Liquor Barn Development Agreement, provided they meet its arm's length investment criteria.

Liquor Barn Partnership has similar rights to purchase or match third party offers with respect to eight retail liquor stores owned by certain of the Liquor Barn Vendors and the option to purchase or match third party offers made for new stores opened or acquired by the Liquor Barn Vendors. If the Offer and Merger are completed, the Offeror will adopt a similar policy regarding purchases from the Liquor Barn Vendors as it will apply with respect to Devco.

7. Pro Forma Financial Information

Liquor Barn Unitholders should refer to the pro forma financial information contained in **Schedule "A"** to the Offer and Circular, "Pro Forma Consolidated Financial Statements". The pro forma consolidated financial statements do not reflect any synergies that might arise from the acquisition by Liquor Stores Fund of Liquor Barn Fund nor do they include any restructuring or integration costs that may be incurred by Liquor Stores Fund. The pro forma consolidated financial statements reflect the operations of Liquor Barn Fund for a part year from commencement of active operations on May 17, 2006, the date Liquor Barn Fund completed its initial public offering.

8. Ownership of and Trading in Securities of Liquor Barn Fund

None of the Offeror, any of its trustees or senior officers (if any), or the directors and senior officers of Liquor Stores GP, nor, to the knowledge of the Offeror and its trustees and senior officers (if any) and the directors and senior officers of Liquor Stores GP after reasonable inquiry, (i) any associate of a trustee or senior officer of the Offeror or a director or senior officer of Liquor Stores GP, (ii) any Person or company holding more than 10% of any class of equity securities of the Offeror, or (iii) any Person or company acting jointly or in concert with the Offeror, beneficially owns, directly or indirectly, or controls or exercises direction over, any securities of Liquor Barn Fund.

During the 12 month period preceding the date of the Offer, no securities of Liquor Barn Fund have been traded by the Offeror, any of its trustees or senior officers (if any) or any of the directors or senior officers of Liquor Stores GP, or, to the knowledge of the Offeror and its trustees and senior officers (if any) and the directors and senior officers of Liquor Stores GP after reasonable inquiry, (i) any associate of a trustee or senior officer (if any) of the Offeror or a director or senior officer of Liquor Stores GP, (ii) any Person or company holding more than 10% of any class of equity securities of the Offeror, or (iii) any Person or company acting jointly or in concert with the Offeror.

9. Commitments to Acquire Securities of Liquor Barn Fund

Other than pursuant to the Offer and pursuant to the Securityholder Support Agreements, there are no commitments to acquire securities of Liquor Barn Fund by the Offeror, or any of its trustees or senior officers (if any) or any of the directors or senior officers of Liquor Stores GP, or to the knowledge of the Offeror and its trustees and senior officers (if any) and the directors and senior officers of Liquor Stores GP after reasonable inquiry, (i) any associate of a trustee or senior officer of the

Offeror, or (ii) any Person or company holding more than 10% of any class of equity securities of the Offeror, or (iii) any Person or company acting jointly or in concert with the Offeror.

10. Arrangements, Agreements or Understandings

There are no arrangements, agreements or understandings made or proposed to be made between the Offeror and the Liquor Barn Trustees, any senior officers of Liquor Barn Fund, any directors of Liquor Barn GP or any senior officers of Liquor Barn GP and no payments or other benefits are proposed to be made or given by way of compensation by the Offeror for the loss of office or for any member of the Liquor Barn Trustees, any senior officers of Liquor Barn Fund, any director of Liquor Barn GP or any senior officers of Liquor Barn GP remaining in or retiring from office. Other than the Securityholder Support Agreements, there are no contracts, arrangements or understandings, formal or informal, between the Offeror and any securityholder of Liquor Barn Fund with respect to the Offer or between the Offeror and any Person with respect to any securities of Liquor Barn Fund in relation to the Offer. See Section 5 of this Circular, "Expected Benefits of and Reasons to Accept the Offer – Offer and Merger Transaction has the Endorsement and Support of Liquor Barn's Second Largest Founding Unitholder Group" and Section 20 of this Circular, "Acceptance of Offer".

11. Material Changes and Other Information Concerning Liquor Barn Fund

The Offeror does not have any information that indicates any material change in the affairs of Liquor Barn Fund since the date of the last published financial statements of Liquor Barn Fund other than as has been publicly disclosed by Liquor Barn Fund. The Offeror does not have any knowledge of any material fact concerning securities of Liquor Barn Fund that has not been generally disclosed by Liquor Barn Fund or any other matter that has not previously been generally disclosed but which would reasonably be expected to affect the decision of Liquor Barn Unitholders to accept or reject the Offer.

12. Price Range and Trading Volumes of the Liquor Barn Units and Liquor Stores Units

Liquor Barn Fund

The Liquor Barn Units are listed and posted for trading on the TSX. Based upon publicly available information, Liquor Stores Fund believes that as of the date hereof, after giving effect to the Liquor Barn \$8.40 Offering, there are approximately 10,123,326 Liquor Barn Units outstanding. The following table sets forth the high and low closing prices and volumes of the Liquor Barn Units traded on the TSX for the periods indicated:

Period	High (\$)	Low (\$)	Volume
2006			
May (May 17 to May 31).....	11.17	10.40	3,414,730
June.....	11.24	10.39	1,050,821
July.....	11.10	10.75	713,812
August.....	12.70	10.75	990,851
September.....	12.25	11.47	589,604
October.....	12.45	11.67	372,712
November.....	10.10	8.05	809,386
December.....	8.40	7.50	766,901
2007			
January.....	9.15	8.20	593,878
February.....	9.20	8.60	374,000
March.....	8.80	8.39	561,093
April (to April 9).....	8.40	8.29	667,887

At the close of business on April 9, 2007, the closing sale price of the Liquor Barn Units on the TSX was \$8.40. **Liquor Barn Unitholders are urged to obtain current market quotations for the Liquor Barn Units.**

Liquor Stores Fund

The Liquor Stores Units are also listed and posted for trading on the TSX. As of the date hereof, there are 10,232,237 Liquor Stores Units outstanding. The following table sets forth the high and low closing prices and volumes of the Liquor Stores Units traded on the TSX for the periods indicated:

Period	High (\$)	Low (\$)	Volume
2004			
Fourth Quarter (from September 28)	14.79	11.96	6,055,573
2005			
First Quarter.....	16.92	14.31	1,512,517
Second Quarter	19.50	16.55	1,321,100
Third Quarter	19.40	17.45	1,669,312
Fourth Quarter	18.70	15.00	1,735,051
2006			
January	19.75	17.21	702,279
February	20.95	19.75	636,595
March.....	20.30	19.75	690,017
April.....	20.00	19.10	452,623
May.....	19.25	18.50	370,428
June.....	19.70	19.03	329,114
July	19.87	18.75	276,121
August.....	22.60	19.61	547,373
September	23.00	21.50	475,409
October	22.38	21.90	501,615
November	18.08	16.00	1,945,806
December.....	19.68	18.08	686,913
2007			
January.....	19.45	18.19	558,709
February.....	20.34	18.14	770,597
March.....	22.18	19.73	846,199
April (to April 9).....	21.80	21.33	98,900

At the close of business on April 9, 2007, the closing sale price of the Liquor Stores Units on the TSX was \$21.33. **Liquor Barn Unitholders are urged to obtain current market quotations for the Liquor Stores Units.**

13. Description of Liquor Stores Units and Certain Provisions of the Offeror's Declaration of Trust

Liquor Stores Units and Liquor Stores Special Voting Units

There are 10,232,237 Liquor Stores Units and 3,300,255 Liquor Stores Special Voting Units outstanding, for a total of 13,532,492 Liquor Stores Voting Units. The 3,300,255 Liquor Stores Special Voting Units are issued in association with the 1,175,255 outstanding Liquor Stores Exchangeable LP Units and 2,125,000 outstanding Liquor Stores Subordinated LP Units.

See "Description of Capital Structure" at pages 44 and 45 of the Offeror's AIF, together with the sections of the Offeror's AIF referred to therein (which Offeror's AIF is incorporated by reference herein), for a description of the Offeror's capital structure, including a description of the Liquor Stores Units, Liquor Stores Special Voting Units and certain provisions of the Offeror's Declaration of Trust.

Conflict of Interest Restrictions and Provisions

The Offeror's Declaration of Trust contains "conflict of interest" provisions that serve to protect Liquor Stores Unitholders without creating undue limitations on the Offeror. For a summary description of these provisions, see "Liquor Stores Income Fund – Conflicts of Interest" at pages 26 and 27 of the Offeror's AIF, which is incorporated by reference herein.

Rights of Liquor Stores Unitholders

The rights of the Liquor Stores Unitholders are established by the Offeror's Declaration of Trust. The rights of the Liquor Stores Unitholders under the Offeror's Declaration of Trust are substantially the same as the rights of the Liquor Barn Unitholders under the Liquor Barn Declaration of Trust. For a summary description of these rights, see "Liquor Stores Income Fund" at pages 16 to 27, inclusive, of the Offeror's AIF, which is incorporated by reference herein.

Control of Liquor Stores LP

For so long as the Liquor Stores Vendors own, directly or indirectly, not less than 20% of the Liquor Stores Units (on a diluted basis, which assumes the exercise of all Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units), the Liquor Stores Vendors are entitled to appoint two directors to the board of directors of Liquor Stores GP. The Liquor Stores Vendors also have approval and other rights with respect to certain matters relating to Liquor Stores LP and LSOT, which allow the Liquor Stores Vendors to restrict certain transactions that may be proposed by Liquor Stores Fund or its subsidiaries. These rights are described under "Material Contracts" on page 52 of the Offeror's AIF, which is incorporated by reference herein. The Liquor Stores Vendors currently have a collective holding of approximately 25.4% of the Liquor Stores Units (on a diluted basis). With the issue (and reservation for issue) of an estimated approximately 7.5 million Liquor Stores Units on the completion of the Offer and Merger, the Liquor Stores Vendors would have a collective holding of approximately 16.4% of the Liquor Stores Units (on a diluted basis). As a result of their collective holding being reduced below 20% of the Liquor Stores Units (on a diluted basis), certain of their approval and other rights would terminate and their Liquor Stores GP board appointment rights would be reduced from two directors to one.

14. Significant Acquisitions

Liquor Barn Unitholders may wish to refer to the business acquisition report of Liquor Barn Fund dated June 23, 2006 with respect to the acquisition of an indirect 57.1% interest in Liquor Barn Partnership, which may be obtained at www.sedar.com. See also Section 1 in this Circular, "The Offeror" and Section 2 in this Circular, "Liquor Barn Fund".

15. Regulatory Matters, Etc.

Licences, Etc.

Liquor Barn Partnership and its subsidiaries have various licenses related to the operation of retail liquor stores, as well as being party to leases, operating agreements and other contracts. Such licenses, leases, operating agreements and/or contracts may, as a result of the change of control of Liquor Barn Fund that the Offer and Merger would represent, require notifications to and/or approvals from the applicable regulatory authorities or counterparties.

TSX

The Liquor Stores Units are currently listed and posted for trading on the TSX. It is a condition to the Offer that the Liquor Stores Units to be issued in connection with the Offer and the Merger Transaction be conditionally approved for listing on the TSX, subject to satisfaction of customary conditions. Conditional listing approval for the Liquor Stores Units to be issued under the Offer and the Merger Transaction was obtained on April 9, 2007. The Liquor Barn Units are expected to be delisted from the TSX at or shortly after completion of the Offer and the Merger Transaction.

16. Merger Transaction

The following should be carefully reviewed by Liquor Barn Unitholders wishing to deposit their Liquor Barn Units to the Offer and make a Merger Election. Liquor Barn Unitholders should also see Section 3 of the Offer, "Manner of Acceptance".

Registration of interests in and transfers of Liquor Barn Units may currently only be made through a book entry only system administered by CDS. As such, in order to deposit their Liquor Barn Units to the Offer and make an Offer Election or a Merger Election, Liquor Barn Unitholders must complete the documentation and follow the instructions provided by their broker or other nominee. **Liquor Barn Unitholders should contact their broker or other nominee for assistance.** CDS will be required to complete and return the Letter of Acceptance and Transmittal in respect of all Liquor Barn Units deposited to the Offer by CDS Participants on behalf of Liquor Barn Unitholders.

Pursuant to the terms of the Letter of Acceptance and Transmittal, if for any reason an election is not made with respect to Liquor Barn Units tendered to the Offer, such Liquor Barn Units will be deemed to be Merger Elected Liquor Barn Units. In addition, given the settlement rules of the TSX, Liquor Barn Unitholders who purchase Liquor Barn Units less than three trading days prior to the Expiry Date should contact their broker or other nominee to confirm how to make an election to participate in the Merger Transaction.

All Merger Electing Liquor Barn Unitholders hereby expressly acknowledge and agree to be bound by the applicable terms of the Letter of Acceptance and Transmittal and that the Offeror may enforce such terms against such Merger Electing Liquor Barn Unitholders. A copy of the Letter of Acceptance and Transmittal may be obtained at www.sedar.com, or without charge from the Vice-President Finance and Chief Financial Officer of Liquor Stores GP at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1 (Telephone: (780) 917-4179).

Liquor Barn Unitholders who are residents of certain U.S. states and who do not qualify as exempt investors in such U.S. states who would otherwise receive Liquor Stores Units in exchange for their Merger Elected Liquor Barn Units may, at the discretion of the Offeror, have such Liquor Stores Units issued on their behalf to a selling agent, which shall, as agent for such Liquor Barn Unitholders (and without liability except for gross negligence or wilful misconduct), sell such Liquor Stores Units on their behalf over the facilities of the TSX and have the net proceeds of such sale, less any applicable withholding taxes, delivered to such Liquor Barn Unitholders. Liquor Stores Fund will have no liability for any such proceeds received or the remittance thereof to such Liquor Barn Unitholders. Liquor Barn Unitholders who are residents of Idaho, Iowa, Kansas, Maine, Michigan, Missouri, Ohio, South Carolina, South Dakota, Vermont and the U.S. Virgin Islands are eligible to receive Liquor Stores Units in exchange for their Merger Elected Liquor Barn Units. Liquor Barn Unitholders who are residents of states other than those listed above may receive Liquor Stores Units in exchange for their Merger Elected Liquor Barn Units only to the extent that they qualify as exempt under the laws of the respective states in which they reside. **Liquor Barn Unitholders who are not residents of the states listed above should consult with their brokers or other nominees or legal advisors to determine whether or not they qualify as exempt investors. Each Merger Electing Liquor Barn Unitholder who instructs its broker or other nominee to deposit its Liquor Barn Units in the Offer and who makes a Merger Election will be deemed to have represented to such broker or other nominee and to the Offeror that either (i) it is a resident of one of the states listed above or (ii) it is an exempt investor under the laws of the state where such Merger Electing Liquor Barn Unitholder resides, unless such Merger Electing Liquor Barn Unitholder advises its broker or other nominee and the Offeror in writing that these representations would not be true.**

All questions as to the validity, form and eligibility (including timely receipt) of any Merger Elected Liquor Barn Units and accompanying documents will be determined by the Offeror in its sole discretion. Merger Electing Liquor Barn Unitholders agree that such determinations will be final and binding. The Offeror reserves the absolute right to reject any and all deposits which it determines not to be in proper form or which may be unlawful under the laws of any jurisdiction. The Offeror reserves the absolute right to waive any defect or irregularity in the deposit of any Merger Elected Liquor Barn Units and accompanying documents. There is no duty or obligation on the part of the Offeror, the Depositary, the Information Agent or the Dealer Manager (or any of their respective trustees, directors, officers, employees, agents or representatives) or any other Person to give notice of any defects or irregularities in any deposit of Merger Elected Liquor Barn Units and no liability will be incurred by any of them for not giving any such notice. The Offeror's interpretation of the terms and conditions of the Offer and Circular and the Letter of Acceptance and Transmittal will be final and binding.

The Merger Transaction

If the Merger is completed, Liquor Barn Unitholders that make a Merger Election will receive Liquor Stores Units in exchange for their Liquor Barn Units on a tax-deferred "roll-over" basis for Canadian income tax purposes pursuant to the mechanics of the Merger. By making a Merger Election through their broker or other nominee, Merger Electing Liquor Barn Unitholders, through CDS, on behalf of the Merger Electing Liquor Barn Unitholders, will deposit the Merger Elected Liquor Barn Units to the Offer and then will withdraw such Merger Elected Liquor Barn Units from the Offer, effective at 9:00 p.m.

(Edmonton time) on the Expiry Date. **Accordingly, if the Merger is completed, Merger Elected Liquor Barn Units will not be taken-up and paid for under the Offer but such Merger Elected Liquor Barn Units will participate in the Merger.**

Prior to their withdrawal as outlined above, Merger Electing Liquor Barn Unitholders will provide the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, through the execution of the Letter of Acceptance and Transmittal, as described under Section 3 of the Offer, "Manner of Acceptance". As a consequence, all Merger Electing Liquor Barn Unitholders will be approving the Special Resolution.

Following the approval of the Special Resolution by the Electing Liquor Barn Unitholders, through the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, together with the Liquor Barn Special Voting Unitholders, representing more than 66 2/3% of the Liquor Barn Voting Units, the Offeror intends to enter into the Merger Agreement.

Liquor Stores Fund and Liquor Barn Fund will agree in the Merger Agreement to jointly elect to have section 132.2 of the Tax Act (and similar provincial legislation) apply with respect to the Merger. Liquor Stores Fund will determine the elected amounts for the assets of Liquor Barn Fund.

The Offeror's current intention is to complete the Merger (including the subsequent distribution of Liquor Stores Units to Liquor Barn Unitholders upon the redemption of the outstanding Liquor Barn Units) immediately following and conditional on the take-up under the Offer (or the satisfaction or waiver of all conditions thereunder) so as to provide the most consistent treatment possible to all Liquor Barn Unitholders, whether they are exchanging Liquor Barn Units for Liquor Stores Units under the Offer or as a result of the Merger.

Right to Withdraw Liquor Barn Units in Respect of Which a Merger Election is Made

In order not to provide the power of attorney contained in Part A of the Letter of Acceptance and Transmittal, withdrawals of Merger Elected Liquor Barn Units must be effected prior to 4:59 p.m. (Edmonton time) on the Expiry Date via CDS and through a Merger Electing Liquor Barn Unitholder's broker or other nominee or as otherwise permitted at law. A notice of withdrawal of such Merger Elected Liquor Barn Units must actually be received by the Depositary prior to 4:59 p.m. (Edmonton time) on the Expiry Date in a manner such that the Depositary has a written or printed copy of such notice of withdrawal. Merger Electing Liquor Barn Unitholders should contact their broker or other nominee for assistance. No further action on the part of CDS or the Merger Electing Liquor Barn Unitholders is required to withdraw such Merger Elected Liquor Barn Units from the Offer as at 9:00 p.m. (Edmonton time) on the Expiry Date.

A Merger Electing Liquor Barn Unitholder's broker or other nominee may set deadlines for the withdrawal of Merger Elected Liquor Barn Units prior to 4:59 p.m. (Edmonton time) on the Expiry Date that are earlier than those specified above. Merger Electing Liquor Barn Unitholders should contact their broker or other nominee for assistance.

All questions as to the validity (including timely receipt) and form of notices of withdrawal will be determined by the Offeror in its sole discretion, and such determination will be final and binding. There will be no obligation on the Offeror, the Depositary, the Information Agent, the Dealer Manager or any other Person to give any notice of any defects or irregularities in any withdrawal and no liability will be incurred by any of them for failure to give any such notice. The Offeror reserves the right to permit withdrawals of Merger Elected Liquor Barn Units deposited to the Offer and in respect of which a Merger Election is made other than as set forth herein.

Non-Electing Liquor Barn Unitholders

If the Special Resolution is approved and if the Merger is completed, Non-Electing Liquor Barn Unitholders will receive Liquor Stores Units under the Merger as if they had made a Merger Election.

Additional Information

The Merger Transaction is governed by certain applicable Canadian corporate and securities laws (collectively, the "**Regulations**"), including OSC Rule 61-501 and Policy Q-27, and would be a "business combination" within the meaning of OSC Rule 61-501 and a "going private transaction" within the meaning of Policy Q-27 (collectively, hereinafter referred to as "**going private transactions**") because the Merger Transaction would result in the interest of a holder of Liquor Barn Units

(the "**affected securities**") being terminated without the consent of the Liquor Barn Unitholder and no exemptions therefrom are anticipated to be available. In certain circumstances, the provisions of OSC Rule 61-501 and Policy Q-27 may also deem certain types of going private transactions (including the Merger Transaction) to be "related party transactions". However, if the Merger Transaction is carried out in accordance with OSC Rule 61-501 or an exemption therefrom and Policy Q-27 or an exemption therefrom, the "related party transaction" provisions of OSC Rule 61-501 and Policy Q-27 will not apply to the Merger Transaction. The Offeror intends to carry out the Merger Transaction in accordance with OSC Rule 61-501 and Policy Q-27 or exemptions therefrom such that the related party transaction provisions of OSC Rule 61-501 and Policy Q-27 will not apply to the Merger Transaction.

The Regulations provide that, unless exempted, an issuer proposing to carry out a going private transaction is required to engage an independent valuator to prepare a valuation of the affected securities (and subject to certain exceptions, any non-cash consideration being offered therefor) and provide to the holders of the affected securities a summary of such valuation or the entire valuation. In connection therewith, the Offeror intends to rely on any exemptions available or seek waivers pursuant to OSC Rule 61-501 and Policy Q-27 exempting the Offeror or Liquor Barn Fund, as appropriate, from the requirement to prepare a valuation in connection with the Merger Transaction. An exemption is available under OSC Rule 61-501 and Policy Q-27 for certain going private transactions completed within 120 days after the expiry of a formal takeover bid where the consideration under such transaction is at least equal in value to and is in the same form as that paid in the takeover bid, provided certain tax and other disclosure is given in the takeover bid disclosure documents. If the Offeror acquires Liquor Barn Units under the Offer, the Offeror intends to cause the Merger Transaction to occur in compliance with the requirements of the foregoing exemption.

OSC Rule 61-501 and Policy Q-27 also require that in addition to any other required securityholder approvals, in order to complete a going private transaction (such as the Merger Transaction), the approval of a majority of the votes cast by "minority" holders of the affected securities must be obtained at a meeting held for such purpose unless an exemption is available or discretionary relief is granted by the OSC and the AMF. In relation to the Offer and the subsequent Merger Transaction, the "minority" holders will be, unless an exemption is available or discretionary relief is granted by the OSC and the AMF, as required, all holders of Liquor Barn Units, other than, among others, the following: (i) an "interested party" (as defined in OSC Rule 61-501 and Policy Q-27), which includes the Offeror (other than in respect of Offer Elected Liquor Barn Units acquired pursuant to the Offer, as described below); (ii) a "related party" (as defined in OSC Rule 61-501 and Policy Q-27) of the Offeror and any other "interested party"; and (iii) any Person or company acting jointly or in concert with the foregoing Persons or companies, provided that a Person is not acting jointly or in concert solely because there is an agreement, commitment or understanding that such Person will tender to the Offer or vote in favour of the Merger Transaction. However, OSC Rule 61-501 and Policy Q-27 also provide that the Offeror may treat Offer Elected Liquor Barn Units acquired pursuant to the Offer as "minority" Liquor Barn Units and vote them in favour of such going private transaction if, among other things, the going private transaction is completed within 120 days after the expiry of a formal takeover bid where the consideration per affected security in such transaction is at least equal in value to and in the same form as the consideration paid under the Offer. The consideration offered under the Merger Transaction will be the same consideration paid under the Offer to Offer Electing Liquor Barn Unitholders, and the Offeror intends to cause Liquor Barn Units acquired pursuant to the Offer to be voted in favour of such transaction and to be counted as part of the minority approval required in connection with the Merger Transaction. As at the date hereof, there are no Liquor Barn Units known to the Offeror, after reasonable inquiry, the votes attached to which would be required to be excluded in determining whether minority approval for the Merger Transaction has been obtained.

The Offeror has applied to the OSC and the AMF to obtain relief under OSC Rule 61-501 and Policy Q-27, respectively, from the requirements, in the event that the Offeror takes up and pays for Liquor Barn Units under the Offer, to (a) call a meeting of Liquor Barn Unitholders to approve the Merger, and (b) send an information circular to Liquor Barn Unitholders in connection with the Merger, in each case provided that minority approval shall have been obtained, albeit not at a meeting of Liquor Barn Unitholders, but by written resolution.

The Merger will occur on a tax-deferred "roll-over" basis for Canadian income tax purposes. See Section 18 of this Circular, "Canadian Federal Income Tax Considerations" for a discussion of the income tax consequences of the Merger, including in respect of Liquor Barn Unitholders who do not make either an Offer Election or a Merger Election.

Summary of Merger Agreement

Conditional on the approval of the Special Resolution, Liquor Stores Fund intends to sign and deliver, on behalf of Liquor Barn Fund, a merger agreement (the "**Merger Agreement**") with the Offeror prior to 10:00 p.m. (Edmonton time) on the Expiry Date. The following is a summary of the material terms of the proposed Merger Agreement. It is qualified in its entirety by

reference to the full text thereof, a copy of which will be made available on Liquor Stores Fund's website at www.liquorstoresincomefund.ca, and the terms thereof are subject to change. Liquor Barn Unitholders who would like a paper copy to be mailed to them without charge may contact the Vice-President, Finance and Chief Financial Officer of Liquor Stores GP at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1 (Telephone: (780) 917-4179).

Pursuant to the Merger Agreement, and subject to the terms and conditions thereof, the Offeror would agree to acquire all of the assets and assume all of the liabilities of Liquor Barn Fund in return for Liquor Stores Units and Liquor Stores Special Voting Units.

The closing of the transactions under the Merger Agreement would occur, subject to the terms and conditions of the Merger Agreement, on such date (not later than 120 days after the Expiry Date) as is specified in writing by Liquor Stores Fund, which is currently expected to occur immediately following and conditional on the take-up under the Offer. Liquor Barn Fund would agree to then redeem all outstanding Liquor Barn Units, subject to any adjustments as provided for in the Merger Agreement, and distribute the Liquor Stores Units to the former holders of Liquor Barn Units on the same terms as under the Offer, namely on the basis of 0.53 of a Liquor Stores Unit per Liquor Barn Unit (subject to adjustment as provided under the Offer). Any Liquor Stores Units received by the Offeror as a holder of Liquor Barn Units at such time would be cancelled. Notwithstanding the foregoing, the Offeror may retain or reacquire one Liquor Barn Unit in its discretion to keep Liquor Barn Fund in existence.

If the Offeror determines, in its sole discretion, that it is desirable or required by Law to do so, Liquor Barn Fund shall, in respect of any Liquor Stores Units that would otherwise be received by any one or more former beneficial Liquor Barn Unitholder(s) or class(es) thereof in any one or more non-Canadian jurisdiction(s), distribute such Liquor Stores Units to a person designated by the Offeror who shall receive the Liquor Stores Units as agent for such Persons and shall, as agent for such Persons, as expeditiously as is commercially reasonable thereafter, sell such Liquor Stores Units through the facilities of the TSX and pay to such Persons the net proceeds thereof, after disposition costs and less any applicable withholding taxes and without interest. The Offeror shall not have any liability to any Person in connection with the sale of Liquor Stores Units in accordance with the foregoing. No trustee, broker or agent designated by the Offeror to effect a sale of Liquor Stores Units in accordance with the foregoing shall have any liability to Liquor Barn Fund or any affected beneficial Liquor Barn Unitholder in connection therewith, except for gross negligence or wilful misconduct.

Immediately prior to the take-up of units under the Offer, each of the Offeror and Liquor Barn Fund shall be permitted to make a special distribution to their respective unitholders in an amount equal to their bona fide estimated taxable income for their fiscal periods beginning on January 1, 2007 and ending at the time of the take-up of Liquor Barn Units under the Offer (after giving effect to any prior distributions during such period) so that the Offeror and Liquor Barn Fund should not be liable for any material Part I tax under the Tax Act for their taxation years deemed to end on the Merger pursuant to subsection 132.2(2) of the Tax Act. These amounts, if any, are not expected to be material.

In the Merger Agreement, while there would be no representations or warranties of either party, Liquor Barn Fund would agree to and to cause each of its subsidiary entities to: (a) co-operate (and to cause its advisors to co-operate) in proceeding with the transactions contemplated therein (including, without limitation, cooperation with respect to any regulatory filings) and not to take any actions inconsistent therewith; (b) conduct its business and activities in the ordinary course in substantially the same manner as previously conducted, except that it and they will not: (i) enter into or renew or amend any material agreements (including without limitation leases, operating agreements and the Liquor Barn Development Agreement), or (ii) make any material capital expenditures, or (iii) make any business acquisitions or dispositions, or (iv) make any changes to their respective capitalization (including borrowings, guarantees or amendments to the terms of debt), or (v) declare or make any payments or distributions to their respective securityholders, or (vi) make any payments to, or enter into or renew or amend any agreements or arrangements with, any of their respective trustees, directors or officers, or (vii) make any changes to their respective accounting practices, or (viii) settle any litigation or claims, in each case without Liquor Stores Fund's prior express written approval; (c) forthwith, upon request, provide full access or cause full access and cooperation to be provided to Liquor Stores Fund and its representatives to its records, premises, employees and advisors; (d) not amend the Liquor Barn Declaration of Trust, except with the prior express written approval of Liquor Stores Fund; (e) not amend the constating documents, articles or by-laws of any subsidiary entity of Liquor Barn Fund or any of the Liquor Barn Governance Documents, or sell, pledge, encumber, allot, reserve, set aside or issue, authorize or propose the sale, pledge, encumbrance, allotment, reservation, setting aside or issuance of, or purchase or redeem or propose the purchase or redemption of, any securities of Liquor Barn Fund or any subsidiary entity of Liquor Barn Fund or any class of securities convertible or exchangeable into, or rights, warrants or options to acquire, any such securities, in each case without Liquor Stores Fund's prior express written approval; (f) take or fail to take any action within its

reasonable control which would result in a condition specified in the Merger Agreement not being satisfied; (g) prepare and execute, and assist Liquor Stores Fund with its preparation and registration of, all documents required in connection with the conveyancing and transfer of the Liquor Barn Fund assets; and (h) immediately advise Liquor Stores Fund verbally and in writing of any material developments or changes with respect to their respective businesses and affairs, and to send Liquor Stores Fund for its comments a copy of any press release, material change report or any other document proposed to be filed with any Securities Regulatory Authority as sufficiently in advance of filing or release as is possible.

The closing of the transactions contemplated in the Merger Agreement would be subject to the take-up of Offer Elected Liquor Barn Units under the Offer or the satisfaction or waiver of all conditions under the Offer. If any of the conditions were not satisfied or waived by the Offeror, then the Offeror would be entitled to terminate the Merger Agreement, without prejudice to any other remedies (including damages or equitable remedies) that it may have. Each party to the Merger Agreement would be responsible for its own expenses, and the Merger Agreement would be governed by the laws of Alberta.

Special Resolution

If the Offer is completed, Electing Liquor Barn Unitholders would, through the execution by CDS of the Letter of Acceptance and Transmittal (see Part A of the Letter of Acceptance and Transmittal), together with Liquor Barn Special Voting Unitholders, approve a special resolution, substantially as set forth below:

"Capitalized terms used and not defined in this resolution have the meanings given to them in the Offer and Circular of Liquor Stores Income Fund dated April 10, 2007 (the "**Offer and Circular**"):

- (a) The Merger Transaction (as described in Section 16, "Merger Transaction", of the Offer and Circular), and any ancillary matters in connection therewith, are approved and Liquor Stores Fund is authorized to execute, on behalf of Liquor Barn Fund, the Merger Agreement in connection with the Merger Transaction on substantially the terms described in the Offer and Circular;
- (b) The amendment to the Liquor Barn Declaration of Trust to provide, in connection with the Merger, following the transfer of all of the assets and liabilities of Liquor Barn Fund to the Offeror in exchange for Liquor Stores Units and Liquor Stores Special Voting Units, for the retention or reacquisition of one Liquor Barn Unit by Liquor Stores Fund as provided in the Merger Agreement, if applicable, and subject to the foregoing, for the redemption of all outstanding Liquor Barn Units and Liquor Barn Special Voting Units and the distribution of such Liquor Stores Units and Liquor Stores Special Voting Units to the Liquor Barn Unitholders on the basis of 0.53 of a Liquor Stores Unit for each Liquor Barn Unit and to the Liquor Barn Special Voting Unitholders on the basis of 0.53 of a Liquor Stores Special Voting Unit for each Liquor Barn Special Voting Unit (subject to adjustment as provided under the Offer and the Merger Agreement), on a tax-deferred "roll-over" basis for Canadian income tax purposes (and the cancellation of any such Liquor Stores Units received by the Offeror itself) in full and final satisfaction of such Liquor Barn Voting Unitholders' rights, is approved and Liquor Stores Fund is authorized to execute an amendment to the Liquor Barn Declaration of Trust in connection with the foregoing;
- (c) The amendment of the Liquor Barn Declaration of Trust to thereafter permit Liquor Stores Fund, notwithstanding anything to the contrary contained therein, to vote, execute and deliver any instruments of proxy, authorizations, requisitions, resolutions or consents in respect of any Liquor Barn Units taken up under the Offer or otherwise acquired which are at the time beneficially owned by the Offeror, if determined necessary or appropriate by Liquor Stores Fund, is approved and Liquor Stores Fund is authorized to execute an amendment to the Liquor Barn Declaration of Trust in connection with the foregoing;
- (d) The Liquor Barn Trustees and all directors and officers of Liquor Barn Fund and its subsidiaries are directed to cooperate in all respects with the Offeror and Liquor Stores GP; and
- (e) Any trustee of Liquor Stores Fund, any officer or director of Liquor Stores GP, and any other Persons designated by Liquor Stores Fund in writing, is authorized to execute and deliver all documents and do

all acts or things, on behalf of Liquor Barn Fund or otherwise, as may be necessary or desirable to give effect to this special resolution."

In addition to approval of the foregoing Special Resolution, the Offeror would have to approve the entering into of, and enter into, the Merger Agreement on the Offeror's part.

The power of attorney granted to Liquor Stores Fund in the Letter of Acceptance and Transmittal to vote, execute and deliver any instruments of proxy, authorizations, resolutions or consents in respect of the Special Resolution will only be used and relied upon if Liquor Stores Fund intends to proceed with the take-up and payment for Liquor Barn Units deposited under the Offer and the completion of the Merger Transaction.

Judicial Developments

Prior to the pronouncement of OSC Rule 61-501 and Policy Q-27, Canadian courts had, in a few instances, granted preliminary injunctions to prohibit transactions in respect of corporations which constituted going private transactions or business combinations within the meaning of OSC Rule 61-501 and Policy Q-27. The Offeror has been advised that more recent notices and judicial decisions indicate a willingness to permit these transactions to proceed subject to compliance with requirements intended to ensure procedural and substantive fairness to the minority securityholders.

Liquor Barn Unitholders should consult their legal advisors for a determination of their legal rights with respect to any transaction which may constitute a business combination or going private transaction.

Distributions

In the event that Liquor Stores Fund takes-up and pays for Offer Elected Liquor Barn Units under the Offer and Liquor Barn Fund is unable to (because of its financial position or otherwise), or does not, declare and make a cash distribution in an amount per Liquor Barn Unit, at any time thereafter and prior to the completion of the Merger, that is at least equal to the cash distributions per Liquor Stores Unit declared and paid by Liquor Stores Fund in the same period multiplied by the Exchange Ratio (the "**Equivalent Liquor Stores Fund Distribution**"), then at the time of completion of the Merger, the Merger Electing Liquor Barn Unitholders and Non-Electing Liquor Barn Unitholders will receive an additional amount, without interest, up to the amount of the Equivalent Liquor Stores Fund Distribution, so as to ensure they receive, before taxes, the same value as if they had their Liquor Barn Units taken up under the Offer. Liquor Stores Fund has determined that the payment of such amount in cash may result in adverse tax consequences to such Liquor Barn Unitholders or to Liquor Barn Fund in connection with the Merger, and as such this amount will be paid in Liquor Stores Units (the value of which will be based on the lesser of the previous three and ten trading day volume weighted average trading prices of the Liquor Stores Units on the TSX for the period ended on the closing date of the Offer). As the Merger is expected to be completed immediately following the take-up under the Offer, or the satisfaction or waiver of all conditions under the Offer, no such additional amounts are expected to be payable.

The Offeror reserves the right to permit a Merger Election to be made in a manner other than that set forth in this Section 16.

17. Risk Factors

There are certain risks inherent in an investment in the Liquor Stores Units and in the activities of the Offeror which Liquor Barn Unitholders should carefully consider. A number of these risks are set out in the Offeror's AIF under the heading "Risk Factors", including risks relating to: industry risks associated with the retail liquor store business including: government regulation; competition; the Company'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 acquisitions; dependence on key personnel; supply interruption or delay; reliance on information and control systems; and dependence on capital markets to fund the Company's growth strategy beyond its available credit facilities. The risk factors also include risks associated with the structure of Liquor Stores Fund including: the dependence of Liquor Stores Fund on the Company; unpredictability and potential volatility of the trading price of the Liquor Stores Units including the effect of market interest rates on the price of Liquor Stores Units; the nature of the Liquor Stores Units; cash distributions are not guaranteed and will fluctuate with the Company's performance; the legal attributes of the Liquor Stores Units; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; the restrictions on the potential growth of the Company as a

consequence of the payment by the Company of substantially all of its operating cash flow to Liquor Stores Fund; income tax related risks, including the risk of changes in the tax treatment of income trusts including those proposed in the 2006 Proposed Tax Changes; future sales of Liquor Stores Units by the holders of Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units; the right to approve certain material transactions by certain holders of Liquor Stores Exchangeable LP Units and Liquor Stores Subordinated LP Units; investment eligibility of the Liquor Stores Units; the distribution of securities on redemption or termination of Liquor Stores Fund; and restrictions on non-resident Liquor Stores Unitholders and liquidity of Liquor Stores Units, among others. Those risks as set forth in the Offeror's AIF are incorporated by reference herein.

In addition, Liquor Barn Unitholders should carefully consider the following risk factors:

Integration Related Risks

The Offeror has proposed the Offer with the expectation that its successful completion will result in strategic benefits, economies of scale and synergies. These anticipated benefits, economies of scale and synergies will depend in part on whether the Offeror's and Liquor Barn Fund's operations can be integrated in an efficient and effective manner. It is possible that this may not occur as planned, or that the financial and other benefits may be less than anticipated. In addition, the integration will give rise to restructuring costs and charges, and these may be greater than currently anticipated. Further, the operating results and financial condition of the Offeror could be materially adversely impacted by the focus on integration.

Liquor Barn Unitholders should also review the risk factors relating to Liquor Barn Partnership's business contained on pages 46 to 49 of the annual information form of Liquor Barn Fund dated March 14, 2007, a copy of which has been filed with the Canadian Securities Regulatory Authorities and which may be obtained at www.sedar.com. These risk factors would also apply to the combined business.

Verification of Liquor Barn Fund Information in the Offer and Circular

Liquor Stores Fund has not had access to any non-public information of Liquor Barn Fund. As a result, all historical information regarding Liquor Barn Fund contained herein, including all Liquor Barn Fund financial information and all pro forma financial information reflecting the pro forma effects of a combination of Liquor Stores Fund and Liquor Barn Fund derived in part from Liquor Barn Fund's financial information, has been derived by necessity from Liquor Barn Fund's public reports and securities filings. Any inaccuracy or material omission in Liquor Barn Fund's publicly available information, including the information about or relating to Liquor Barn Fund contained in the Offer and Circular, could result in unanticipated liabilities or expenses, increase the cost of integrating the two entities, or adversely affect the operational plans of the combined entity and its results of operations and financial conditions.

Change of Control Provisions in Liquor Barn Fund's Agreements

Liquor Barn Fund or its subsidiaries may be party to agreements that contain change of control provisions that may be triggered following the completion of the Offer and Merger. The operation of these change of control provisions, if triggered, could result in unanticipated expenses following the consummation of the Offer and Merger or adversely affect Liquor Barn Fund's results of operations and financial condition. Unless these change of control provisions are waived by the other party, the operation of any of these provisions could adversely effect the operations and financial condition of the combined entity.

18. Canadian Federal Income Tax Considerations

In the opinion of Burnet, Duckworth & Palmer LLP, the following is a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a Liquor Barn Unitholder who (a) disposes of Liquor Barn Units to the Offeror in exchange for Liquor Stores Units pursuant to the Offer, or (b) disposes of Liquor Barn Units to Liquor Barn Fund in exchange for Liquor Stores Units on the redemption of Liquor Barn Units pursuant to the Merger. This summary assumes that, for purposes of the Tax Act, the Liquor Barn Unitholder is resident in Canada, holds Liquor Barn Units and will hold Liquor Stores Units received in exchange therefor as capital property, and deals at arm's length and is not affiliated with Liquor Barn Fund or the Offeror.

Liquor Barn Units and Liquor Stores Units generally will be considered capital property to a Liquor Barn Unitholder unless the Liquor Barn Unitholder holds such units in the course of carrying on a business, or the Liquor Barn Unitholder has

acquired them in a transaction or transactions considered to be an adventure in the nature of trade. Certain Liquor Barn Unitholders whose Liquor Barn Units or Liquor Stores Units might not otherwise qualify as capital property may be eligible to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have the Liquor Barn Units, Liquor Stores Units and every other "Canadian security" (as defined in the Tax Act) owned by such holder deemed to be capital property in the taxation year of the election and all subsequent taxation years.

This summary assumes that each of Liquor Barn Fund and the Offeror qualifies as a "mutual fund trust" as defined in the Tax Act on the date hereof, and will continue to so qualify throughout the period during which Liquor Barn Unitholders hold any Liquor Barn Units or Liquor Stores Units. The Offeror has advised counsel that the Offeror expects to continue to so qualify. This summary is not applicable to a Liquor Barn Unitholder an interest in which is a "tax shelter investment" or a Liquor Barn Unitholder that is not resident in Canada for purposes of the Tax Act. Any such Liquor Barn Unitholder should consult its own tax advisors with respect to the tax consequences of the proposed transactions.

This summary is based on the provisions of the Tax Act in force on the date hereof and counsel's understanding of the current published administrative practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all such Proposed Amendments will be enacted in their present form. No assurances can be given that the Proposed Amendments will be enacted in the form proposed, if at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in law, whether by judicial, regulatory or legislative decision or action or changes in administrative practices of the CRA, nor does it take into account provincial, territorial or foreign income tax legislation or considerations. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

The Canadian federal income tax consequences discussed herein are for general information only. Liquor Barn Unitholders (including any Liquor Barn Unitholders who are not resident in Canada) are urged to consult their own tax advisors to determine the tax consequences to them of disposing of Liquor Barn Units pursuant to the Offer or the Merger (as applicable) in their particular circumstances.

Disposition of Liquor Barn Units Pursuant to the Offer

In general, a disposition of Liquor Barn Units by an Offer Electing Liquor Barn Unitholder in exchange for Liquor Stores Units will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Offer Elected Liquor Barn Units, net of any costs of disposition, exceed (or are less than) the adjusted cost base of the Offer Elected Liquor Barn Units to the Offer Electing Liquor Barn Unitholder immediately prior to the disposition. The proceeds of disposition of the Offer Elected Liquor Barn Units will generally be equal to the aggregate of the fair market value of the Liquor Stores Units received in exchange therefor. The cost for tax purposes of the Liquor Stores Units received in exchange for Offer Elected Liquor Barn Units will be equal to the fair market value of such Liquor Stores Units. For the purpose of determining the adjusted cost base of such Liquor Stores Units, the cost of such Liquor Stores Units will be determined by averaging their cost with the adjusted cost base of all other Liquor Stores Units held as capital property immediately before the time of the exchange.

Generally, one-half of any capital gain realized by a Liquor Barn Unitholder pursuant to the Offer will be included in the Liquor Barn Unitholder's income as a taxable capital gain. One-half of any capital loss realized by a Liquor Barn Unitholder on the disposition of Liquor Barn Units pursuant to the Offer may generally be deducted only from taxable capital gains of the Liquor Barn Unitholder in accordance with the provisions of the Tax Act.

Where a Liquor Barn Unitholder that is a corporation or trust (other than a mutual fund trust) disposes of a Liquor Barn Unit, the Liquor Barn Unitholder's capital loss from the disposition will generally be reduced by the amount of any dividends received by Liquor Barn Fund previously designated by Liquor Barn Fund to the Liquor Barn Unitholder, except to the extent that a loss on a previous disposition of a Liquor Barn Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Liquor Barn Units.

Transfer of Liquor Barn Assets to Liquor Stores Fund Pursuant to the Merger

The Merger will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act, thereby allowing the assets of Liquor Barn Fund to be transferred to the Offeror for proceeds of disposition equal to the tax cost of such assets. In such circumstances, there should be no taxable income to Liquor Barn Fund arising from the transfer. Alternatively, the transfer may be organized so as to create income in Liquor Barn Fund equal to the amount of any unused or accrued losses or available deductions of Liquor Barn Fund. Again, in such circumstances, there should be no taxable income to Liquor Barn Fund arising from the transfer. The Offeror has advised counsel that the transfer of assets from Liquor Barn Fund to the Offeror will be organized so that it occurs on one of the foregoing bases. Since neither alternative should result in any taxable income to Liquor Barn Fund, there should be no need to make any distributions to Liquor Barn Unitholders as a result of the transfer and, therefore, there should be no tax liability to Liquor Barn Unitholders resulting from the transfer.

Special Distributions

The current taxation year of Liquor Barn Fund (and of the Offeror) will be deemed to end following the transfer of its assets to the Offeror, giving rise to a short taxation year for Liquor Barn Fund (as well as for the Offeror). Immediately before the take-up of the Offer Elected Liquor Barn Units under the Offer, Liquor Barn Fund is expected to pay a special distribution to Liquor Barn Unitholders at least equal to its bona fide estimated undistributed taxable income, if any, for the period ending at such time. See Section 16 of this Circular, "Merger Transaction". The Offeror is also expected to make a similar special distribution to Liquor Stores Unitholders if the Offeror has any undistributed taxable income for such period. The tax treatment to Liquor Barn Unitholders of these special distributions by Liquor Barn Fund will be similar to that applicable to other distributions that have been paid or payable by Liquor Barn Fund to them. These special distributions should ensure that Liquor Barn Fund and the Offeror will not be subject to material income tax under the Tax Act for this short taxation year.

Disposition of Liquor Barn Units by Liquor Barn Unitholders Pursuant to the Merger

As noted above, the Merger will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act. Accordingly, where a Merger Electing Liquor Barn Unitholder or a Non-Electing Liquor Barn Unitholder disposes of Liquor Barn Units to Liquor Barn Fund in exchange for Liquor Stores Units on the redemption of Liquor Barn Units pursuant to the Merger, the Liquor Barn Unitholder's proceeds of disposition for the Liquor Barn Units disposed of, and the cost to the Liquor Barn Unitholder of the Liquor Stores Units received in exchange therefor, will be deemed to be equal to the adjusted cost base to the Liquor Barn Unitholder of the Liquor Barn Units immediately prior to the holder's disposition (which adjusted cost base will take into account any reductions resulting from the special distributions to be made by Liquor Barn Fund described above). For the purpose of determining the adjusted cost base of the Liquor Stores Units acquired by a Liquor Barn Unitholder on such exchange, the cost of such Liquor Stores Units will be determined by averaging their cost with the adjusted cost base of all other Liquor Stores Units held as capital property by such Liquor Barn Unitholder immediately before the exchange.

Liquor Barn Fund will not realize a gain or loss on the transfer of the Liquor Stores Units to the Liquor Barn Unitholders on the redemption of Liquor Barn Units.

Holding and Disposing of Liquor Stores Units Received for Liquor Barn Units

Subsequent to the receipt of Liquor Stores Units for Liquor Barn Units pursuant to the Offer or the Merger, a former Liquor Barn Unitholder will be subject to taxation as a holder of Liquor Stores Units (a "**Liquor Stores Unitholder**"). The tax treatment to the former Liquor Barn Unitholder will be substantially the same as the tax treatment to which the former Liquor Barn Unitholder was subject as a Liquor Barn Unitholder. This tax treatment is outlined below.

Status of Liquor Stores Fund. Liquor Stores Fund is a "unit trust" as defined in the Tax Act and this summary assumes that Liquor Stores Fund qualifies and will continue to qualify as a "mutual fund trust" as defined in the Tax Act at all relevant times. This summary also assumes that Liquor Stores Fund is not established or maintained primarily for the benefit of non-residents. If Liquor Stores Fund were not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax considerations described below would, in some respects, be materially different.

Taxation of Liquor Stores Fund. The taxation year of Liquor Stores Fund is the calendar year. In each taxation year, Liquor Stores Fund will be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable

capital gains computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to Liquor Stores Unitholders. An amount will be considered to be payable to a Liquor Stores Unitholder in a taxation year if it is paid to the Liquor Stores Unitholder in the year by Liquor Stores Fund or if the Liquor Stores Unitholder is entitled in that year to enforce payment of the amount. The income for purposes of the Tax Act of Liquor Stores Fund for each taxation year will include all interest on LSOT Notes that accrues to, becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year and such amount of the income and net taxable capital gains, as is paid or becomes payable or deemed to be paid or payable to Liquor Stores Fund in the year in respect of the LSOT Units. Liquor Stores Fund will generally not be subject to tax on any amounts received as distributions on the LSOT Units that are in excess of the income of LSOT that is paid or payable or deemed to be paid or payable by LSOT to Liquor Stores Fund in a year but such amounts will generally reduce the adjusted cost base of the LSOT Units. Where the adjusted cost base of the LSOT Units would otherwise be a negative amount, Liquor Stores Fund will recognize a capital gain in such amount in that year, and its adjusted cost base of the LSOT Units at the beginning of the next taxation year will be reset to zero.

In computing its income, Liquor Stores Fund will generally be entitled to deduct reasonable administrative expenses incurred to earn income. Liquor Stores Fund may also deduct from its income for the year a portion of the expenses incurred by it to issue Liquor Stores Units pursuant to the Offer or Merger. Liquor Stores Fund may deduct up to 20% of such issue cost per year, pro rated where the Offeror's taxation year is less than 365 days.

Under the Offeror's Declaration of Trust, all of the income of Liquor Stores Fund for each year other than taxable capital gains (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any net capital gains realized by Liquor Stores Fund (computed in accordance with the detailed provisions of the Tax Act) in the year (excluding any capital gains or income which may be realized by Liquor Stores Fund upon a transfer *in specie* of Liquor Stores Fund's assets to redeeming Liquor Stores Unitholders in connection with a redemption of Liquor Stores Units and designated by Liquor Stores Fund as income or capital gains paid or payable to the redeeming Liquor Stores Unitholders) will be payable in the year to the Liquor Stores Unitholders by way of cash distributions, subject to the exceptions described below. Counsel has been advised that Liquor Stores Fund intends to make distributions in each year to Liquor Stores Unitholders in an amount sufficient to ensure that Liquor Stores Fund will generally not be liable for tax under Part I of the Tax Act in any year (after taking into account any applicable tax refunds to Liquor Stores Fund).

Income of Liquor Stores Fund that is applied to fund redemptions of Liquor Stores Units for cash or is otherwise unavailable for cash distributions will be distributed to Liquor Stores Unitholders in the form of additional Liquor Stores Units. Income of Liquor Stores Fund payable to Liquor Stores Unitholders, whether in cash or additional Liquor Stores Units will generally be deductible by Liquor Stores Fund in computing its taxable income.

Losses incurred by Liquor Stores Fund cannot be allocated to Liquor Stores Unitholders, but can be deducted by Liquor Stores Fund in future years in computing its taxable income, in accordance with the Tax Act. In the event Liquor Stores Fund would otherwise be liable for tax on its net recognized taxable capital gains for a taxation year, it will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for such tax by an amount determined under the Tax Act based on the redemption of Liquor Stores Units during the year (the "**capital gains refund**"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset Liquor Stores Fund's tax liability for the taxation year arising in connection with the transfer of property *in specie* to redeeming Liquor Stores Unitholders on the redemption of Liquor Stores Units. The Offeror's Declaration of Trust provides that all or a portion of any capital gain or income recognized by Liquor Stores Fund in connection with such redemptions may, at the discretion of the trustees, be treated as capital gains or income paid to, and designated as capital gains or income of, the redeeming Liquor Stores Unitholder. Such income or the taxable portion of any capital gain so designated must be included in the income of the redeeming Liquor Stores Unitholders (as income or taxable capital gains) and will be deductible by Liquor Stores Fund in computing its income.

For purposes of the Tax Act, Liquor Stores Fund generally intends to deduct, in computing its income and taxable income, the full amount available for deduction in each year. As a result of such deductions and Liquor Stores Fund's entitlement to a capital gains refund, it is expected that Liquor Stores Fund will not be liable for any material amount of tax under the Tax Act. However, no assurance can be given in this regard.

Taxation of LSOT. The taxation year of LSOT is the calendar year. In each taxation year, LSOT will be subject to tax under Part I of the Tax Act on its income for the year, including its allocated share of the income of Liquor Stores LP, except to

the extent such income is paid or payable or deemed to be paid or made payable in such year to its unitholders, including Liquor Stores Fund, and is deducted by LSOT in computing its income for tax purposes.

In computing its income for tax purposes, LSOT will generally be entitled to deduct its expenses (including interest that accrues, is payable or is paid on the LSOT Notes) incurred to earn such income, provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. Under the declaration of trust of LSOT, all of the income of LSOT for each year, together with the taxable and non taxable portion of any capital gains realized by LSOT in the year, will generally be paid or made payable in the year to holders of LSOT Units. For purposes of the Tax Act, LSOT generally intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Counsel has been advised by Liquor Stores Fund that Liquor Stores Fund does not expect LSOT to be liable for any material amount of tax under Part I of the Tax Act. However, counsel can provide no opinion in this regard.

Taxation of Liquor Stores LP. Liquor Stores LP is not subject to tax under the Tax Act. Each partner of Liquor Stores LP, including LSOT, is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of Liquor Stores LP for its fiscal year ending in, or coincidentally with, the partner's taxation year end, whether or not any of that income is distributed to the partner in the taxation year. Liquor Stores LP's fiscal period will be the calendar year. For this purpose, the income or loss of Liquor Stores LP will be computed for each fiscal year as if Liquor Stores LP were a separate person resident in Canada. In computing the income or loss of Liquor Stores LP, deductions may be claimed in respect of capital cost allowance, reasonable administrative costs, interest and other expenses incurred by Liquor Stores LP for the purpose of earning income, subject to the relevant provisions of the Tax Act. The income or loss of Liquor Stores LP for a fiscal year will be allocated to the partners of Liquor Stores LP, including LSOT, on the basis of their respective share of that income or loss as provided in the partnership agreement for Liquor Stores LP, subject to the detailed rules in the Tax Act in that regard.

Generally, distributions to partners in excess of the income of Liquor Stores LP for a fiscal year will result in a reduction of the adjusted cost base of the partner's units in Liquor Stores LP by the amount of such excess. If, as a result, LSOT's adjusted cost base at the end of a taxation year of its units in Liquor Stores LP would otherwise be a negative amount, LSOT will be deemed to realize a capital gain in such amount for that year, and LSOT's adjusted cost base at the beginning of the next taxation year of its units in Liquor Stores LP will be reset to zero. If Liquor Stores LP were to incur losses for tax purposes, LSOT's ability to deduct such losses may be limited by certain rules under the Tax Act.

Taxation of Liquor Stores Unitholders: Residents of Canada. This portion of the summary is applicable to a Liquor Stores Unitholder who, for purposes of the Tax Act and at all relevant times, is resident in Canada.

A Liquor Stores Unitholder is generally required to include in computing income for a particular taxation year the portion of the net income for tax purposes of Liquor Stores Fund for that year, including net realized taxable capital gains, that is paid or payable or deemed to be paid or payable to the Liquor Stores Unitholder in that year, whether that amount is received in cash, additional Liquor Stores Units or otherwise. The income of a Liquor Stores Unitholder from the Liquor Stores Units will be considered to be income from property for the purposes of the Tax Act. Any deduction or loss of Liquor Stores Fund for the purposes of the Tax Act cannot be allocated to and treated as a deduction or loss of a Liquor Stores Unitholder.

The non-taxable portion of any net realized capital gains of Liquor Stores Fund that is paid or payable or deemed to be paid or payable to a Liquor Stores Unitholder in a taxation year will not be included in computing the Liquor Stores Unitholder's income for the year. Any other amount in excess of the net income of Liquor Stores Fund that is paid or payable or deemed to be paid or payable to a Liquor Stores Unitholder in a year will not generally be included in the Liquor Stores Unitholder's income for the year. However, where such an amount is paid or payable to a Liquor Stores Unitholder, other than as proceeds of disposition or deemed disposition of Liquor Stores Units or any part thereof, the adjusted cost base of the Liquor Stores Units held by the Liquor Stores Unitholder will be reduced by such amount (except to the extent that it represents the Liquor Stores Unitholder's share of the non-taxable portion of the net realized capital gains of Liquor Stores Fund for the year, the taxable portion of which was designated by Liquor Stores Fund in respect of the Liquor Stores Unitholder). Where reductions to a Liquor Stores Unitholder's adjusted cost base of Liquor Stores Units for the year will result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain recognized by the Liquor Stores Unitholder in the year and the Liquor Stores Unitholder's adjusted cost base of the Liquor Stores Units at the beginning of the next year will be reset to zero.

Provided that appropriate designations are made by Liquor Stores Fund, such portions of its net taxable capital gains, taxable dividends received or deemed to be received on shares of taxable Canadian corporations and foreign source income as are paid or payable or deemed to be paid or payable to a Liquor Stores Unitholder will effectively retain their character and be treated

as such in the hands of the Liquor Stores Unitholder for the purposes of the Tax Act, and Liquor Stores Unitholders may be entitled to claim a foreign tax credit for foreign taxes paid by Liquor Stores Fund. To the extent that amounts are designated as having been paid to Liquor Stores Unitholders out of the net taxable capital gains of Liquor Stores Fund, such designated amounts will be deemed for tax purposes to be received by Liquor Stores Unitholders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. To the extent that amounts are designated as having been paid to Liquor Stores Unitholders out of taxable dividends received or deemed to be received on shares of taxable Canadian corporations, the normal gross-up and dividend tax credit provisions will be applicable in respect of Liquor Stores Unitholders who are individuals, the refundable tax under Part IV of the Tax Act will be payable by Liquor Stores Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual or related group of individuals, the deduction in computing taxable income will be available to Liquor Stores Unitholders that are corporations, and an additional refundable 6 2/3% tax will be payable by Liquor Stores Unitholders that are Canadian-controlled private corporations in certain circumstances.

Upon the disposition or deemed disposition by a Liquor Stores Unitholder of a Liquor Stores Unit, whether on redemption or otherwise, the Liquor Stores Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the aggregate of the Liquor Stores Unitholder's adjusted cost base of the Liquor Stores Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by Liquor Stores Fund that is otherwise required to be included in the Liquor Stores Unitholder's income (such as an amount designated as payable by Liquor Stores Fund to a redeeming Liquor Stores Unitholder out of capital gains or income of Liquor Stores Fund as described above).

For the purpose of determining the adjusted cost base to a Liquor Stores Unitholder of Liquor Stores Units, when a Liquor Stores Unit is acquired, the cost of the newly acquired Liquor Stores Unit will be averaged with the adjusted cost base of all of the Liquor Stores Units owned by the Liquor Stores Unitholder as capital property immediately before that acquisition. The adjusted cost base of a Liquor Stores Unit to a Liquor Stores Unitholder will include all amounts paid by the Liquor Stores Unitholder for the Liquor Stores Unit, with certain adjustments. The cost to a Liquor Stores Unitholder of Liquor Stores Units received in lieu of a cash distribution of income of Liquor Stores Fund will be equal to the amount of such distribution that is satisfied by the issuance of such Liquor Stores Units.

A redemption of Liquor Stores Units in consideration for cash, LSOT Notes or other securities distributed to the Liquor Stores Unitholder in satisfaction of the redemption price, as the case may be, will be a disposition of such Liquor Stores Units for proceeds of disposition equal to the aggregate of any cash and the fair market value of the LSOT Notes or other securities so distributed, as the case may be, less the portion of any income or capital gain realized by Liquor Stores Fund in connection with the redemption of those Liquor Stores Units that has been designated by Liquor Stores Fund as payable to the redeeming Liquor Stores Unitholder as described above. Where Liquor Stores Fund has designated such capital gain or income as payable to a redeeming Liquor Stores Unitholder, the Liquor Stores Unitholder will be required to include in income such income and the taxable portion of the capital gain so designated. Redeeming Liquor Stores Unitholders will consequently realize a capital gain (or capital loss), depending upon whether the proceeds of disposition received exceed (or are less than) the adjusted cost base of the Liquor Stores Units so redeemed and any reasonable costs of disposition. The adjusted cost base of the LSOT Notes or other securities transferred by Liquor Stores Fund to a Liquor Stores Unitholder upon an *in specie* redemption of Liquor Stores Units by that Liquor Stores Unitholder will generally be equal to the fair market value of such LSOT Notes or other securities at the time of transfer less any accrued but unpaid interest on such LSOT Notes or other securities at that time. The Liquor Stores Unitholder will thereafter be required to include in income interest on any such LSOT Notes or other securities in accordance with the provisions of the Tax Act. To the extent that the Liquor Stores Unitholder is thereafter required to include in income any interest accrued to the date of the acquisition of such LSOT Notes or other securities by the Liquor Stores Unitholder, an offsetting deduction will be available. Where a Liquor Stores Unitholder that is a corporation or a trust (other than a mutual fund trust) disposes of a Liquor Stores Unit, the Liquor Stores Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends from taxable Canadian corporations previously designated by Liquor Stores Fund to the Liquor Stores Unitholder except to the extent that a loss on a previous disposition of a Liquor Stores Unit has been reduced by such dividends. Similar rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Liquor Stores Units.

Generally, one-half of any capital gain realized by a Liquor Stores Unitholder and the amount of any net taxable capital gains designated by Liquor Stores Fund in respect of a Liquor Stores Unitholder will be included in the Liquor Stores Unitholder's income as a taxable capital gain. One-half of any capital loss realized by a Liquor Stores Unitholder on a disposition or deemed

disposition of Liquor Stores Units may generally be deducted only from taxable capital gains of the Liquor Stores Unitholder in accordance with the provisions of the Tax Act.

Where a Liquor Stores Unitholder that is a corporation or trust (other than a mutual fund trust) disposes of a Liquor Stores Unit, the Liquor Stores Unitholder's capital loss from the disposition will generally be reduced by the amount of any dividends received by Liquor Stores Fund previously designated by Liquor Stores Fund to the Liquor Stores Unitholder, except to the extent that a loss on a previous disposition of a Liquor Stores Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Liquor Stores Units.

A Liquor Stores Unitholder that throughout the relevant taxation year is a "Canadian controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 2/3% on certain investment income, including taxable capital gains. In general terms, net income of Liquor Stores Fund, paid or payable or deemed to be paid or payable to a Liquor Stores Unitholder who is an individual or a certain type of trust, that is designated as taxable dividends or as net taxable capital gains and capital gains realized on the disposition of Liquor Stores Units may increase the Liquor Stores Unitholder's liability for minimum tax.

Taxation of Liquor Stores Unitholders: Non-Residents of Canada. This portion of the summary is applicable to a Liquor Stores Unitholder who, for the purposes of the Tax Act and at all relevant times, is not resident in Canada and is not deemed to be resident in Canada, and will not use or hold or be deemed to use or hold the Liquor Stores Units in, or in the course of, carrying on business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**").

Where Liquor Stores Fund makes distributions to a Non-Resident Holder, the same considerations as those discussed above with respect to a Liquor Stores Unitholder who is resident in Canada will apply, except that any distribution of income paid or credited by Liquor Stores Fund to a Non-Resident Holder will be subject to Canadian withholding tax at the time such distribution is paid or credited at the rate of 25%, subject to reduction of such rate under an applicable income tax convention. For example, a Non-Resident Holder who qualifies as a resident of the United States under the Canada United States Income Tax Convention (the "**Convention**") will generally be subject to 15% Canadian non-resident withholding tax.

A disposition or deemed disposition of a Liquor Stores Unit by a Non-Resident Holder, whether on redemption, by virtue of capital distributions in excess of a Non-Resident Holder's adjusted cost base or otherwise, will not give rise to a capital gain which is subject to tax under the Tax Act unless the Liquor Stores Units constitute "taxable Canadian property". Liquor Stores Units of a Non-Resident Holder will not generally constitute "taxable Canadian property" under the Tax Act unless: (i) at any time during the period of sixty months immediately preceding the disposition of Liquor Stores Units by such Non-Resident Holder, not less than 25% of the issued Liquor Stores Units were owned by the Non-Resident Holder, by persons with whom the Non-Resident Holder did not deal at arm's length or by any combination thereof; (ii) Liquor Stores Fund ceases to qualify as a mutual fund trust; or (iii) the Non-Resident Holder's Liquor Stores Units are otherwise deemed to be taxable Canadian property. A Non-Resident Holder will generally compute the adjusted cost base of a Liquor Stores Unit pursuant to the same rules as apply to residents of Canada.

Tax Exempt Liquor Stores Unitholders – Qualified Investments. Provided Liquor Stores Fund is a mutual fund trust within the meaning of the Tax Act, Liquor Stores Units will be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, and registered education savings plans ("**Exempt Plans**") subject to the specific provisions of any particular plan. If Liquor Stores Fund ceases to qualify as a mutual fund trust under the Tax Act, the Liquor Stores Units will not be qualified investments under the Tax Act for Exempt Plans. LSOT Notes or other securities received as a result of a redemption *in specie* of Liquor Stores Units may not be qualified investments for Exempt Plans and this could give rise to adverse consequences to such plan or the annuitant or beneficiary under that plan. Accordingly, Exempt Plans that own Liquor Stores Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Liquor Stores Units.

2006 Proposed Tax Changes.

On October 31, 2006 the Federal Minister of Finance proposed to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders (the "**2006 Proposed Tax Changes**"). On December 21, 2006 the

Federal Minister of Finance released draft legislation to implement the 2006 Proposed Tax Changes pursuant to which, commencing January 1, 2011 (provided Liquor Stores Fund only experiences "normal growth" and no "undue expansion" before then) certain distributions from Liquor Stores Fund which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the Liquor Stores Fund level. On March 27, 2007 a Notice of Ways and Means Motion was tabled to enact the 2006 Proposed Tax Changes. Assuming the 2006 Proposed Tax Changes are ultimately enacted in their present form, the implementation of such legislation would be expected to result in adverse tax consequences to Liquor Stores Fund and certain Liquor Stores Unitholders (including most particularly Liquor Stores Unitholders that are tax deferred or non-residents of Canada) and may impact cash distributions from Liquor Stores Fund.

The 2006 Proposed Tax Changes provide that, while there is no intention to prevent "normal growth" during the transitional period, any "undue expansion" could result in the transition period being "revisited", presumably with the loss of the benefit to Liquor Stores Fund of that transitional period. As a result, the adverse tax consequences resulting from the 2006 Proposed Tax Changes could be realized sooner than January 1, 2011. On December 15, 2006, the Department of Finance issued guidelines with respect to what is meant by "normal growth" in this context. Specifically, the Department of Finance stated that "normal growth" would include equity growth within certain "safe harbour" limits, measured by reference to a SIFT's market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFT's issued and outstanding publicly-traded trust units, and not any convertible debt, options or other interests convertible into or exchangeable for trust units). These guidelines have been incorporated into the March 27, 2006 Notice of Ways and Means Motion discussed above. Those safe harbour limits are the greater of \$50 million or 40% of the market capitalization benchmark for the period from November 1, 2006 to December 31, 2007, and 20% each for calendar 2008, 2009 and 2010. Moreover, these limits are cumulative (other than the \$50 million annual limit), so that any unused limit for a period carries over into the subsequent period. Additional details of the Department of Finance's guidelines include the following:

- (a) new equity for these purposes includes units and debt that is convertible into units (and may include other substitutes for equity if attempts are made to develop those);
- (b) replacing debt that was outstanding as of October 31, 2006 with new equity, whether by a conversion into trust units of convertible debentures or otherwise, will not be considered growth for these purposes and will therefore not affect the safe harbour; and
- (c) the exchange, for trust units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006 will not be considered growth for those purposes and will therefore not affect the safe harbour where the issuance of the trust units is made in satisfaction of the exercise of the exchange right by a person other than the SIFT.

Liquor Stores Fund's market capitalization as of the close of trading on October 31, 2006, having regard only to its issued and outstanding publicly-traded Liquor Stores Units, was approximately \$227 million, which means Liquor Stores Fund's "safe harbour" equity growth amount for the period ending December 31, 2007 is approximately \$90 million, and for each of calendar 2008, 2009 and 2010 is an additional approximately \$45 million (in any case, not including equity, including convertible debentures, issued to replace debt that was outstanding on October 31, 2006, which was approximately \$8 million).

The issuance of Liquor Stores Units in excess of approximately \$98 million pursuant to the Offer would result in Liquor Stores Fund exceeding its safe harbour limit if the exceptions from the safe harbour limits do not apply. Liquor Stores Fund is of the view, based in part on informal discussions with an official of the Department of Finance, that the proposed Offer and Merger should not be viewed by the Department of Finance as undue expansion for purposes of the 2006 Proposed Tax Changes. The Department of Finance is not currently willing to issue written comfort to taxpayers with regard to individual circumstances and counsel can provide no assurance that the issuance of the Liquor Stores Units would not be regarded as undue expansion with the result that the CRA could take steps to have the 2006 Proposed Tax Changes apply to Liquor Stores Fund and holders of Liquor Stores Units immediately. In that event, Liquor Stores Fund would become subject to trust level tax on certain income earned and distributed by Liquor Stores Fund and certain distributions by Liquor Stores Fund would be treated as dividends, all with immediate effect.

It is not known at this time when the 2006 Proposed Tax Changes will be enacted by Parliament, if at all, or whether the 2006 Proposed Tax Changes will be enacted in the form currently proposed or new proposals will be proposed or enacted.

19. Documents Incorporated by Reference

The following documents of the Offeror filed with the Canadian Securities Regulatory Authorities are specifically incorporated by reference into and form an integral part of this Circular:

- (a) the annual information form of the Offeror dated March 30, 2007 (the "**Offeror's AIF**");
- (b) the comparative financial statements, together with the accompanying report of the auditors, for the year ended December 31, 2006 of the Offeror;
- (c) management's discussion and analysis of financial condition and results of operations of the Offeror for the fiscal year ended December 31, 2006; and
- (d) the management information circular of the Offeror dated April 13, 2006 prepared in connection with the annual and special meeting of Liquor Stores Unitholders held on May 12, 2006.

Any material change reports (except confidential material change reports), financial statements, management's discussion and analysis, business acquisition reports and information circulars filed by the Offeror after the date of the Offer and this Circular and before the Expiry Time are deemed to be incorporated by reference in this Circular.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of the Offer and Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Offer and Circular.

Liquor Stores Fund's web site is located at www.liquorstoresincomefund.ca. The contents thereof are expressly not incorporated by reference into the Offer and Circular.

20. Acceptance of Offer

Except for the Liquor Barn Supporting Securityholders who have entered into the Securityholder Support Agreements, neither the Offeror nor Liquor Stores GP has any knowledge regarding whether any Liquor Barn Unitholders will accept the Offer.

The Liquor Barn Supporting Securityholders, companies owned by Mr. Terry Nyquvest and members of his family (referred to as the "Spirits Liquor Mart Group"), have entered into the Securityholder Support Agreements with Liquor Stores Fund. The Liquor Barn Supporting Securityholders were the second largest founding vendor group of Liquor Barn Fund, having contributed 17 of the 58 retail liquor stores purchased by Liquor Barn Fund on completion of its initial public offering. Pursuant to the Securityholder Support Agreements they have, among other things, agreed to deposit under the Offer or the Merger Transaction any Liquor Barn Units they own or control, to vote all Liquor Barn Exchangeable LP Units, Liquor Barn Subordinated LP Units, Liquor Barn Special Voting Units and Liquor Barn Units they own or control in favour of any resolutions relating to the Offer and Merger, including the Special Resolution, and, effective on completion of the Offer and Merger, to appoint Liquor Stores Fund as voting trustee of the Liquor Barn Supporting Securityholders to exercise all voting rights attached to the Liquor Barn Supporting Securityholders' Liquor Barn Fund and Liquor Barn Partnership securities. The Liquor Barn Supporting Securityholders hold an aggregate of 808,942 Liquor Barn Special Voting Units, representing 5.8% of the currently outstanding Liquor Barn Voting Units (after giving effect to the Liquor Barn \$8.40 Offering). These Liquor Barn Special Voting Units are associated with the 404,471 Liquor Barn Exchangeable LP Units and 404,471 Liquor Barn Subordinated LP Units owned by the Liquor Barn Supporting Securityholders. The Liquor Barn Supporting Securityholders will be released from their obligations under the Securityholder Support Agreements if a transaction involving Liquor Barn Fund is proposed by another

party prior to the completion of the Offer pursuant to which Liquor Barn Unitholders will receive a consideration per Liquor Barn Unit that is greater in value than the consideration under the Offer and Merger Transaction (a "superior transaction") unless Liquor Stores Fund amends the Offer or proceeds with another transaction that provides for a consideration per Liquor Barn Unit that is at least equal in value to the consideration provided for under the superior transaction.

See Section 5 of this Circular, "Expected Benefits of and Reasons to Accept the Offer – Offer and Merger Transaction has the Endorsement and Support of Liquor Barn's Second Largest Founding Unitholder Group".

21. Legal Matters and Legal Proceedings

Certain legal matters relating to the Offer and Merger Transaction (including the issuance of Liquor Stores Units offered under the Offer) will be passed upon on behalf of the Offeror by Burnet, Duckworth & Palmer LLP.

22. Interests of Experts

As at the date hereof, to the knowledge of the Offeror's Trustees, the partners and associates of Burnet, Duckworth & Palmer LLP beneficially own, directly or indirectly, less than 1% of the outstanding Liquor Stores Units.

23. Depositary and Information Agent

CIBC Mellon Trust Company has been retained as the Depositary, and Georgeson has been retained as the Information Agent, for the Offer. The Depositary and Information Agent may contact Liquor Barn Unitholders by mail, telephone, telecopy, telegraph and personal interview and may request banks, brokers, dealers and other nominees to forward materials relating to the Offer to beneficial owners of Liquor Barn Units.

The Depositary and the Information Agent will each receive reasonable and customary compensation from the Offeror for their services in connection with the Offer, will be reimbursed for certain out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith.

Except as expressly set forth in this Offer and Circular, no broker, dealer, bank or trust company shall be deemed to be an agent of the Offeror, the Depositary or the Information Agent for the purposes of the Offer.

24. Financial Advisor and Soliciting Dealer Group

The Offeror has engaged the services of RBC Capital Markets to act as financial advisor and Dealer Manager in connection with the Offer, in the latter case to solicit acceptances of the Offer. The Dealer Manager intends to form a Soliciting Dealer Group comprised of members of the Investment Dealers Association of Canada and members of the TSX and the TSX Venture Exchange to solicit acceptances of the Offer from persons who are resident in Canada. Each member of the Soliciting Dealer Group, including the Dealer Manager, is referred to herein as a "Soliciting Dealer". The Dealer Manager will be reimbursed by the Offeror for its reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection with the Offer.

The Offeror has agreed to pay to each Soliciting Dealer a fee of \$0.10 for each Liquor Barn Unit deposited through such Soliciting Dealer and taken up by the Offeror under the Offer or acquired pursuant to the Merger, based on, among other things, CDS Participant certificates, actual deposits and the CDS participant list as at the Expiry Date. The aggregate amount payable with respect to any single beneficial holder of Liquor Barn Units will not be less than \$100 nor more than \$1,500, provided that no fee will be payable in respect of deposits of less than 400 Liquor Barn Units per beneficial holder. Where Liquor Barn Units deposited are beneficially owned by more than one Person, the foregoing minimum and maximum amounts will be applied separately in respect of each such beneficial owner. The Offeror may require the Soliciting Dealers to furnish evidence of beneficial ownership satisfactory to the Offeror, acting reasonably, before payment of such solicitation fees. No fee will be payable in respect of the deposit of Liquor Barn Units by the Liquor Barn Supporting Securityholders.

25. Auditors, Transfer Agent and Registrar

The auditors of the Offeror are PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton, Alberta.

The transfer agent and registrar for the Liquor Stores Units is CIBC Mellon Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

26. Expenses of the Offer

The Offeror estimates that the fees and expenses in connection with the Offer (including filing fees, accounting fees, legal fees, fees payable to its financial advisor, fees payable to the Soliciting Dealer Group, printing, mailing and miscellaneous costs, and including any fees or expenses in connection with the Merger Transaction) will be approximately \$2.6 million. In addition, it is expected that Liquor Barn Fund would also incur expenses in connection with the Offer (including legal fees, fees payable to its financial advisors, printing, mailing and other costs), which indirectly the Offeror would bear if the Offer is successful.

27. Other Matters Relating to the Offer

No fee or commission will be payable by Liquor Barn Unitholders to the Offeror for the deposit of Liquor Barn Units under the Offer. However, an Offer Electing Liquor Barn Unitholder's broker or other nominee may charge a fee or commission in connection with the Offer. Liquor Barn Unitholders should contact their broker or other nominee for information on any such fees and commissions that are payable.

28. Offerees' Statutory Rights

Securities legislation in certain of the provinces and territories of Canada provides Liquor Barn Unitholders with, in addition to any other rights they may have at Law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular that is required to be delivered to the Liquor Barn Unitholders. However, such rights must be exercised within prescribed time limits. Liquor Barn Unitholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer. Such rights may in certain cases need to be exercised through CDS on behalf of a Liquor Barn Unitholder. Liquor Barn Unitholders should accordingly also contact their broker or other nominee for assistance as required.

AUDITORS' CONSENT

We have read the Circular dated April 10, 2007 relating to the offer by Liquor Stores Income Fund to purchase all of the trust units of Liquor Barn Income Fund.

We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents. We consent to the incorporation by reference in the above-mentioned Circular of our report to the unitholders of Liquor Stores Income Fund on the consolidated balance sheets of Liquor Stores Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings and cumulative undistributed earnings and cash flows for each of the years ended December 31, 2006 and 2005. Our report is dated March 7, 2007.

Edmonton, Alberta
April 10, 2007

(signed) "PricewaterhouseCoopers LLP"
Chartered Accountants

CONSENT OF COUNSEL

To: The Board of Trustees of the Offeror

We hereby consent to the reference to our opinion contained under "Canadian Federal Income Tax Considerations" in the Circular accompanying the Offer dated April 10, 2007 made by the Offeror to the holders of Liquor Barn Units.

Calgary, Alberta
April 10, 2007

(signed) "Burnet, Duckworth & Palmer LLP"

APPROVAL AND CERTIFICATE OF THE OFFEROR

The contents of the Offer and Circular have been approved and the sending, communication or delivery thereof to the Liquor Barn Unitholders has been authorized by the board of trustees of the Offeror and the Board of Directors of its attorney, Liquor Stores GP Inc. The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it is made. In addition, the foregoing does not contain any misrepresentation likely to affect the value or market price of the Liquor Barn Units subject to the Offer or the Liquor Stores Units.

DATED: April 10, 2007

LIQUOR STORES INCOME FUND

By its attorney Liquor Stores GP Inc.

Per: (signed) Irv Kipnes
Chief Executive Officer

Per: (signed) Patrick deGrace
Vice-President, Finance and
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS OF LIQUOR STORES GP INC.

Per: (signed) Henry Bereznicki
Director

Per: (signed) David B. Margolus, Q.C.
Director

ON BEHALF OF THE PROMOTERS

THE LIQUOR DEPOT CORPORATION

Per: (signed) Irv Kipnes
Managing Director and Chief Executive Officer

LIQUOR WORLD GROUP INC.

Per: (signed) Henry Bereznicki
President and Chief Executive Officer

SCHEDULE "A"
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

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**COMPILATION REPORT ON
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

To the Trustees of Liquor Stores Income Fund

We have read the accompanying unaudited pro forma consolidated balance sheet of Liquor Stores Income Fund ("Liquor Stores Fund" or "the Fund") as at December 31, 2006 and the unaudited pro forma consolidated statement of earnings for the year then ended, and have performed the following procedures.

1. Compared the figures in the columns captioned "Liquor Stores Fund" to the audited consolidated financial statements of the Fund for the year ended December 31, 2006, and found them to be in agreement.
2. Compared the figures in the columns captioned "Liquor Barn Fund" to the audited consolidated financial statements of Liquor Barn Income Fund as at December 31, 2006 and for the period from April 3, 2006 to December 31, 2006 as filed on SEDAR, and found them to be in agreement.
3. Made enquiries of certain officials of the Fund who have responsibility for financial and accounting matters about:
 - (a) the basis for determination of the pro forma adjustments; and
 - (b) whether the unaudited pro forma consolidated financial statements comply as to form in all material respects with the requirements of the Alberta Securities Commission.

The officials:

- (a) described to us the basis for determination of the pro forma adjustments, and
 - (b) stated that the unaudited pro forma consolidated financial statements comply as to form in all material respects with the requirements of the Alberta Securities Commission.
4. Read the notes to the unaudited pro forma consolidated financial statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
5. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Liquor Stores Fund" and "Liquor Barn Fund" as at December 31, 2006 and for the year then ended, and found the amounts in the column captioned "Pro forma Consolidated" to be arithmetically correct.

A pro forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the unaudited pro forma consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Edmonton, Alberta
April 10, 2007

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

LIQUOR STORES INCOME FUND
PRO FORMA CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006
(in thousands of dollars)

	<u>Liquor Stores Fund</u> 2006	<u>Liquor Barn Fund</u> 2006	<u>Pro forma Adjustments</u> (note 4)		<u>Pro forma Consolidated</u>
Assets					
Current assets					
Cash	3,397	567	2,149	(a)	6,113
Accounts receivable	1,525	924			2,449
Inventory	49,702	19,752			69,454
Prepaid expenses and deposits	1,159	577			1,736
	<u>55,783</u>	<u>21,820</u>	<u>2,149</u>		<u>79,752</u>
Other assets	—	748			748
Pre-opening costs	819				819
Deposits on future acquisitions	1,633				1,633
Property and equipment	23,040	12,200			35,240
Future income taxes	62				62
Intangible assets	806	2,190			2,996
Goodwill	104,954	83,455	(83,455)	(d)	104,954
Unallocated purchase price			118,759	(d)	118,759
	<u>187,097</u>	<u>120,413</u>	<u>37,453</u>		<u>344,963</u>
Liabilities					
Current liabilities					
Bank indebtedness	5,455		6,910	(c)	12,365
Accounts payable and accrued liabilities	5,365	3,559			8,924
Due to Vendors	—	3,420			3,420
Distributions payable to unitholders	1,194	518			1,712
Distributions payable to non-controlling interest	881	384			1,265
	<u>12,895</u>	<u>7,881</u>	<u>6,910</u>		<u>27,686</u>
Long-term debt	—	24,170			24,170
Non-controlling interest	33,496	17,867	(17,867)	(b)	33,496
	<u>46,391</u>	<u>49,918</u>	<u>(10,957)</u>		<u>85,352</u>
Unitholders' Equity					
Fund Units	139,709	72,507	46,398	(a),(b) , (c)	258,614
Contributed surplus	—	18	(18)	(b),(c)	
Cumulative undistributed earnings (deficit)	997	(2,030)	2,030	(d)	997
	<u>140,706</u>	<u>70,495</u>	<u>48,410</u>		<u>259,611</u>
	<u>187,097</u>	<u>120,413</u>	<u>37,453</u>		<u>344,963</u>

LIQUOR STORES INCOME FUND
PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2006
(in thousands of dollars except per unit amounts)

	12 months ended December 31, 2006	For the period April 3, 2006 to December 31, 2006		
	<u>Liquor Stores Fund</u>	<u>Liquor Barn Fund</u>	<u>Pro forma Adjustments (note 5)</u>	<u>Pro forma Consolidated</u>
Sales	221,997	98,038		320,035
Cost of sales, operating, administrative, acquisition and store development	202,498	92,951		295,449
Operating earnings before amortization	<u>19,499</u>	<u>5,087</u>		<u>24,586</u>
Amortization				
Amortization of property and equipment	1,950	1,699		3,649
Amortization of intangible assets	141	425		566
Amortization of pre-opening costs	325			325
	<u>2,416</u>	<u>2,124</u>		<u>4,540</u>
Earnings before interest and non-controlling interest	17,083	2,963		20,046
Interest expense				
Interest on bank indebtedness	(825)		(261)	(a) (1,086)
Interest on long-term debt	(280)	(711)		(991)
	<u>(1,105)</u>	<u>(711)</u>	<u>(261)</u>	<u>(2,077)</u>
Earnings before non-controlling interest	15,978	2,252	(261)	17,969
Non-controlling interest	(4,463)	(448)	858	(a), (b) (4,053)
Net earnings for the period	<u>11,515</u>	<u>1,804</u>	<u>597</u>	<u>13,916</u>
Net earnings per unit - basic (note 6)	<u>1.35</u>	<u>0.23</u>		<u>1.17</u>
Net earnings per unit - diluted (note 6)	<u>1.32</u>	<u>0.23</u>		<u>1.17</u>

Liquor Stores Income Fund
Notes to Pro Forma Consolidated Financial Statements
December 31, 2006
(in thousands of dollars except per unit amounts)

Description of offer to Liquor Barn Income Fund (“Liquor Barn Fund”)

On April 10, 2007, Liquor Stores Income Fund (“Liquor Stores Fund”) announced a proposed business combination with Liquor Barn Fund whereby Liquor Stores Fund offers to acquire all of the issued and outstanding trust units of Liquor Barn Fund, at an exchange ratio of 0.53 of a Liquor Stores Fund trust unit for each Liquor Barn Fund trust unit. The accompanying pro forma consolidated financial statements have been compiled for the purposes of inclusion in an offer and takeover bid circular dated April 10, 2007 (collectively “Circular”), issued by Liquor Stores Fund in connection with this proposed business combination.

The value assigned in these pro forma financial statements to the Liquor Stores Fund trust units to be issued is based on the Liquor Stores Fund trust unit value of \$21.58, representing the average closing unit price of Liquor Stores Fund for the three days before April 10, 2007, being the date of the announcement of Liquor Stores Fund’s proposed business combination with Liquor Barn Fund.

Liquor Stores Fund has prepared these pro forma financial statements in part based upon publicly available information on Liquor Barn Fund. Additional information exists that is not publicly available that could have an impact on these pro forma financial statements and determination of the purchase price allocation. The final allocation of the purchase price and fair value of Liquor Barn Fund’s assets and liabilities is subject to completion of valuations, which would be carried out following completion of the acquisition. It is likely that the fair values of assets and liabilities will vary from those shown and the differences may be material.

1. Basis of presentation

The accompanying unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of earnings of Liquor Stores Fund have been prepared in accordance with Canadian Securities requirements. The accompanying pro forma consolidated financial statements give effect to the acquisition of Liquor Barn Fund.

The pro forma consolidated balance sheet has been prepared from information derived from the audited consolidated financial statements of Liquor Stores Fund and Liquor Barn Fund as at December 31, 2006. The pro forma consolidated statement of earnings for the year ended December 31, 2006 has been derived from the audited consolidated financial statements of Liquor Stores Fund for the year ended December 31, 2006 and the audited consolidated financial statements of Liquor Barn Fund for the period April 3, 2006 to December 31, 2006.

The pro forma consolidated financial statements do not reflect any synergies that might arise from the acquisition by Liquor Stores Fund of Liquor Barn Fund nor do they include any restructuring or integration costs that may be incurred by Liquor Stores Fund. Certain of the accounting policies adopted by Liquor Stores Fund and Liquor Barn Fund may be inconsistent. The pro forma consolidated balance sheet and the statement of earnings have not been adjusted to reflect any such differences in accounting policies.

The pro forma consolidated financial statements may not be indicative of the financial position or the results of operations that would have occurred if the transaction had been in effect on the dates indicated or of the financial position or operating results which may be obtained in the future.

The pro forma consolidated financial statements should be read in conjunction with the consolidated financial statements of Liquor Stores Fund for the year ended December 31, 2006 incorporated by reference in the Circular and Liquor Barn Fund for the period April 3, 2006 to December 31, 2006.

2. Available and unavailable financial information

Liquor Barn Fund was formed on April 3, 2006; as a consequence the publicly available financial information for periods prior to April 3, 2006 is limited to the disclosure in its prospectus dated May 5, 2006.

Liquor Stores Income Fund
Notes to Pro Forma Consolidated Financial Statements
December 31, 2006
(in thousands of dollars except per unit amounts)

Subsequent to December 31, 2006, Liquor Barn Fund entered the transactions discussed in note 7 below. Publicly available information in respect of these transactions is insufficient to permit adjustment in these pro forma financial statements.

Based on the publicly filed documentation in connection with Liquor Barn Fund's credit facility, the completion of the business combination would constitute an event of default and entitle the lender to require repayment of the credit facility. Liquor Stores Fund has sufficient availability under its \$61.5 million credit facility to repay the approximately \$24.6 million outstanding under Liquor Barn Fund's credit facility as at April 2, 2007 in such event. No adjustment has been made in these pro forma financial statements for the potential repayment required under the Liquor Barn Fund credit facility.

3. Liquor Stores Fund

The accompanying pro forma consolidated financial statements of Liquor Stores Fund have been prepared to reflect the acquisition by Liquor Stores Fund of all of the issued and outstanding trust units of Liquor Barn Fund for \$123,666 including transaction costs and the issuance of 5,411,218 trust units of Liquor Stores Fund with an assigned value of \$116,756. The transaction costs, estimated to be \$6,910, will be financed by additional borrowings under Liquor Stores Fund's credit facility.

4. Pro forma consolidated balance sheet of Liquor Stores Fund

The pro forma consolidated balance sheet of Liquor Stores Fund as at December 31, 2006 is based on the consolidated balance sheets of Liquor Stores Fund and Liquor Barn Fund as at December 31, 2006, and has been prepared as if the following transactions had been completed on December 31, 2006:

- a) To give effect to proceeds deemed to be received by Liquor Barn Fund on the assumed exercise of outstanding unit options and deposit of such units to the offer.
- b) The assumed exchange of the exchangeable and subordinated Liquor Barn Limited Partnership units for Liquor Barn Fund trust units and the deposit of such trust units to the offer.
- c) The proposed acquisition by Liquor Stores Fund of Liquor Barn Fund for \$123,666 including transaction costs, funded by Liquor Stores Fund's existing credit facilities, in the amount of \$6,910 and the issuance of 5,411,218 trust units with an assigned value of \$116,756.

The value assigned in these pro forma financial statements to the Liquor Stores Fund trust units to be issued is based on the Liquor Stores Fund trust unit value of \$21.58, representing the average closing unit price of Liquor Stores Fund for the three days before the announcement of the proposed business combination.

- d) The acquisition by Liquor Stores Fund of Liquor Barn Fund will be accounted for by the purchase method. The purchase price allocation has not been determined. The excess of the purchase price paid by Liquor Stores Fund over the underlying carrying value of the Liquor Barn Fund net assets is as follows:

	\$
Estimated acquisition costs	6,910
Issue of Liquor Stores Fund trust units (5,411,218 trust units)	116,756
Total cost of acquisition	123,666
Liquor Barn Fund net assets acquired	4,907
Estimated unallocated purchase price	118,759

Liquor Stores Income Fund
Notes to Pro Forma Consolidated Financial Statements
December 31, 2006
(in thousands of dollars except per unit amounts)

5. Pro forma consolidated statement of earnings of Liquor Stores Fund

The pro forma consolidated statement of earnings of Liquor Stores Fund for the year ended December 31, 2006 is based on the consolidated statement of earnings of Liquor Stores Fund for the year ended December 31, 2006 as if the transactions referred to in note 4 had occurred on January 1, 2006 and that the results of Liquor Barn Fund (for the period April 3, 2006, with commencement of active operations on May 17, 2006, to December 31, 2006) had been consolidated for the year ended December 31, 2006, and reflect the following adjustments:

- a) Additional interest expense in the amount of \$261 relates to the transaction costs of \$6,910.
- b) To adjust the non-controlling interest charge in respect of the transactions described in note 4 including a reduction in non-controlling interest of \$59 in respect of the additional interest charge of \$261.

6. Pro forma net earnings per unit

Basic pro forma net earnings per unit for the Liquor Stores Fund for the year ended December 31, 2006 has been calculated using the weighted average number of units outstanding of 11,933,989 which assumes that the 5,411,218 units issued as consideration for the acquisition of Liquor Barn Fund were issued May 17, 2006, the date of Liquor Barn Fund's initial public offering and commencement of active business operations.

Diluted pro forma net earnings per unit for the Liquor Stores Fund includes the effect of the conversion of Liquor Stores Fund's exchangeable and subordinated limited partnership units.

7. Subsequent events related to Liquor Barn Fund

The following subsequent events are not recorded in the December 31, 2006 Liquor Barn Fund financial statements, and have not been reflected in these pro forma financial statements.

- a) Subsequent to December 31, 2006, Liquor Barn Fund completed acquisitions of four retail liquor store businesses in British Columbia and one retail liquor store business in Alberta. The aggregate purchase price (including inventory) for two of the British Columbia acquisitions was approximately \$6,900 and was paid in cash from existing credit facilities. Financial information concerning the other two British Columbia acquisitions and the Alberta acquisition is not publicly available.
- b) On January 4, 2007, Liquor Barn Fund closed a private placement of \$15,700 aggregate principal amount of 8% convertible unsecured subordinated debentures (the "Debentures") maturing December 31, 2011. The Debentures are convertible into units of Liquor Barn Fund at the option of the holder at a conversion price of \$8.60 per unit. Interest on the Debentures will be paid semi-annually on June 30 and December 31 of each year, commencing on June 30, 2007. An additional 967,558 Liquor Stores Fund trust units will be issued if the Debentures are converted and deposited to the offer.
- c) On March 20, 2007, Liquor Barn Fund agreed to issue 3,980,000 trust units at \$8.40 per trust unit for estimated net proceeds of \$31,580. An additional 2,109,400 Liquor Stores Fund trust units will be issued if these Liquor Barn Fund trust units are deposited to the offer.

Questions and requests for assistance may be directed to the Information Agent for the Offer:



100 University Avenue
11th Floor, South Tower
Toronto, Ontario
M5J 2Y1

North American Toll Free Number:
1-866-656-4120

The Depositary for the Offer is:

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199 Bay Street
Commerce Court West
Securities Level
Toronto, Ontario
M5L 1G9

Telephone: (416) 643-5500
Toll Free: 1-800-387-0825
E-Mail: inquiries@cibcmellon.com

The Dealer Manager for the Offer is:

RBC CAPITAL MARKETS

200 Bay Street, 4th Floor
Royal Bank Plaza, South Tower
Toronto, Ontario
M5J 2W7

Telephone: (416) 842-5596
Toll Free: 1-866-274-5613

Liquor Barn Unitholders may also contact their investment dealer, stockbroker, bank manager, accountant, lawyer or professional advisor for assistance. See also "Questions and Answers" on page 9. Additional copies of the Offer and Circular may be obtained without charge on request from the Depositary.