



# LIQUOR STORES INCOME FUND

February 7, 2008

# Simple Business

- Convenient locations
  - Strong real estate expertise
- Liquor products comprise 99%+ of sales
  - Very experienced liquor store operators since 1993
- Cash business
- Proven strategies for continued growth
- Currently 197 stores



# Favorable Regulatory Environment

- Legislated “level playing field”
  - Separate and distinct business requirement in the Alberta Act
  - Uniform wholesale and postage stamp delivery costs

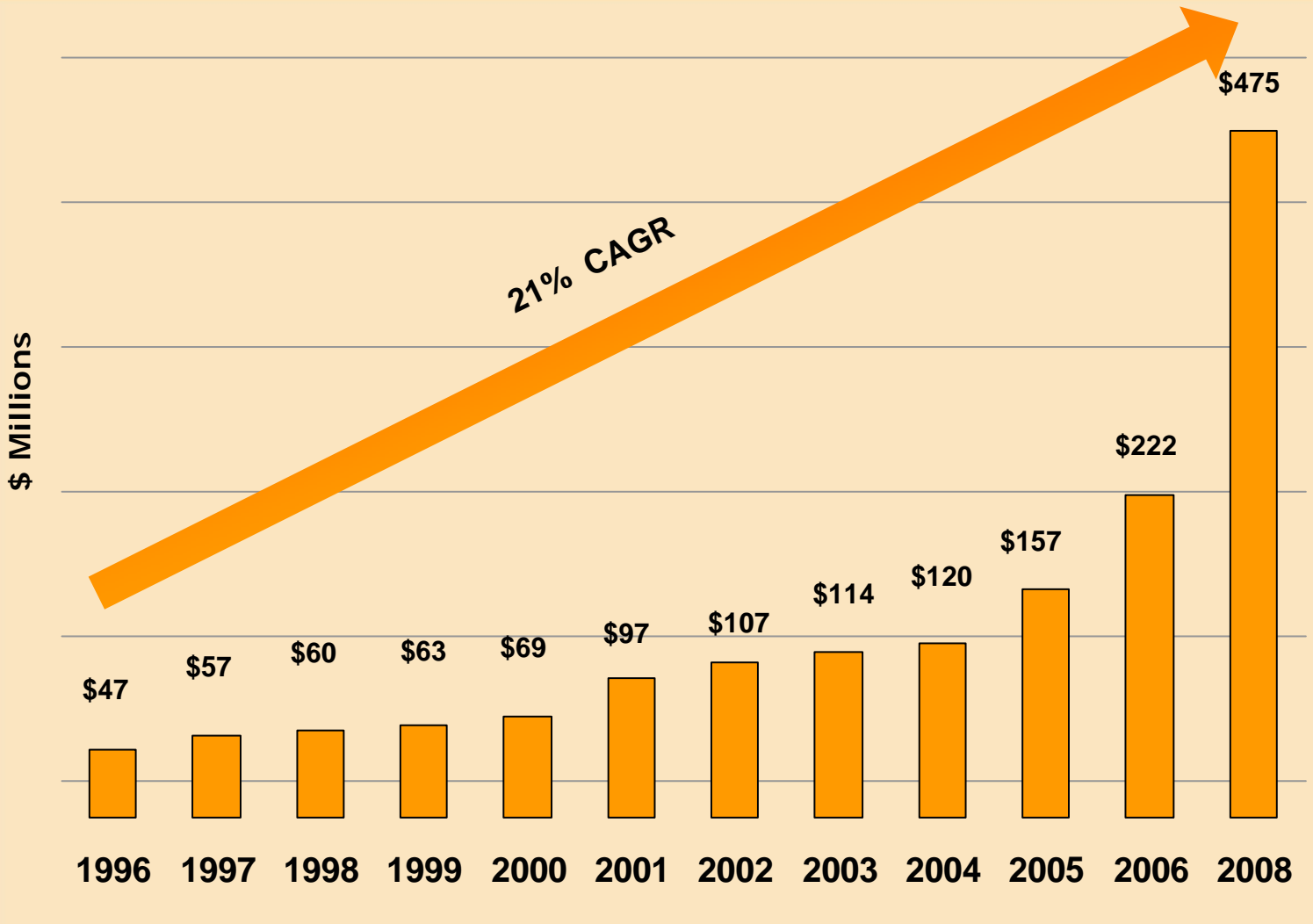


# Ideal Income Fund Assets

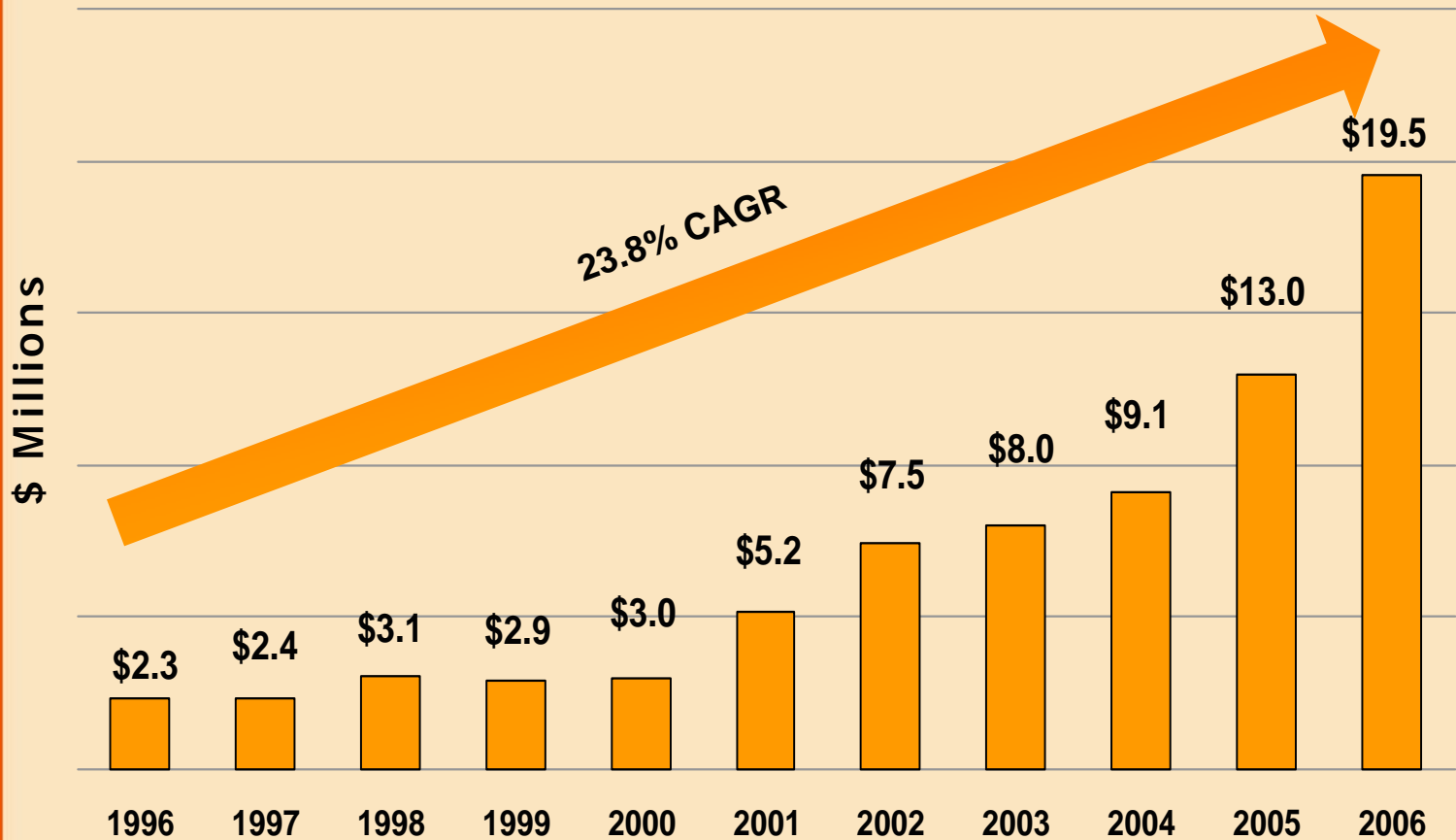
- Stable revenues & margins with EBITDA growth of 23.8% since 1996
- Attractive industry growing at 5% CAGR to 2006
- Alberta's largest liquor store retailer by number of stores and by sales



# Strong Sales Growth



# Reliable and Growing EBITDA



# Outstanding Product Merchandising

- Major competitive advantage
  - Optimal traffic flow
  - Upscale attractive designs
  - Broader product offering
  - Higher margin product focus
- Our average sales in Alberta stores are \$2.5 million compared to industry average of \$1.5 million.
- Average sales in our British Columbia stores are approximately \$2.4 million



# Strong Financial Capacity

- Completed three new issues of Fund units for proceeds of \$93 million on 5 million trust units
- Completed convertible subordinated debenture issues of proceeds of \$55 million
- Credit facility \$120 million
- Approximately \$95 million available for acquisition & development





# Strong Alignment with Unitholders

- Management, directors, and vendors currently hold >15.5% of units (fully diluted)
- Long Term Incentive Plans

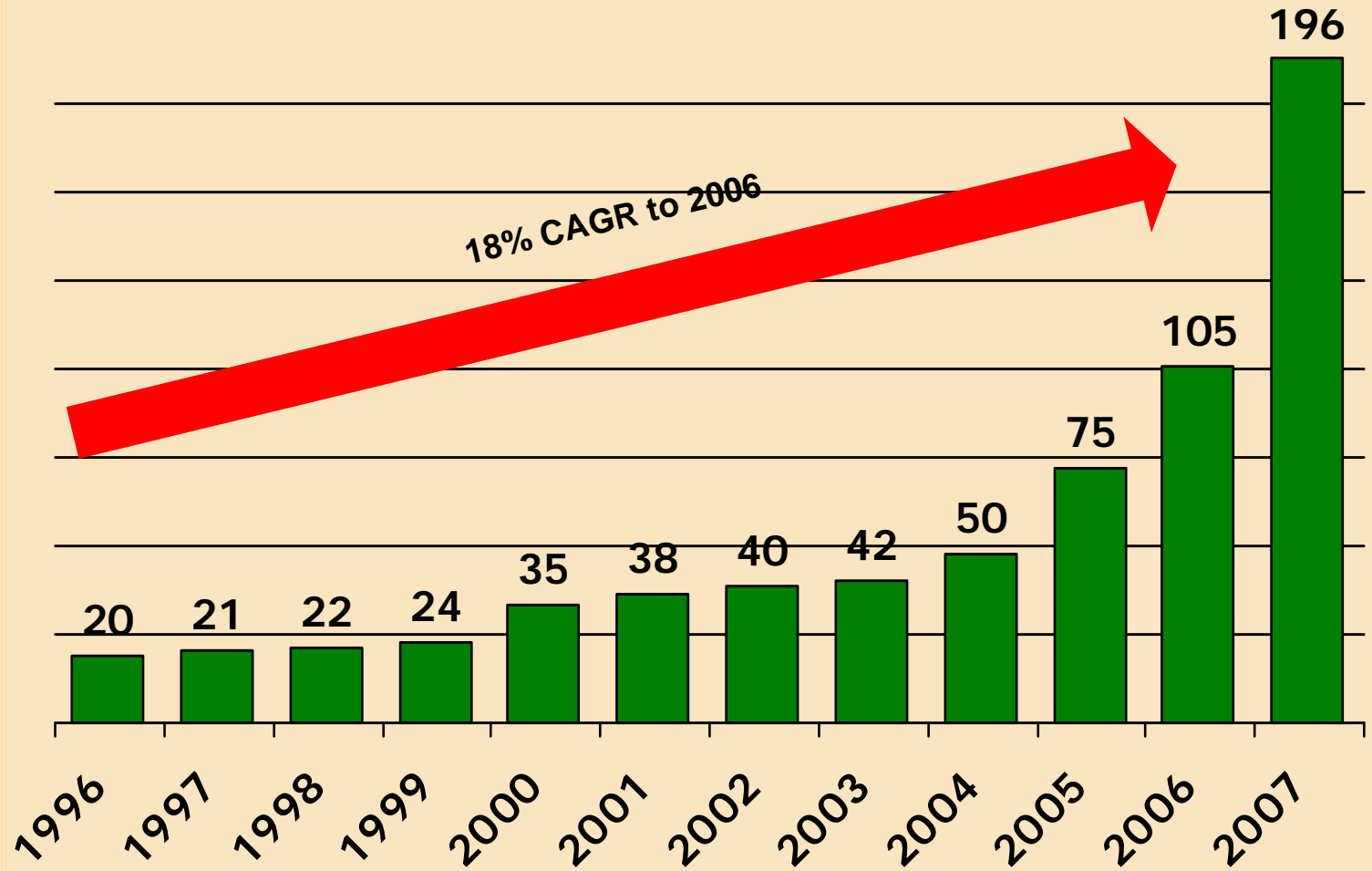


# Growth in the Mix!

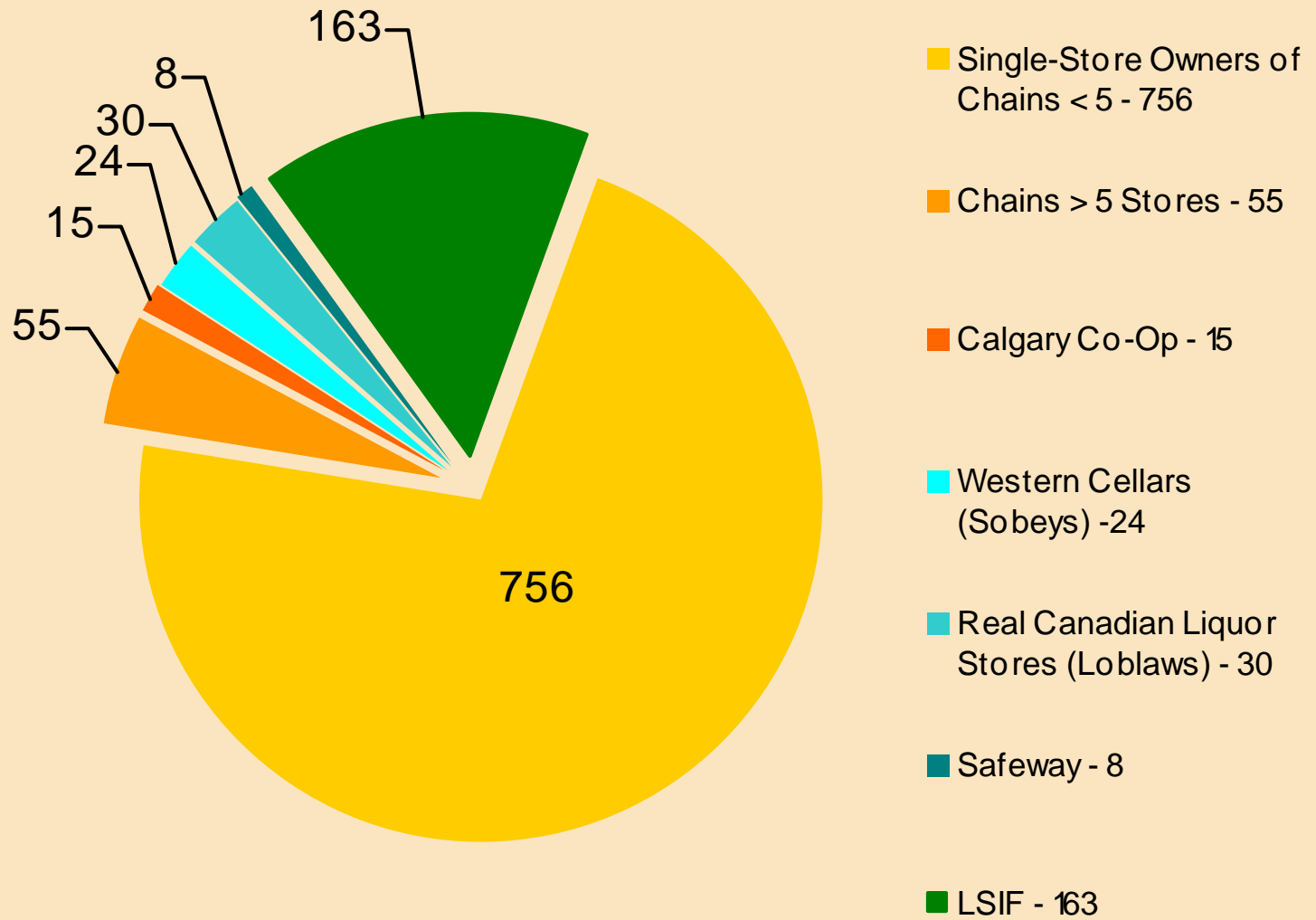
- New stores
  - Acquired or developed 143 stores since IPO
- Cash distributions
  - Initial Distribution - \$1.00
  - To date four increases in distributions:
    - May 2005 - 7.5% to \$1.075 per year
    - February 2006 - 11.6% to \$1.20 per year
    - November 2006 - 16.7% to \$1.40 per year
    - March 2007 - 7.1% to \$1.50 per year
    - December 2007 - 8.0% to \$1.62 per year



# Track Record of Consistent Store Growth



# Alberta - Chain Store Ownership



**Total Stores Alberta – 1050 approximately**  
(Source: Alberta Liquor and Gaming Commission (AGLC))

# Acquisition of Liquor Barn

Consideration	▪ <b>0.57 of a Liquor Stores unit per Liquor Barn unit</b>
Valuation <sup>(1)</sup>	▪ <b>\$11.96 per Liquor Barn unit</b> ▪ <b>Transaction valued at \$217.4 million</b>
Structure	▪ <b>Merger transaction alternative providing for tax-deferred “roll-over”</b>
Lock-Up	▪ <b>The 8 Liquor Barn founding unitholders who supported the transaction have a 4.9% investment in Liquor Stores on a fully diluted basis</b>
Other Founders	▪ <b>Dr. Mather and two other founding unitholder have no remaining investment in Liquor Barn Limited Partnership.</b>

(1) Based on three days before and after May 28, 2007

# Liquor Barn - Strategic Rationale

- Created the leading independent liquor retailer in Alberta and B.C.
- Strong platform for future growth
- Immediate realization of cost synergies
- Attractive opportunities to enhance margins
- Established larger entity with improved trading liquidity with a market value of approximately \$522 million at November 28, 2007
- Proven management capability to acquire, integrate and optimize value of combined assets
- Accretive to distributable cash per unit <sup>(1)</sup>

(1) See "Non-GAAP Measures"



# Immediate Realization of Cost Synergies

- Liquor Stores realized immediate cost synergies of approximately \$1.5 million
- Anticipate additional cost synergies from economies of scale, rationalization of overhead costs and lower financing costs
- Liquor Stores' management has a proven track record of successfully integrating new stores and realizing synergies
  - 2004 – Integrated 22 Liquor World stores into Liquor Depot
  - 2005 – Acquired, developed and integrated 25 new stores
  - 2006 – Acquired, developed and integrated 30 new stores
  - 2007 – Acquired, developed and integrated 10 new stores in addition to the 81 Liquor Barn stores.



# Integration of Liquor Barn

- Point of sales system in the 81 acquired stores has been converted to Liquor Stores platform
- Liquor Barn head office has been closed and premises sublet
- Common advertising featuring Liquor Depot and Liquor Barn has been initiated
- Rationalization of head office and support staff, on a combined basis, from 95 to 69.





# Attractive Opportunities to Enhance Margins

- Liquor Stores' historical EBITDA margin <sup>(1)</sup> is significantly higher than that of Liquor Barn
  - 9.8% for Liquor Stores vs. 5.9% for Liquor Barn <sup>(2)</sup>
  - Liquor Barn's EBITDA margins had shown no improvement over the past 2 years
- EBITDA margin enhancement initiatives include:
  - Increasing use of "limited time offer" inventory purchases by utilizing Liquor Stores' access to inventory finance
  - Optimizing product sales mix and increasing revenue per store
  - Aggressive cost control and implementing other operational best-practices

(1) See "Non-GAAP Measures"

(2) For the 6-month period ended December 31, 2006. EBITDA margin for Liquor Barn reflects \$766,446 amortization of inventory fair market value adjustment as per Liquor Barn's MD&A for the period ended December 31, 2006. See "Non-GAAP Measures"



# Operating Results

(Millions except per unit amounts)

	<u>2006</u>	<u>% Increase</u>	<u>2005</u>
Sales	<u>\$ 222.0</u>	<u>41%</u>	<u>\$ 157.4</u>
Cost of sales & expenses	<u>202.5</u>	<u>40%</u>	<u>144.5</u>
Operating margin	<u>\$ 19.5</u>	<u>51%</u>	<u>\$ 12.9</u>
Percent of sales	<u>8.8%</u>	<u>7%</u>	<u>8.2%</u>
Units outstanding	<u>12.0</u>	<u>20%</u>	<u>10.0</u>
Earnings / unit	<u>\$1.32</u>	<u>28%</u>	<u>\$1.03</u>
Distributable cash / unit	<u>\$1.39</u>	<u>22%</u>	<u>\$1.14</u>
Payout Ratio	<u>89.2%</u>		<u>92.5%</u>



# Operating Results

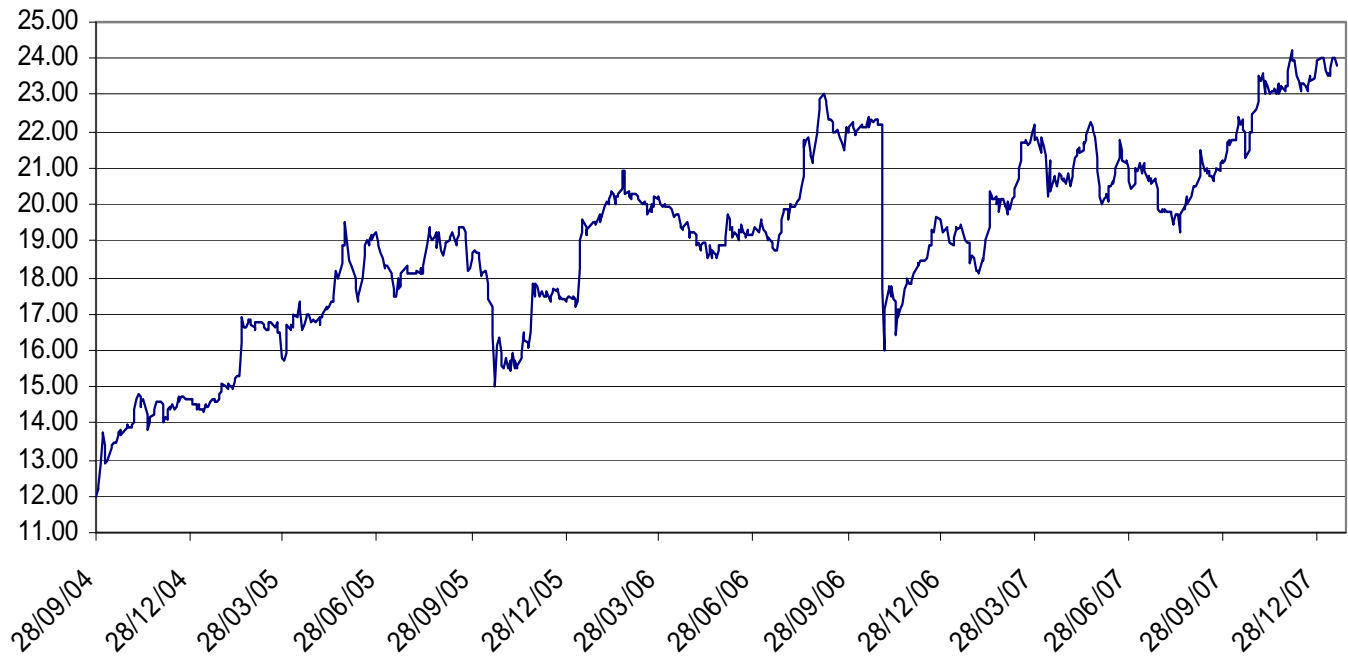
(Millions except per unit amounts)

	<u>YTD</u> <u>Q3 2007</u>	<u>% Increase</u>	<u>YTD</u> <u>Q3 2006</u>
Sales	<u>\$ 257.1</u>	<u>61%</u>	<u>\$ 160.0</u>
Cost of sales & expenses	<u>234.8</u>	<u>69%</u>	<u>138.6</u>
Operating margin	<u>\$ 22.3</u>	<u>80%</u>	<u>\$ 12.4</u>
Percent of sales	<u>8.7%</u>	<u>6%</u>	<u>8.2%</u>
Units outstanding	<u>15.9</u>	<u>38%</u>	<u>11.5</u>
Earnings / unit <sup>(1)</sup>	<u>\$(0.01)</u>	<u>(100%)</u>	<u>\$0.86</u>
Distributable cash / unit	<u>\$1.26</u>	<u>36%</u>	<u>\$0.93</u>

(1) Includes \$1.02 per unit non-cash and integration expenses

# Historic Unit Price

## Liquor Stores Income Fund Unit Price



# Risk Factors

The Fund's results of operations, business prospects, financial condition, cash distributions to unitholders and the trading price of the Units are subject to a number of risks. These risk factors include: risks relating to government regulation; competition; its 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 successfully integrate acquisitions; dependence on key personnel; the Fund's ability to hire and retain staff at acceptable wage levels; risks related to the possibility of future unionization; supply interruption or delays; reliance on information and control systems; dependence on capital markets to fund its growth strategy beyond its available credit facilities; dependence of the Fund on Liquor Stores LP and Liquor Barn LP; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores LP and Liquor Barn LP; restrictions on the potential growth of Liquor Stores LP and Liquor Barn LP as a consequence of the payment by Liquor Stores LP and Liquor Barn LP of a substantial amount of their respective operating cash flow; income tax related risks including Bill C – 52 including the provisions related to the taxation of income trusts; and the Vendors' right to approve certain material transactions.

For a discussion of these risks and other risks associated with an investment in Units, see "Risk Factors" detailed in the Fund's Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com).



# Non-GAAP Measures

References to “distributable cash” are to cash available for distribution to unitholders in accordance with the distribution policies of the Fund. Management believes that, in addition to income or loss, cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes is a useful supplemental measure of performance. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by unitholders and prospective investors is the cash distributed by the Fund relative to the price of the Fund’s Units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist unitholders and prospective investors in assessing an investment in the Fund. For a reconciliation of distributable cash to cash provided by operating activities please see “Distributable cash per unit (Fund Units, Exchangeable and Subordinated LP Units)”.

“Payout ratio” is calculated by dividing cash distributions declared by distributable cash.

Operating margin has been derived by adding interest expense, amortization inventory fair value adjustments, amortization of property and equipment, intangibles and pre-opening costs to net earnings before non-controlling interest. Operating margin as a percentage of sales is calculated by dividing operating margin by sales.

Operating margin, operating margin as a percentage of sales, distributable cash and payout ratio are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales, distributable cash and payout ratio should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Fund's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund's method of calculating operating margin, operating margin as a percentage of sales, distributable cash and payout ratio may differ from the methods used by other issuers. Therefore, the Fund's operating margin, operating margin as a percentage of sales, distributable cash and payout ratio may not be comparable to similar measures presented by other issuers.

# Forward Looking Information

This presentation contains forward-looking statements. All statements other than statements of historical fact contained in this presentation are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed or recent acquisitions and the benefits to be derived therefrom, budgets, litigation, projected costs and plans and objectives of or involving the Fund, Liquor Stores LP or Liquor Barn LP. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management's discussion and analysis. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors".

The information contained in this presentation, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Fund, Liquor Stores LP and Liquor Barn LP.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this presentation is made as of the date of this presentation and the Fund assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities law.

