

## FORM OF MERGER AGREEMENT

Merger Agreement dated May 17, 2007 between Liquor Stores Income Fund ("**Liquor Stores Fund**") and Liquor Barn Income Fund ("**Liquor Barn Fund**").

In consideration of the mutual agreements contained herein (the receipt and adequacy of which are acknowledged), the parties agree as follows:

### ARTICLE 1 INTERPRETATION

#### 1.1 Definitions

In this Agreement, unless otherwise defined below, capitalized terms shall have the meanings given to them in the offer and take-over bid circular of Liquor Stores Fund dated April 10, 2007 (the "**Circular**"):

- (a) "**Closing Date**" means the date (not later than 120 days after the Expiry Date) as is specified in writing by Liquor Stores Fund after the expiry of the Offer;
- (b) "**Closing Time**" means 2:00 p.m. (Edmonton time) on the Closing Date, or such other time as the parties hereto may agree;
- (c) "**Contractual and Other Rights**" has the meaning ascribed thereto in Section 2.1;
- (d) "**Liquor Stores Payment Units**" has the meaning ascribed thereto in Section 2.2;
- (e) "**Liquor Stores Special Voting Payment Units**" has the meaning ascribed thereto in Section 2.2;
- (f) "**Liquor Stores Trustees**" means the individuals who are trustees of Liquor Stores Fund from time to time;
- (g) "**Non-Permitted Distributions**" means all distributions to Liquor Barn Unitholders on or after April 10, 2007, other than Permitted Distributions;
- (h) "**Liquor Barn Assets**" means all of the property, assets and undertakings of Liquor Barn Fund as at the Closing Time of whatsoever nature or kind, present and future, and wheresoever located, including, without limitation, any rights to purchase assets, properties or undertakings of third parties under agreements to purchase that have not yet been completed, if any, and whether or not reflected on the books of Liquor Barn Fund;
- (i) "**Liquor Barn Liabilities**" means all of the liabilities and obligations of Liquor Barn Fund as at the Closing Time; and
- (j) "**Tax Act**" means the *Income Tax Act* (Canada).

## ARTICLE 2 THE MERGER

### 2.1 Purchase of Liquor Barn Assets and Assumption of Liabilities of Liquor Barn Fund

Upon and subject to the terms and conditions set forth in this Agreement, at the Closing Time:

- (a) Liquor Barn Fund shall sell, assign, transfer, convey and deliver to Liquor Stores Fund, and Liquor Stores Fund shall purchase and accept from Liquor Barn Fund, all of the Liquor Barn Assets; and
- (b) Liquor Stores Fund shall undertake to discharge, perform and fulfil all of the Liquor Barn Liabilities.

Nothing in this Agreement shall be construed as an attempt to assign any of the Liquor Barn Assets which are not assignable in whole or in part without the consent of a third party, unless such consent has been given on terms satisfactory to Liquor Stores Fund (and in this Agreement, the benefits under the non-assigned Liquor Barn Assets are referred to as the "**Contractual and Other Rights**"). Liquor Barn Fund shall use its reasonable best efforts to obtain such consents and shall take all actions determined necessary by Liquor Stores Fund, in its sole discretion, to preserve the full benefit of the Liquor Barn Assets and the Contractual and Other Rights for Liquor Stores Fund and such Contractual and Other Rights shall be held in trust for the benefit of Liquor Stores Fund by Liquor Barn Fund.

### 2.2 Consideration

In consideration of the sale and transfer of the Liquor Barn Assets as provided in Section 2.1 hereof, at the Closing Time, Liquor Stores Fund shall, in addition to assuming the Liquor Barn Liabilities as provided in Section 2.1(b) above, issue to Liquor Barn Fund, subject to adjustment pursuant to Section 2.6 or as provided under the Offer, including in respect of Non-Permitted Distributions, an aggregate number of Liquor Stores Units equal to the number of Liquor Barn Units outstanding as of the Closing Time multiplied by 0.53 (the number of Liquor Stores Units issuable being referred to as the "**Liquor Stores Payment Units**") and an aggregate number of Liquor Stores Special Voting Units equal to the number of Liquor Barn Special Voting Units outstanding as of the Closing Time multiplied by 0.53 (the number of Liquor Stores Special Voting Units issuable being referred to as the "**Liquor Stores Special Voting Payment Units**"). The parties agree to allocate such consideration among the Liquor Barn Assets in such manner as is determined by Liquor Stores Fund.

### 2.3 Redemption of Liquor Barn Voting Units

Forthwith and in any event not later than 60 days after the completion of the transactions contemplated by Section 2.1 and Section 2.2, but subject to Section 2.4, Section 2.6 and subject to the right of Liquor Stores Fund to retain or reacquire one Liquor Barn Unit in its sole discretion, the Liquor Barn Trustees shall cause (i) all of the outstanding Liquor Barn Units to be redeemed in exchange for the distribution, on a pro rata basis, to all Liquor Barn Unitholders of all the Liquor Stores Payment Units, and (ii) all of the outstanding Liquor Barn Special Voting Units to be redeemed in exchange for the distribution, on a pro rata basis, to all Liquor Barn Special Voting Unitholders of all the Liquor Stores Special Voting Payment Units. Any such Liquor Stores Payment Units received by Liquor Stores Fund shall be forthwith cancelled without further consideration.

## **2.4 Distribution of Liquor Stores Units to Liquor Barn Unitholders in Non-Canadian Jurisdictions**

Notwithstanding Section 2.3, if Liquor Stores Fund 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 pursuant to Section 2.3 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 Liquor Stores Fund 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. Liquor Stores Fund shall not have any liability to any Person in connection with the sale of Liquor Stores Units in accordance with this Section 2.4. No trustee, broker or agent designated by Liquor Stores Fund to effect a sale of Liquor Stores Units in accordance with this Section 2.4 shall have any liability to Liquor Barn or any affected beneficial Liquor Barn Unitholder in connection therewith, except for gross negligence or wilful misconduct.

## **2.5 Termination of Liquor Barn Fund**

Forthwith upon the redemption of all of the outstanding Liquor Barn Voting Units as contemplated by Section 2.3, unless Liquor Stores Fund retains or reacquires one Liquor Barn Unit in accordance with Section 2.3, the Liquor Barn Trustees shall take all steps necessary to terminate Liquor Barn Fund. In the event Liquor Stores Fund retains or reacquires a Liquor Barn Unit, Liquor Barn Fund shall be terminated when Liquor Stores Fund, in its sole discretion, determines to do so.

## **2.6 Special Distributions**

Immediately prior to the Closing Time, each of Liquor Stores Fund 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 Closing Date (after giving effect to any prior distributions during such period) so that Liquor Stores Fund and Liquor Barn Fund will generally not be liable for Part I tax under the Tax Act for their taxation years deemed to end on the Closing Date pursuant to subsection 132.2(2) of the Tax Act.

## **2.7 Tax Election**

Within the prescribed time period and in the form prescribed by subsection 132.2(2) of the Tax Act, and prior to the termination of Liquor Barn Fund contemplated by Section 2.5, Liquor Stores Fund and Liquor Barn Fund shall jointly elect to have section 132.2 of the Tax Act (and similar provincial legislation) apply with respect to the merger contemplated herein, and Liquor Stores Fund shall determine the elected amounts for the Liquor Barn Assets.

# **ARTICLE 3 PRE-MERGER COVENANTS OF LIQUOR BARN FUND**

## **3.1 Pre-Merger Covenants of Liquor Barn Fund**

Except as contemplated in this Agreement, during the period commencing on the date hereof and continuing until the Closing Date, Liquor Barn Fund agrees with Liquor Stores Fund that it shall and shall cause each subsidiary entity:

- (a) to co-operate (and to cause its advisors to cooperate) in proceeding with the transactions contemplated in this Agreement (including, without limitation, cooperation with respect to any regulatory filings) and not to take any actions inconsistent herewith;
- (b) to conduct its business and activities in the ordinary course, in substantially the same manner as heretofore conducted, except that it and they shall 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) to 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 to amend the Liquor Barn Declaration of Trust, except with the prior express written approval of Liquor Stores Fund;
- (e) not to 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) to take or fail to take any action within its reasonable control which would result in a condition specified in Section 4.1 not being satisfied;
- (g) to 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 Assets; and
- (h) to 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.

#### **ARTICLE 4 CONDITIONS**

##### **4.1 Conditions to the Obligations of Liquor Stores Fund**

The obligations of Liquor Stores Fund hereunder are subject to the satisfaction, at or before the Closing Time, of the following conditions for the exclusive benefit of Liquor Stores Fund and

Liquor Stores Fund may assert any of the following conditions at any time, regardless of the circumstances giving rise to such assertion (including any action or inaction by Liquor Stores Fund). Liquor Stores Fund may waive any of the following conditions in whole or in part at any time and from time to time, without prejudice to any other rights which Liquor Stores Fund may have. The failure by Liquor Stores Fund at any time to exercise any of the following rights shall not be deemed to be a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time or from time to time:

- (a) each of the covenants of Liquor Barn Fund to be performed at or before the Closing Time shall have been duly performed in all material respects;
- (b) each of the conditions referred to in Section 4 of the Offer shall have been satisfied or waived by Liquor Stores Fund; and
- (c) this Agreement shall not have been terminated pursuant to Section 5.3.

For greater certainty, the parties acknowledge and agree that Liquor Stores Fund's interpretation of the satisfaction or the waiver of the foregoing conditions shall be final and binding.

## **ARTICLE 5 CLOSING MATTERS, AMENDMENT AND TERMINATION**

### **5.1 Closing Matters**

Each of the parties shall deliver, at the Closing Time, such customary certificates, resolutions and other closing documents, including an assumption agreement by Liquor Stores Fund in respect of the Liquor Barn Liabilities and all instruments of conveyancing and transfer as may be required by the other party, acting reasonably.

### **5.2 Amendment**

This Agreement may, at any time and from time to time prior to the Closing Time, be amended by mutual written agreement of the parties hereto, and without further Liquor Barn Unitholder approval unless otherwise required by law or by the Liquor Barn Declaration of Trust, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the parties;
- (b) waive any inaccuracies or modify any representation contained herein or in any documents delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties; and
- (d) waive compliance with or modify any conditions precedent herein contained.

### **5.3 Termination.**

- (a) If any condition contained in Section 4.1 is not satisfied at or before the Closing Time to the satisfaction of Liquor Stores Fund, then Liquor Stores Fund may, by written notice to Liquor Barn Fund, at its option, either extend the Closing Date or terminate this Agreement and the

obligations of the parties hereunder without prejudice to any other remedies available to Liquor Stores Fund (including damages or equitable remedies).

- (b) If this Agreement is terminated in accordance with subsection (a) of this Section 5.3, neither party shall have any further liability to perform its obligations hereunder; provided that neither the termination of this Agreement nor anything contained in this Section 5.3 shall relieve either party from any liability for any breach by it of this Agreement, including from any non-performance by it of its covenants made herein.

## ARTICLE 6 GENERAL

### 6.1 Notices

All notices and other communications which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be deemed to be validly given if served personally or by telecopy, in each case addressed to the particular party at:

- (a) If to Liquor Barn Fund, at:

c/o Liquor Barn GP Inc.  
Suite 152, 5004 – 98<sup>th</sup> Avenue  
Edmonton, AB T6A 3X6

Attention: President & Chief Executive Officer  
Fax: (780) 463-0430

- (b) If to Liquor Stores Fund, at:

c/o Liquor Stores GP Inc.  
Suite 1120, 10235 – 101<sup>st</sup> Street  
Edmonton, AB T5J 3G1

Attention: Chief Executive Officer  
Fax: (780) 702-1999

or at such other address of which any party may, from time to time, advise the other parties by notice in writing given in accordance with the foregoing. The date of receipt of any such notice shall be deemed to be the date of delivery or telecopying thereof.

### 6.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into Articles, Sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to an "Article" or "Section" followed by a number and/or letter refer to the specified Article or Section of this Agreement. The terms "this Agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this Agreement (including the Schedules hereto) and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

**6.3 Currency**

All sums of money referred to in this Agreement are expressed in lawful money of the Canada.

**6.4 Number, etc.**

Unless the context otherwise requires, words importing the singular shall include the plural and vice versa and words importing any gender shall include all genders.

**6.5 Date For Any Action**

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto or of any other event or occurrence contemplated hereby is not a business day, such action, event or occurrence shall be required to be taken or occur on the next succeeding business day.

**6.6 Entire Agreement**

This Agreement constitutes the entire agreement between the parties pertaining hereto and supersedes all other prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties hereto. Except as expressly represented and warranted herein, neither party shall be considered to have given any express or implied representations or warranties, including without limitation as a result of oral or written statements.

**6.7 Accounting Matters**

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under GAAP and all determinations of an accounting nature required to be made shall be made in a manner consistent with GAAP, consistently applied.

**6.8 Assignment**

No party hereto may assign its rights under this Agreement without the consent of the other party, such consent not to be unreasonably withheld, except that either party may assign all or part of its rights, without reducing its own obligations hereunder, to a lender for collateral security.

**6.9 Expenses**

Each of Liquor Stores Fund and Liquor Barn Fund shall pay their own costs and expenses relating to the transactions contemplated in this Agreement, subject to Section 2.1(b).

**6.10 Binding Effect**

This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

**6.11 Further Assurances**

Each party hereto shall, from time to time, and at all times hereafter, at the request of the other party hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

**6.12 Governing Laws**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and shall be treated in all respects as an Alberta contract.

**6.13 Time of Essence**

Time shall be of the essence in this Agreement.

**6.14 Severability**

In the event that any provision of this Agreement is determined by a court of competent jurisdiction to be unenforceable, in whole or in part, such determination shall not affect or impair the enforceability of any other provision and each provision is hereby declared to be separate, severable and distinct.

**6.15 Injunctive Relief**

The parties hereto acknowledge and agree that an award of money damages would be inadequate for any breach of this Agreement by any party and any such breach would cause the non-breaching party irreparable harm. Accordingly, the parties hereto agree that, in the event of any breach or threatened breach of this Agreement by one of the parties, the non-breaching party will also be entitled, without the requirement of posting a bond or other security, to equitable relief, including injunctive relief and specific performance. Such remedies will not be the exclusive remedies for any breach of this Agreement but will be in addition to all other remedies available at law or equity to each of the parties.

**6.16 Counterparts**

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

**6.17 No Personal Liability of Liquor Stores Trustees or Liquor Barn Trustees**

The Liquor Stores Trustees and the Liquor Barn Trustees, in incurring any debts, liabilities or obligations, or in taking or omitting any other actions for or in connection with the affairs of Liquor Stores Fund or Liquor Barn Fund, as applicable, are, and shall be conclusively deemed to be, acting for and on behalf of Liquor Stores Fund or Liquor Barn Fund, as applicable, and not in their own personal capacities. None of the Liquor Stores Trustees or the Liquor Barn Trustees shall be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgements, costs, charges or expenses (including legal expenses) against or with respect to Liquor Stores Fund or Liquor Barn Fund, as applicable, or in respect to the affairs of Liquor Stores Fund or Liquor Barn Fund, as applicable. No property or assets of the Liquor Stores Trustees or the Liquor Barn Trustees, respectively, owned in their personal capacity or otherwise, shall be subject to any levy, execution or other enforcement procedure with regard to any obligations under this Agreement. No recourse may be had or taken, directly or indirectly, against the Liquor Stores Trustees or the Liquor Barn Trustees in their personal capacities or against any Liquor Stores Unitholder or Liquor Barn Unitholder. Liquor Stores Fund or Liquor Barn Fund, as applicable, shall be solely liable therefor and resort shall be had solely to the property and assets of Liquor Stores Fund or Liquor Barn Fund, as applicable, for payment or performance thereof; and no unitholder of Liquor Stores Fund or Liquor Barn Fund, as applicable, as such shall be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the

obligations or the affairs of Liquor Stores Fund or Liquor Barn Fund, as applicable, or the acts or omissions of the Liquor Stores Trustees or the Liquor Barn Trustees, as applicable, and all such Persons shall look solely to the property and assets of Liquor Stores Fund or Liquor Barn Fund, as applicable, for satisfaction of claims of any nature arising out of or in connection therewith and the property and assets of Liquor Stores Fund or Liquor Barn Fund, as applicable, only shall be subject to levy or execution.

IN WITNESS WHEREOF the parties hereto have executed this Merger Agreement as of the date first written above.

**LIQUOR STORES INCOME FUND** By  
Liquor Stores GP Inc. on its behalf

**LIQUOR BARN INCOME FUND** By Liquor  
Stores Income Fund, by Liquor Stores GP Inc., on  
its behalf (as authorized by special resolution of the  
Liquor Barn Unitholders)

By: \_\_\_\_\_  
Authorized Signatory

By: \_\_\_\_\_  
Authorized Signatory

By: \_\_\_\_\_  
Authorized Signatory

By: \_\_\_\_\_  
Authorized Signatory