

## 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 is a summary only and is qualified by the detailed provisions contained in the Offer and Circular of Liquor Stores Fund, copies of which may be obtained electronically at [www.sedar.com](http://www.sedar.com) or [www.liquorstoresincomefund.ca](http://www.liquorstoresincomefund.ca), 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). 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 herein are defined in the Offer and Circular. See "Definitions" in the Offer and Circular.*

### 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" in the Offer and Circular.

**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 Depository 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](mailto:inquiries@cibcmellon.com)

*The Dealer Manager for the Offer is:*

**RBC CAPITAL MARKETS**

200 Bay Street, 4<sup>th</sup> 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.