



**LIQUOR STORES INCOME FUND**

**ANNUAL INFORMATION FORM**  
**For the year ended December 31, 2008**

March 17, 2009

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## DEFINED TERMS

Please refer to the "Glossary of Terms" in **Schedule "A"** for a list of defined terms used in this Annual Information Form.

## CURRENCY

All dollar amounts in this Annual Information Form are in Canadian dollars unless otherwise stated. On March 16, 2009, the Bank of Canada closing rate for one United States dollar was \$1.27 Canadian dollars.

## FORWARD LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Information Form are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving Liquor Stores Income Fund (the "**Fund**") or Liquor Stores LP ("**Liquor Stores**"). Prospective investors 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. In particular, the forward-looking statements in this Annual Information Form 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 Annual Information Form. Although Management believes that the expectations represented in such forward looking statements are reasonable 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: the state of the economy; risks relating to government regulation; competition; Liquor Stores' 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; labour costs, shortages and relations including Liquor Stores' ability to hire and retain staff at current wage levels and the risk of possible future unionization; supply interruption or delays; excise taxes; reliance on information and control systems; growth strategy restrictions; dependence of the Fund on the Operating Trusts and Liquor Stores; leverage and restrictive covenants in agreements relating to current and future indebtedness of Liquor Stores; restrictions on the potential growth of Liquor Stores as a consequence of the payment of cash distributions by Liquor Stores representing a substantial amount of its operating cash flow; and income tax related risks including those related to the SIFT Legislation. These factors should not be construed as exhaustive. The information contained in this Annual Information Form, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Fund and Liquor Stores.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this Annual Information Form are made as of the date of this Annual Information Form 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.

## NON-GAAP MEASURES

References in this annual information form to:

- "**EBITDA**" are to earnings before provision for interest, income taxes and amortization; and
- "**distributable cash**" are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund described in this Annual Information Form.

EBITDA and distributable cash are measures that are not recognized by generally accepted accounting principles in Canada ("**GAAP**") and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and distributable cash may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and distributable cash should not be construed as alternatives to net income or loss determined in accordance with GAAP as indicators of Liquor Stores' performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

## CORPORATE STRUCTURE

### **Name, Address and Formation**

The Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta by the Declaration of Trust. The Fund owns all of the Operating Trusts Notes and Operating Trusts Units, and holds, indirectly through the Operating Trusts, an 81.73% interest in Liquor Stores. The Fund receives, indirectly through the Operating Trusts, distributions of distributable cash of Liquor Stores.

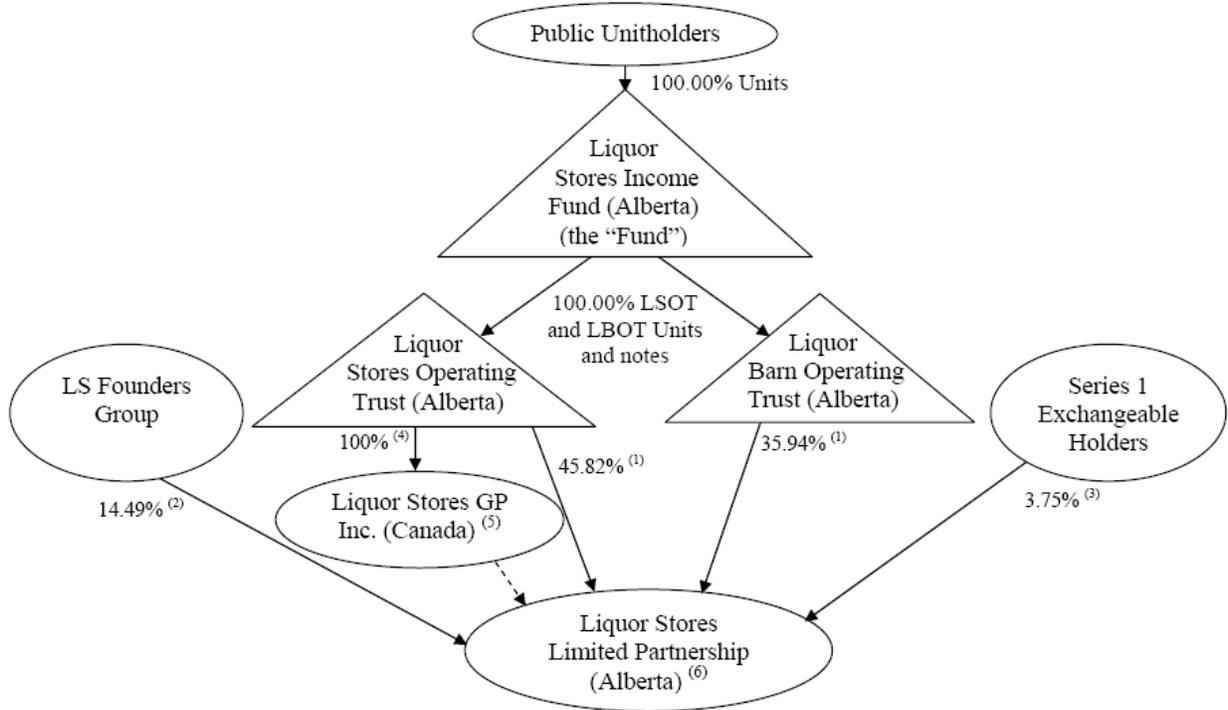
LSOT and LBOT (together the "**Operating Trusts**") are unincorporated trusts established under the laws of the Province of Alberta. LSOT holds Ordinary LP Units representing 45.79% of the LP Units and GP Common Shares representing 100% of the GP Common Shares. LBOT holds Ordinary LP Units representing 35.94% of the LP Units

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

The principal and head office of each of the Fund, the Operating Trusts, the GP and Liquor Stores is located at Suite 300, 10508 – 82<sup>nd</sup> Avenue, Edmonton, Alberta, T6E 2A4. The registered office of the GP is located at Suite 2500, 10303 Jasper Avenue, Edmonton, Alberta T5J 3N6.

## Intercorporate Relationships

The following chart illustrates the simplified structure of the Fund as at the date hereof.



### Notes:

- (1) Ordinary LP Units.
- (2) Exchangeable LP Units.
- (3) Series 1 Exchangeable LP Units.
- (4) GP Common Shares.
- (5) The GP holds all of the outstanding GP Units.
- (6) Liquor Stores, directly and indirectly, currently operates 224 retail liquor stores and 5 small pubs and wine bars.

## DESCRIPTION AND GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

The Fund, through its indirect investment in Liquor Stores, is Canada's largest private operator of retail liquor stores (as measured by number of stores). Liquor Stores currently operates or has interests in 224 retail liquor stores including 169 stores in Alberta, 35 stores in British Columbia, 19 stores in Alaska, and 1 in Nova Scotia. Liquor Stores also operates five small pubs and wine bars in British Columbia and supplies liquor in Alberta on a wholesale basis to a number of restaurants, golf courses, nightclubs, and other licensees. During the year ended December 31, 2008, approximately 99% of Liquor Stores' sales in Canada and approximately 90% of sales in Alaska were derived from the sale of alcoholic beverages. For the year ended December 31, 2007, approximately 98% of Liquor Stores' sales in Canada were derived from the sale of alcoholic beverages.

Liquor Stores primarily operates under the brand names Liquor Depot and Liquor Barn in Alberta and British Columbia; Grapes & Grains, OK Liquor, and Vines in Alberta; and Brown Jug in Alaska.

### Growth Strategies, Market Trends and Business Strengths

Liquor Stores intends to grow in Canada and the U.S. by acquisition of existing stores or chains of stores, by opening new stores and by attracting more customers to existing locations.

***New Stores and Acquisitions*** – Liquor Stores has the objective of operating or having investments in 300 stores within the next three to four years and is continuously evaluating acquisition and new store opportunities. Management believes that there continue to be acquisition opportunities in jurisdictions where Liquor Stores currently operates, and in other jurisdictions in Canada and the U.S.

The following table shows the number of stores which Liquor Stores operated or had an investment in, at the end of the most recent three calendar years.

Year ending Dec. 31	Stores
2008	223
2007	195
2006	105

The increase in stores is the result of the development or acquisition of individual stores and two material corporate acquisitions: (i) the acquisition of 19 stores from Brown Jug Inc. of Anchorage, Alaska (completed in November 2008); and (ii) the acquisition of all of the outstanding units of Liquor Barn Income Fund of Edmonton, Alberta, together, with its subsidiary Liquor Barn Limited Partnership and its 81 stores (completed in June 2007). (See "Recent Material Acquisitions and Financings" below for more details).

So far in 2009, Liquor Stores has opened one retail store and currently has commitments to open five new additional stores in 2009.

In Alberta, Liquor Stores' largest and oldest market, management will focus primarily on the development of greenfield locations and the acquisition of stores in markets it does not occupy or that benefit its existing store base. In British Columbia, where regulators are not issuing new retail liquor licenses, Liquor Stores will focus primarily on growth by acquisition. Liquor Stores is also actively pursuing opportunities to further expand its business into certain geographic regions of the United States where the private distribution of alcoholic beverages is permitted by regulation.

*Experienced and Proven Management Team* – Liquor Stores, through its general partner Liquor Stores GP, has an experienced and entrepreneurial management team that has been a leader in the privatized liquor retail industry since 1993, when Alberta became the first Canadian province to fully privatize its liquor retail business. Among other things, management's commercial real estate development and leasing expertise and relationships are a competitive advantage for selecting and securing suitable retail locations.

Liquor Stores GP's President and Chief Executive Officer, Richard J. Crook, has over 20 years experience in the liquor industry. The founders of Liquor Stores, Irving Kipnes and Henry Bereznicki, continue to play an active role in Liquor Stores as Executive Chairman and Board Chairman of the GP, respectively. Each of the founders has been involved in the retail liquor business since privatization in 1993 and together they have a combined 30 years

experience in the retail liquor business and a combined 68 years experience in commercial real estate development and leasing.

**Convenience** – Management believes that convenience is the primary consideration for retaining and attracting liquor store customers and that location is therefore a significant factor in the success of a liquor store. Liquor Stores' business model is based on highly visible and accessible store locations, anchored by major retailers and close to residential areas. Liquor Stores endeavours to locate its stores in areas where access to customers is maximized such as near grocery stores or on main arteries in or near residential areas. Approximately 60% of Liquor Stores' outlets are located in or near shopping centres with major grocery stores or other anchor tenants such as Safeway, IGA/Sobeys, Save-On Foods, London Drugs, Shoppers Drug Mart and mass merchants. In many cases, Liquor Stores has negotiated the exclusive right for retail sales of beer, wines and spirits for off-premises consumption in the shopping centres where its stores are located.

**Geographic Focus** – Management's strategy is to focus on urban centres such as the Calgary, Edmonton, and Vancouver metropolitan areas, where opportunities exist for larger per store revenues and where management believes that more substantial population increases are likely to occur. Liquor Stores also has stores in other communities where demographic and economic conditions warrant, including, for example, the 19 stores acquired in the Greater Anchorage area in 2008.

The following table shows the number of Liquor Stores outlets in Alberta, British Columbia and Alaska, as well as major markets within those jurisdictions, as at December 31, 2008.

<u>Alberta</u>		<u>British Columbia</u>		<u>Alaska</u>	
Edmonton	78	Lower Mainland	13	Greater Anchorage	19
Calgary	45	Victoria	3		
Fort McMurray	5	Other Vancouver Island	8		
Grande Prairie	9	Interior	11		
Slave Lake	3				
Red Deer	8				
Canmore / Banff	2				
Other	18				
Total	168	Total	35	Total	19

**Store Operations and Size** – Liquor Stores generally designs its stores to optimize traffic flow and present its product in an upscale environment. Management believes that Liquor Stores' emphasis on design, furniture, fixtures and equipment provides an attractive look and reduces ongoing maintenance and refurbishment costs. Product selection is tailored to each location and varies between 1,000 and 4,000 wine, spirit, cooler and beer items, providing a substantially larger product selection and inventory than the industry average. Stores generally range in size from 2,000 to 4,000 square feet, however Liquor Stores' Alaska operations include a combined store and warehouse premises in excess of 40,000 square feet.

**Effective Sales Staff** – Liquor Stores endeavours to maintain product knowledgeable managers, assistant managers and line staff through frequent seminars and training. Store managers annually spend two or three days receiving training on policies, operations and loss prevention from Liquor Stores' store operations manager. The majority of store managers and assistant managers are promoted from Liquor Stores' sales staff and supervisors. New store managers spend two weeks working with an existing store manager to get "hands on" experience with the day-to-day operations of a store. New assistant managers work closely with their store manager. All new staff members receive training in company policies and operations overview, loss prevention, robbery prevention and basic product knowledge.

**Inventory and Pricing Strategy** - Liquor Stores provides a large selection in all product categories, especially wine, coolers, import beers, liqueurs and scotch, and offers value products in every category possible. Product selection is customized at each store to adapt to local demand and large fine wine selections are maintained at several of the stores, with separate areas and specially trained and knowledgeable staff. Liquor Stores' scale of operations is sufficiently large to enable it to carry a wider variety and larger inventory of products than most of its competitors.

As customer purchases are made predominantly on a convenience basis, Liquor Stores prices its products competitively but does not seek to position itself as a “discounter”.

When required Liquor Stores utilizes credit facilities to finance inventory, which typically turns over an average of 4 to 4.5 times per year. See "Material Contracts – Credit Facility".

**Targeted Advertising**– Liquor Stores uses advertising to generate brand and location awareness for its stores within their local markets in both Canada and in Alaska. Liquor Stores conducts advertising programs with mail and flyer advertising in local newspapers and mail drops to maintain local consumer awareness of specific stores and their location. Most of the advertising is associated with special occasions such as statutory holidays.

**Business Environment** – The retail liquor business in Liquor Stores’ current geographic markets is characterized by stable demand. Total wholesale liquor sales in Alberta have grown at a compound annual rate of 6.1% during the ten years ended March 31, 2008<sup>1</sup>, and by 6.6% from 2001 to 2008<sup>2</sup> in British Columbia.

**Consistent Financial Performance** –.Since the Fund’s initial public offering in September 2004, Liquor Stores has experienced a 47% compound annual growth rate in sales.

**Economies of Scale** – Liquor Stores’ leading market position and larger scale operations relative to most other participants in the industry in both Canada and in Alaska provide it with a number of competitive advantages including: the benefit of operating efficiencies relative to non-liquor expenses; greater access to capital and the ability to spread its corporate and advertising costs over a larger store base.

### **Competition, Regulation, and Strategic Positioning**

The supply and distribution of alcoholic beverages in Canada and the U.S. is regulated mainly by provincial or state legislation. Regulations generally require, among others, the licensing of distribution outlets, the separation of liquor from other types of products and a prohibition on sales to minors or intoxicated persons.

In Alberta and Alaska, retail alcohol sales are conducted by private industry only. In British Columbia, retail alcohol sales are conducted both by private industry and provincial government-owned stores. In all three jurisdictions, the liquor retail market is competitive and ownership of private retail liquor stores is fragmented. Liquor Stores’ strategy is to take advantage of consolidation opportunities as they become available.

**The Alberta Competitive and Regulatory Environment** – Alberta is the only Canadian province with a fully privatized retail liquor industry. Liquor Stores’ Alberta stores are located primarily in shopping centres with grocery store or other anchor tenants. A number of liquor stores associated with grocery chains also compete in the Alberta market. Management believes that Liquor Stores is the largest liquor store chain in Alberta by number of stores and revenue.

The Alberta Gaming and Liquor Commission (“AGLC”) regulates the retail liquor business pursuant to the *Gaming and Liquor Act* (Alberta). Licenses to operate retail liquor stores must be renewed annually and are issued by the AGLC. The *Gaming and Liquor Act* (Alberta) does not restrict the total number of outlets or their location. Specific store locations, however, are subject to regulation through local and municipal bylaws and zoning requirements. AGLC inspectors regularly conduct inspections of liquor stores.

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<sup>1</sup> Source: Alberta Gaming and Liquor Commission

<sup>2</sup> Source: British Columbia Liquor Distribution Branch

The table below shows, for each of the past three years, the total number of licensed Alberta liquor retail stores and the number of Liquor Stores outlets in the province.

Year ending Dec. 31	All Alberta liquor stores*	Liquor Stores outlets in Alberta	Liquor Stores as % of Alberta stores
2008	1,117 <sup>(1)</sup>	168	15.1%
2007	1,098 <sup>(2)</sup>	163	14.9%
2006	1,056 <sup>(3)</sup>	97	9.2%

\*Source: Alberta Gaming and Liquor Commission  
(excludes general merchandise liquor stores located in rural areas)

(1) Alberta Gaming and Liquor Commission internet site located at [www.aglc.ca](http://www.aglc.ca)

(2) Store count at March 31, 2008 as stated in Alberta Gaming and Liquor Commission 2007-08 Annual Report

(3) Store count at March 31, 2007 as stated in Alberta Gaming and Liquor Commission 2007-08 Annual Report

### Alberta Store Operations

Liquor store operators are free to set their own retail prices, including selling at or below the wholesale cost, and may adjust prices based on the customer, the amount of the sale or any other factor determined relevant, by the store operator.

Liquor stores in Alberta are permitted to be open from 10:00 a.m. to 2:00 a.m., seven days per week (except for Christmas Day). Liquor Stores' operating hours vary by location depending on specific markets.

In addition to selling alcoholic beverages, liquor stores may also sell certain related items, such as soft drinks and other drink mixes, ice, dealcoholized beverages, glassware and other accessories, although sales of such items may not exceed 10% of total sales. Liquor stores may sell liquor to other liquor stores, other licensed premises (e.g., lounges, restaurants, pubs, taverns, etc.) and permit holders. Liquor stores may also sell permits for private functions and may provide delivery service. A liquor store in Alberta must either be a freestanding building or, if it is in a building in which there are other businesses, must be physically separated from the other businesses. If the liquor store is in a building with other businesses, it must have its own entrance and exit, its own receiving and storage area, and a wall between the liquor store and any other business. A liquor store cannot be operated within the same building as an existing business if the building is larger than 929 square metres (10,000 square feet). In that case, the premises for the liquor store must be physically separated and subject to approval by AGLC.

A person may own more than one liquor store and/or other licensed premises (other than a liquor manufacturing site), and operate them under the same or different names. While liquor stores must normally store their liquor products on site, the AGLC may approve a separate warehouse to enable a retail liquor store licensee to serve multiple liquor stores operated by the licensee. Liquor manufacturers or agents for manufacturers may not own or otherwise be financially involved in liquor stores or on premises operators.

### Alberta Advertising and Promotion

Advertising is permitted in any medium, but is subject to restrictions imposed by advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta). The common owner/operator of a liquor store and another non-liquor business may not conduct cross-market or co-operative advertising or promotions between the liquor store and the other business or company, nor can there be any co-operative advertising between a liquor store and an affiliated non-liquor business or a liquor store and a manufacturer.

Subject to restrictions in the advertising policy guidelines contained in the *Gaming and Liquor Act* (Alberta), liquor stores are permitted to promote specific brands of liquor within their stores by such means as in-store tastings, displaying brand posters or banners, giving away small value items with brand logos and holding contests. A liquor store may give away merchandise, other than liquor or food, to promote the store, provided the merchandise identifies the store and is not given to the store by suppliers. Suppliers' promotional activities must be directed to store customers and may not benefit a store owner directly.

### Alberta Supply

The AGLC is the sole importer of liquor products into Alberta. Liquor stores must purchase liquor products at wholesale prices through the AGLC warehouse, from a manufacturer authorized by the AGLC to warehouse and distribute liquor products, or from other liquor stores. A number of domestic beers may be purchased from the AGLC

by placing orders with the respective brewery. Breweries may set minimum order quantities for delivery service. Liquor stores are required to pay for products ordered before they are released from the warehouse.

Liquor Stores obtains wine, spirits and imported beer from Connect Logistics Services Inc. (“CLS”), which operates from its main warehouse in St. Albert and carries over 13,000 products. Liquor Stores obtains domestic beer from the three other licensed Alberta warehouse companies: Brewers Distributor Ltd., which warehouses and distributes beer products for Molson Canada and Labatt Brewing Company Limited in Edmonton and Calgary; Big Rock Brewery, which distributes its products from its brewery/warehouse in Calgary; and Sleeman Breweries Ltd., which warehouses and distributes its products from a warehouse in Calgary.

The AGLC operates a consignment system of inventory management, where the ordering, consolidation, shipment, and ownership of inventory are the responsibility of manufacturers and/or agents representing the manufacturers. In order to import liquor into Alberta, manufacturers must use a liquor agent registered with the AGLC. Manufacturers and/or their agents determine which products will be sold in Alberta and are responsible for promoting and marketing their products to retailers.

### **Alberta Wholesale and Delivery Pricing System**

The AGLC requires that there be one wholesale price quoted for each product and individual retailers are not allowed to negotiate discounts with liquor suppliers. Supplier price changes are permitted on a biweekly basis. Approximately every two to four months, licensed manufacturers offer discounts through limited time offers (“LTO”), primarily on spirits and wine. Liquor Stores strives to achieve savings by purchasing larger volumes at the discounted LTO prices and managing inventories to maintain stock until the next LTO, a practice known as “bridge buying”.

The AGLC imposes a flat mark-up that is added to the supplier’s price quotation and is levied in dollars per litre and varies by product class. The warehouse storage, handling, order processing and distribution charges are paid to the warehouse operator.

Wholesale prices for products shipped from CLS’ warehouse are available to licensees who order a minimum of 25 cases. Customers must also pay order processing and distribution charges based on a delivery schedule (urgent or regular), pickup or delivery, and the number of cases ordered. Suppliers are charged for warehouse handling and storage. Wholesale prices are also available for beer purchased directly from a number of Alberta breweries that brew, warehouse, and distribute their own products to retailers. The individual breweries set minimum order quantities. The AGLC collects the wholesale price from the purchaser and, in turn, remits to the brewer its portion of the wholesale price.

A “postage stamp” delivery system applies for the delivery of liquor products from the warehouse, which means that the delivery charge per case shipped from CLS’ warehouse is the same no matter where in Alberta the receiving store is located. A similar system exists for purchases of beer from the three beer manufacturers that are licensed to operate warehouses in Alberta.

### **Alberta Liquor Store Association**

Liquor Stores is a member of the Alberta Liquor Store Association, which has the objective of providing independent liquor store retailers with a strong collective voice when dealing with the provincial government and the AGLC. Members of the Alberta Liquor Store Association have historically owned approximately 50% of all liquor stores in the province. The association’s principal function is to liaise with the AGLC on legislation, regulations, and operating guidelines as they affect the retail liquor store industry. Over the years, the Alberta Liquor Store Association has played a significant role in promoting legislative and other regulatory initiatives in the interests of its members.

The Alberta Liquor Store Association was also instrumental in the founding of the Alberta Liquor Industry Round Table, which includes representatives from all stakeholders in the retail liquor industry in Alberta including suppliers, distributors, manufacturers, and hotel and restaurant operators. The Alberta Liquor Industry Round Table serves as the primary liaison between the AGLC and the industry as a whole and meets quarterly with the members of the AGLC.

***The British Columbia Competitive and Regulatory Environment*** – A majority of Liquor Stores’ British Columbia stores are located near grocery store anchor tenants. The British Columbia government is the largest liquor retailer in the province but it has reduced its store count to 198 in 2008 from 221 in 2002. Management believes that Liquor Stores is the largest private liquor store retail chain.

The British Columbia government regulates the importation, distribution and retailing of liquor through the *Liquor*

*Control and Licensing Act (British Columbia)* and the *Liquor Distribution Act (British Columbia)*. The British Columbia Liquor Control and Licensing Branch (the “BCLCLB”) enforces the Liquor Control and Licensing Act and the British Columbia Liquor Distribution Branch (the “BCLDB”) enforces the Liquor Distribution Act. Liquor store licenses may only be issued to residents of British Columbia who normally reside in the province, which includes a corporation whose agent or manager is a resident of, and normally resides in, the province.

The table below shows, for each of the past three years, the total number of licensed retail liquor stores and the number of Liquor Stores outlets in B.C.

Year ending Dec. 31	All BC liquor stores*	Liquor Stores outlets in BC**	Liquor Stores as % of BC stores	Private BC liquor & wine stores	Liquor Stores as % of private stores
2008	865 <sup>(1)</sup>	35	4.1%	666	5.3%
2007	844 <sup>(2)</sup>	31	3.7%	643	4.9%
2006	812 <sup>(3)</sup>	8	1.0%	604	1.4%

\*Source: British Columbia Liquor Distribution Branch.

Includes government and private liquor stores and wine stores, but excludes rural agency stores, manufacturer's stores and duty-free stores. There were 228 rural agency stores, 201 manufacturer's stores and 11 duty free stores in BC in 2008.

\*\*Includes liquor stores and wine stores

(1) Store count at March 31, 2008 as stated in British Columbia Liquor Distribution Branch 2007-08 Annual Report

(2) Store count at March 31, 2007 as stated in British Columbia Liquor Distribution Branch 2006-07 Annual Report

(3) Store count at March 31, 2006 as stated in British Columbia Liquor Distribution Branch 2005-06 Annual Report

In November of 2007 British Columbia extended indefinitely a moratorium on accepting new applications for retail liquor store licenses. The moratorium was initially imposed in 2002 and as a result of it, anyone wishing to enter the market must acquire a license from an existing private operator. Because the province has not yet completed the processing of applications for retail liquor stores received prior to the moratorium, management estimates that the aggregate number of private industry stores, government-owned stores and independent wine stores could increase to as many as 881 once all of the applications are processed, compared with 865 at March 31, 2008.

## BC Store Operations

Privately-owned retail liquor stores may set their own prices for products, subject to the minimum price for each product established by the BCLDB. All government-owned liquor stores and rural agency stores charge an identical price for the same product throughout the province.

Liquor stores in British Columbia are permitted to be open from 9:00 a.m. to 11:00 p.m., seven days a week. Liquor Stores' operating hours vary by location depending on specific markets.

In addition to beer, wine, cider, coolers and spirits, a privately-owned retail liquor store may sell liquor-related items such as glasses, bottle openers and corkscrews and, in most cases, other goods such as soft drinks and other drink mixes, tobacco, confectionary goods and British Columbia lottery tickets.

If a privately-owned retail liquor store is located on the same property as a primary liquor establishment, such as a bar, cabaret, pub or hotel, the two establishments may share a common lobby but must have full-height walls between them and separate entrances. If a privately-owned retail liquor store is not located on the same property as the primary establishment, it may not appear to be part of any other business in close proximity to it. Customers must enter the store from a public thoroughfare such as a street or mall entrance and not through any other business.

If a privately-owned retail liquor store and the primary liquor establishment are in the same municipality, the liquor store owners may relocate their store anywhere within the municipality. If the privately-owned retail liquor store and the primary liquor establishment are in different municipalities, the retail liquor store may be located anywhere within five kilometres of the primary liquor establishment, subject to local zoning bylaws and a minimum distance criteria of 0.5 kilometres between privately-owned retail liquor stores.

British Columbia Liquor Control and Licensing Branch inspectors regularly conduct inspections of liquor stores. Such inspectors must be given full and unrestricted access to the licensed establishment, as well as to any documents and records associated with such establishment.

### **BC Advertising and Promotion**

Advertising is permitted subject to restrictions imposed by advertising policy guidelines under the *Liquor Control and Licensing Act* (British Columbia). Liquor advertising may include the prices and brands of liquor available (including pricing specials) and licensees may enter into agreements with liquor manufacturers to promote and feature their products. Advertisements that encourage intoxication or target minors are prohibited.

### **BC Supply**

Liquor Stores, like other retailers, purchases most of its products from the BCLDB, the sole importer of liquor products into British Columbia. BCLDB has distribution centers in Vancouver and Kamloops and purchases products from suppliers and manufacturers in British Columbia and in other provinces and countries. Licensed manufacturing sites in British Columbia include 110 wineries, 38 breweries and brew pubs, and six distilleries. Overall, the BCLDB buys product from more than 400 domestic and foreign manufacturers.

Liquor Stores, again like other retailers, purchases wine directly from the wineries and domestic beer from Brewers Distributor Ltd. ("BDL"), a private joint venture company owned by InBev (parent company of Labatt Breweries) and Molson-Coors (parent company of Molson Breweries). Privately-owned retail liquor stores must purchase all other liquor products directly from BCLDB.

### **BC Wholesale and Delivery Pricing System**

Unlike Alberta, there is no requirement that British Columbia wholesalers must sell product to all public and private retailers at the same price. The BCLDB sells to privately-owned retail liquor stores at a discount of 16% from the listed retail price. In addition, suppliers, including the BCLDB, decrease the wholesale prices of certain products from time-to-time pursuant to limited time offers. The 16% discount has been in effect since January 2007 and compares with a 13% rate established in April 2005, a 12% rate established in November 2003 and a 10% rate prior to November 2003.

The BCLDB has LTOs once per month with a limited time frame to purchase. As in Alberta, Liquor Stores strives to achieve savings by purchasing larger volumes at the discounted LTO prices and managing inventories to maintain stock until the next LTO.

Akin to Alberta system of liquor distribution, a "postage stamp" rate (i.e. every retailer pays the same price per case for delivery regardless of the location of the retailer) applies to all products distributed from BCLDB in British Columbia. Similarly, the beer manufacturers deliver with freight charges included in the price per unit so every retailer pays the same landed price for beer.

**Alliance of Beverage Licensees of British Columbia-** Liquor Stores is a member of The Alliance of Beverage Licensees of British Columbia, which represents 2,300 liquor licensees in British Columbia, and a senior employee of Liquor Stores is a member of the Board of Directors. The Alliance acts as the official point of contact with the provincial government. It strives for fairness and advancement on issues relating to liquor distribution in the province. Its mandate includes the equitable control of licensing, a responsible beverage industry, encouraging effective social policy and addressing issues that are important to its members. Its activities include consulting with government, monitoring important industry issues and providing a resource centre for its members.

***The Alaska Competitive and Regulatory Environment*** – Management believes that it is the largest independent liquor retailer in the State of Alaska based on both sales and number of stores (19 stores).

The supply and distribution of alcoholic beverages in the United States is regulated through state and federal legislation. The 50 states are split into two categories: control states, and licensure states. There are 18 control states that directly regulate alcohol sales by controlling retail and/or wholesale distribution. Each control state is also a member of the National Alcoholic Beverages Control Association. The remaining 32 states are licensure states that issue licenses to private sellers. Certain licensure states delegate control to a more regional level (for example, counties). Each state/region has its own Alcoholic Beverage Control Board. These boards are regulatory and quasi-judicial agencies that control the manufacture, barter possession and sale of alcoholic beverages in each state. Alaska is a licensure state and regulates alcohol sales through the Alaska Alcoholic Beverage Control Board (a division of the Alaska Department of Public Safety) (“**ABCB**”).

Operating pursuant to the authority of Chapter 6, Title 4 of the State of Alaska Statutes, the ABCB enforces the Alcoholic Beverage Regulations contained in the Alaska Administrative Code. The ABCB issues operating licenses to private business under Alaska law, which limits the number of retail liquor stores in urban areas to 1 license per 3,000 people. Licenses are transferable within each municipality but cannot be used outside of the municipality. Licenses may be obtained by application for a newly available license if the population has grown to warrant a new license or by purchasing a license from an existing licensee.

Alaska’s cities, such as Anchorage, Fairbanks, and Juneau have a wet designation (no restriction on volume of sales within community) with liquor stores, restaurants and bars that serve alcohol. Some grocery retailers have liquor stores adjacent to their location however the alcohol and grocery premises are separate. Outside urban areas, local communities have the right to elect a dry designation (prohibiting alcohol sales) or a damp designation (limiting the import of alcohol). Urban retailers, when receiving orders involving the shipment of alcohol, are required to respect dry and damp community regulations.

As at March 17, 2009, Liquor Stores owns and operates 19 stores in Alaska, representing approximately 5% of the 380 licensed liquor stores in the state. Of the approximately 90 stores in the Greater Anchorage area, Liquor Stores has approximately 20% of the market.

**Alaska Store Operations** - The minimum age to purchase alcohol in Alaska is 21 years, and persons under the age of 21 may not enter or remain in licensed premises unless accompanied by a parent, legal guardian or spouse over the age of 21 years. Liquor stores may exclude underage persons from licensed premises at any time.

Licensed businesses, including liquor stores, are permitted to remain open from 8 a.m. to 5 a.m. every day of the week (save for election days). Municipalities are permitted to limit hours of operation by ordinance. The municipality of Anchorage has elected to restrict liquor store operating hours, as a result of which Brown Jug stores open at 10AM Monday through Saturday, and 12PM on Sunday. The stores in Anchorage are required to be closed by 1AM Sunday through Thursday, and 2AM on Friday and Saturday. Brown Jug’s operating hours vary by location depending on specific markets.

Business premises occupied by a holder of a liquor license may not be connected to a door, opening, or other means of passage intended for access to the general public to an adjacent retail business, unless approved by the ABCB (grocery stores operate in this manner).

Each license must be issued to a specific individual, corporation, or partnership. If issued to a corporation or a partnership, the registered agent must be a resident of Alaska.

A liquor license may not be issued if the licensed premises would be located in a building where the public entrance is within 200 feet of a school ground or church building.

In addition to a liquor license, the holder must have a Conditional Use Permit issued by the municipality, approving the placement and operation of the license.

**Alaska Advertising and Promotion** – Alaska has no state requirements or regulations relative to the advertising of alcoholic beverages for liquor stores, however, except for certain limited exceptions, federal laws prohibit co-operative advertising between a liquor store and a manufacturer or wholesaler.

**Alaska Supply** - Alaska utilizes a three-tiered distribution system comprised of manufacturers, distributors, and retailers. Retailers can only purchase product from the distributors.

**Alaska Wholesale and Delivery** – Unlike Alberta where there is a requirement that wholesalers must sell product to all public and private retailers at the same price, in Alaska Liquor Stores is able to fully negotiate the wholesale cost of products directly from the distributors. Retailers are also offered Retailer Incentive Programs (RIPS) for large volume discounts. Liquor Stores’ operations and ordering system is aligned to take full advantage of RIPS, and has leased a 10,000 square foot warehouse in Anchorage to store large volumes of discounted products. Further advantages flow to the larger retailers in Alaska (such as Liquor Stores) at fiscal quarter-ends and year-ends of distributors because distributors routinely offer clearance pricing on products in an effort to boost their revenues. Liquor Stores’ ability to make larger volume purchases in Alaska can have significant impacts on margins in the market.

**Alaska Cabaret, Hotel, Restaurant & Retailers Association** – Liquor Stores (through Brown Jug) is a member of the Alaska Cabaret, Hotel, Restaurant & Retailers Association (“CHARR”), a state-wide non-profit lobbying organization dedicated to serving the needs of the hospitality industry in the State of Alaska. Lobbying activities at the local, state, and national levels assist CHARR in its top priorities of instituting legislative changes directed toward: reducing drunk driving, providing responsible service, and reducing the illegal consumption of alcohol by minors.

### **Store Leases**

Liquor Stores leases all but one of its store premises and its head office and warehouse premises (in both Canada and the United States). Liquor Stores' store leases typically have a 10 year initial term with numerous five (5) year options to renew which may extend the lease a further 10 to 20 years. The average remaining term of the store leases is approximately 12 years (assuming the exercise by Liquor Stores of all renewal options). The leases are held by various landlords.

### **Maintenance and Capital Expenditures**

Liquor Stores' expenditures on facilities and equipment fall into three categories: repairs and maintenance; renovations and replacements; and growth. Repairs and maintenance expenditures are budgeted in operations and expensed in the year incurred. Renovation and replacement expenditures are made to refurbish stores and replace equipment and are capitalized. Growth expenditures, which include the costs of building new stores, acquiring and renovating existing stores, and the purchase of new equipment, are also capitalized. Repairs, maintenance, replacement and renovation expenditures will be funded from operations and growth expenditures will be funded from equity financings or Liquor Stores' Credit Facility.

### **Management Information Systems**

Liquor Stores uses two primary point-of-sale systems in all but three of its stores and pubs/wine bars. Of the two systems, one is an off-the-shelf application from a major software publisher and this system is installed in 25 stores. The second system is widely used in the industry and includes a Windows-based version currently being used in 114 stores and a DOS-based version being used in 87 stores. The point-of-sale systems were selected specifically to provide accurate and reliable inventory, stock value and cash control. Liquor Stores employs a full time loss prevention manager and has a strong accounting and inventory management system that have helped in consistently limiting its shrinkage.

### **Seasonality**

The liquor retailing industry is subject to seasonal variations. Based on Liquor Stores’ same store sales for the year ended December 31, 2008, approximately 46% of Liquor Stores’ sales occurred in the first half of the year and 54% occurred in the second half of the year.

## Employees

Liquor Stores had approximately 1,600 full and part time employees as of December 31, 2008. Liquor Stores has no unionized employees. Store managers and assistant managers are salaried.

## Dependence on Foreign Operations

In excess of 13% of Liquor Stores' monthly sales for the month ended December 31, 2008 were attributable to Liquor Stores' Brown Jug operations in the State of Alaska. Please see "Recent Material Acquisitions and Financings" for additional information on Liquor Stores' acquisition of the Brown Jug chain of liquor stores.

## Recent Material Acquisitions and Financings

On November 5, 2008, Liquor Stores acquired the assets of Brown Jug Inc. of Anchorage, Alaska, a 19-store chain operating in Greater Anchorage. With 2007 sales in excess of US\$60 million, Brown Jug was the largest independent chain of liquor stores in Anchorage based on sales. The purchase price, including inventory, was approximately \$36.3 million, and was financed primarily by available credit facilities.

On January 1, 2008, Liquor Stores issued 867,789 Series 1 Exchangeable LP Units to the Series 1 Holders to acquire their equity interest in Liquor Barn LP, and LBOT transferred its interest in Liquor Barn LP to Liquor Stores. As a consequence, the Fund's indirect interest in Liquor Stores increased to 81.48% from 75.61%. Subsequent to January 1, 2008, the Fund issued 32,604 Units on the exchange of Liquor Stores Exchangeable LP Units and 22,380 Units on the exchange of Series 1 Exchangeable LP Units to increase its indirect interest in Liquor Stores to 81.7%.

On December 21, 2007, the Fund completed an offering of \$50 million principal amount of 6.75% Debentures and on January 15, 2008, issued an additional \$7.5 million principal amount of 6.75% Debentures on the exercise by the underwriters of the over-allotment option.

On June 8, 2007, the Fund acquired Liquor Barn Income Fund and its 75.96% indirect interest in Liquor Barn LP, the operator of 62 retail liquor stores in Alberta and 19 retail liquor stores in British Columbia. In exchange, the Fund issued 6,817,533 Units to holders of Liquor Barn Income Fund. During the period from June 8, 2007 to December 31, 2007, the Fund issued an additional 1,290,009 Units on the exchange of certain exchangeable partnership units of Liquor Barn LP that increased its indirect interest in Liquor Barn LP to 90.33%. For more information regarding this acquisition, refer to the Business Acquisition Report dated June 29, 2007, which Liquor Stores filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

On October 2, 2006, the Fund completed a new issue and offering of 1,600,000 Units for gross proceeds of \$35.7 million.

On March 15, 2006, the Fund and certain members of the LS Founder Group completed a new issue and secondary offering of 2,427,132 Units. The Fund issued 1,600,000 Units from treasury for gross proceeds of \$32.4 million and the members of the LS Founder Group sold 827,132 Units.

## LIQUOR STORES INCOME FUND

The Fund is an unincorporated open-ended investment trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The Fund qualifies as a "mutual fund trust" for the purposes of the Tax Act, but the Fund is not a mutual fund under applicable securities laws.

**The Fund is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act (Canada)* and are not insured under the provisions of that Act or any other legislation.**

The following is a summary description of the material provisions of the Declaration of Trust. This summary is qualified in its entirety by reference to the full text of the Declaration of Trust.

### Activities of the Fund

The Declaration of Trust provides that the Fund's operations and activities shall be restricted to:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with debt and equity securities of the Liquor Stores Entities and other corporations, partnerships, trusts or other Persons involved, directly or indirectly: in the retail liquor business (including Liquor Stores stores); and in any other business whatsoever (including, without limitation, a bar, cabaret, nightclub, restaurant, pub or hotel) that permits or would permit the entity operating such businesses and/or one or more of the Liquor Stores Entities to hold or exercise control or direction over (or be eligible to apply for and acquire and thereafter hold or exercise control or direction over) a license (or similar or equivalent permit, right or entitlement) granted by the applicable regulatory authorities for the sale of liquor products (and any other products permitted to be sold by the license) for off-premises consumption and/or use; and all activities ancillary or incidental thereto and such other investments as the GP may determine;
- (b) acquiring, investing in, holding, transferring, disposing of or otherwise dealing with securities issued by, or loans made to any of the Liquor Stores Entities, or any other business entity or other Person in which a Liquor Stores Entity has or is concurrently acquiring an interest;
- (c) investing in securities of other issuers that meet the Fund's investment criteria;
- (d) disposing of all or any part of the property of the Fund;
- (e) holding cash in interest bearing accounts with Canadian financial institutions or investing such monies in Permitted Investments;
- (f) issuing Units, Special Voting Units and other securities of the Fund including, without limitation, rights, warrants, convertible securities or options to acquire Units or Special Voting Units or other securities of the Fund;
- (g) issuing debt securities (including debt securities convertible into, or exchangeable for, Units, Special Voting Units or other securities of the Fund) or otherwise borrowing, mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of the Fund's assets as security for any of its obligations, liabilities or indebtedness;
- (h) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of any Person including, without limitation, any Liquor Stores Entity or the performance of any obligation of any Person including, without limitation, any Liquor Stores Entity, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the Fund's assets as security for such guarantee and subordinating its rights under the LSOT Notes to other indebtedness and obligations;
- (i) purchasing, repurchasing or redeeming securities issued by the Fund;
- (j) satisfying the obligations, liabilities or indebtedness of the Fund;
- (k) performing its obligations under the Administration Agreement, and the Exchange Agreement; and
- (l) undertaking such other activities, or taking such actions (including investing in securities), related to or in connection with the foregoing or as contemplated by the Declaration of Trust or as may be approved by the GP from time to time;

provided that the Fund shall not undertake any activity, take any action, or purchase or authorize the purchase of any investment that would not be allowed for a mutual fund trust under subsection 132(6) of the Tax Act. In connection with this duty, the GP has broad authority and is entitled to take such actions as they consider necessary or appropriate in accordance with the Declaration of Trust to preserve the mutual fund status of the Fund, including as described under "Limitation on Non-Resident Ownership".

### **Units and Special Voting Units**

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "**Units**" and "**Special Voting Units**", respectively. An unlimited number of Units and Special Voting Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Units are not subject to future calls or

assessments and entitle the holder thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under "Redemption Right" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net income, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. Special Voting Units may, however, be redeemed by the holder at any time for nominal consideration.

Special Voting Units may be issued in series and will only be issued in connection with or in relation to Exchangeable LP Units, Series 1 Exchangeable LP Units and, if the GP determines, other securities exchangeable, directly or indirectly, for Units (collectively, "**Exchangeable Securities**"), in each case for the purpose of providing voting rights with respect to the Fund to the holders of Exchangeable Securities. Special Voting Units are issued in conjunction with, and are attached to, the Exchangeable LP Units and Series 1 Exchangeable LP Units (or other Exchangeable Securities) to which they relate, and are evidenced only by the certificates representing such Exchangeable Securities. Special Voting Units are not transferable separately from the Exchangeable Securities to which they are attached. Each Special Voting Unit entitles the holder thereof to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange (direct or indirect) of the Exchangeable LP Unit, Series 1 Exchangeable LP Unit or other Exchangeable Security to which it is attached. Upon the exchange or conversion of an Exchangeable Security for Units, the Special Voting Unit that is attached to such Exchangeable Security will immediately be cancelled without any further action of the GP, and the former holder of such Special Voting Unit will cease to have any rights with respect thereto.

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

No certificates will be issued for fractional Units and fractional Units will not entitle the holders thereof to vote.

## **Debentures**

### ***6.75% Convertible Unsecured Subordinated Debentures***

Currently, there are \$57.5 million principal amount 6.75% Debentures of the Fund outstanding issued pursuant to a trust indenture (the "**6.75% Debenture Indenture**") between the Fund and CIBC Mellon Trust Company, as trustee (the "**Debenture Trustee**"), dated December 21, 2007. The 6.75% Debentures bear interest at a rate of 6.75% per annum payable semi-annually in arrears on June 30 and December 31 in each year. The 6.75% Debentures mature on December 31, 2012 and are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on December 31, 2012 and the business day immediately prior to a date specified by the Fund for redemption of the 6.75% Debentures at a conversion price of \$28.50.

The 6.75% Debentures are not redeemable by the Fund prior to January 1, 2011. On or after January 1, 2011 and prior to January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the 6.75% Debenture Indenture, of the Units on the date of the notice of redemption is not less than 125% of the conversion price. On or after January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof and plus accrued and unpaid interest.

The Fund has the option, subject to regulatory approval, to satisfy all or part of its obligation to repay the principal amount of the 6.75% Debentures which are to be redeemed or have matured by issuing and delivering that number of Units obtained by dividing the aggregate principal amount to be redeemed or which have matured by 95% of the current market price of the 6.75% Debentures on the date fixed for redemption or maturity, as the case may be.

The Fund may elect, subject to regulatory approval, from time to time to satisfy its obligation to pay interest on the Debentures by delivering Units to the Debenture Trustee for sale with the proceeds of such sales being delivered to holders of Debentures.

The payment of the principal of, and interest on, the 6.75% Debentures is subordinated and postponed in right of payment, as set forth in the 6.75% Debenture Indenture, to the prior payment in full of all Senior Indebtedness of the Fund including indebtedness to trade and other creditors of the Fund. "Senior Indebtedness" of the Fund is defined in the 6.75% Debenture Indenture to mean, in effect, the principal of and premium, if any, and interest on and other

amounts in respect of all indebtedness, liabilities and obligations of the Fund (whether outstanding as at the date of the 6.75% Debenture Indenture or thereafter created, incurred, assumed or guaranteed), other than indebtedness evidenced by the 6.75% Debentures and all other existing and future debentures or other instruments of the Fund which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the 6.75% Debentures.

The 6.75% Debenture Indenture provides that an event of default ("**Event of Default**") in respect of the 6.75% Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to such 6.75% Debentures: (i) failure for 10 days to pay interest on such Debentures when due; (ii) failure to pay principal or premium, if any, on such Debentures, whether at maturity, upon redemption, by declaration or otherwise, (iii) default in the observance or performance of any material covenant or condition of the 6.75% Debenture Indenture by the Fund which remains unremedied for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Fund specifying such default and requiring the Fund to remedy such default; or (iv) certain events of bankruptcy, insolvency or reorganization of the Fund under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of the 6.75% Debentures then outstanding, declare the principal of and interest on all outstanding 6.75% Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of such 6.75% Debentures then outstanding may, on behalf of the holders of all such 6.75% Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Within 30 days following the occurrence of a change of control of the Fund involving the acquisition of voting control or direction over 66 <sup>2</sup>/<sub>3</sub>% or more of the outstanding Voting Units by any person or group of persons acting jointly or in concert, other than pursuant to any transaction undertaken as a consequence of the SIFT legislation in which a new parent entity is established, created, or adopted for, or in replacement of, the Fund (a "**Change of Control**"), the Fund will be required to make an offer in writing to purchase, in whole or in part, the 6.75% Debentures then outstanding (the "**Debenture Offer**"), at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest (the "**Debenture Offer Price**").

If 90% or more of the aggregate principal amount of the 6.75% Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Fund pursuant to the Debenture Offer, the Fund will have the right to redeem all the remaining 6.75% Debentures at the Debenture Offer Price. Notice of such redemption must be given by the Fund to the Debenture Trustee within 10 days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the 6.75% Debentures not tendered pursuant to the Debenture Offer.

#### **8.00% Convertible Unsecured Subordinated Debentures**

Currently, there are \$0.5 million principal amount 8.00% Debentures of the Fund outstanding issued pursuant to a trust indenture (the "**8.00% Debenture Indenture**") between the Fund and Computershare, as trustee, dated January 4, 2007, as amended by a supplementary trust indenture dated June 8, 2007. The 8.00% Debentures bear interest at a rate of 8.00% per annum payable semi-annually in arrears on June 30 and December 31 in each year. The 8.00% Debentures mature on December 31, 2011 and are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on December 31, 2011 and the business day immediately prior to a date specified by the Fund for redemption of the 8.00% Debentures at a conversion price of \$15.09.

The 8.00% Debentures are not redeemable by the Fund prior to December 31, 2009. On or after December 31, 2009 and prior to December 30, 2010, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the current market price of the Units on the date of the notice of redemption is not less than \$18.86. On or after December 31, 2010 and prior to December 31, 2011, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest.

The other terms of the 8.00% Debentures are substantially the same as those of the 6.75% Debenture.

## **Regulatory Compliance**

The AGLC, BCLCLB and ABCB have discretion in the granting or revocation of a license to operate a liquor store and in connection therewith may review the past conduct of persons associated with the liquor store including (in certain circumstances) shareholders, directors, management and employees. As well, the GLA prohibits certain persons from having an interest in a liquor store. Accordingly, the acquisition by any person or group of persons acting jointly or in concert of a significant percentage of the outstanding Units could result in such person or group of persons being subject to background checks under the GLA and could result in the review, revocation or non-renewal of Liquor Stores' licenses in the event of an adverse determination. Liquor Stores has not had a license revoked or not renewed.

Accordingly, the Trustee will have the authority to take certain actions if, in the opinion of the Trustee, a person, or group of persons acting in concert, fails to comply with any requirement of the GLA, the AGLC, the BCLDA, or any other regulatory authority having jurisdiction over Liquor Stores' liquor store licenses (including the ABCB), including failing to provide the information required in connection with the conduct of background checks, or if the holding of Units by a person, or group of persons acting in concert could result in the revocation or non-renewal of any of Liquor Stores' liquor store licenses. In such circumstances, the Trustee shall be entitled to take any of the following actions (i) place a stop transfer on all or any of the Units of the person, or group of persons, (ii) suspend or terminate all voting and distribution rights on all or any of the Units of the person, or group of persons, (iii) apply to the Alberta Court of Queen's Bench or such other court of competent jurisdiction seeking an injunction to prevent a breach or continuing breach, or (iv) make application to the relevant securities commission, its successors, assigns or such other governmental regulatory agency having jurisdiction over the affairs of the Fund, to effect a cease trading order or such similar restriction against such person, or group of persons, until such time as such person or group of persons complies with such constraints.

## **Issuance of Units**

The Fund may issue Units or rights to acquire Units at those times, to those persons, for that consideration and on the terms and conditions that the GP determines, including pursuant to any Unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distributions of the Fund to Unitholders on a pro rata basis. The Declaration of Trust provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution (except where tax was required to be withheld in respect of the Unitholder's share of the distribution as described below). In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and, accordingly, the consolidation will not result in such non-resident Unitholder holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates (if any) representing their original Units in exchange for a certificate representing their post-consolidation Units

## **Governance Reorganization and Appointment of the Corporate Trustee**

The Fund completed a reorganization of its governance structure on September 1, 2008 to better align its governance with the governance model that is provided in Canadian business corporations legislation and to make the Directors more directly accountable to Unitholders. Prior to the reorganization, the Fund had a board of "active" individual Trustees that supervised the activities and managed the affairs of the Fund, and who had delegated certain of their powers to the GP through the Declaration of Trust and the Administration Agreement. The former Trustees, who are also current directors of the GP, were R. John Butler, Gary Collins, Jim Dinning and Glen H. Heximer, C.A. (all of whom are "independent" within the meaning of applicable Canadian securities legislation).

Under the Fund's new simplified and streamlined governance structure, instead of four separate boards of trustees or directors with separate and overlapping mandates and responsibilities (and potentially differing liabilities), there is now a single board of directors (of the GP) elected at the direction of the Unitholders and responsible for directing the affairs of the Fund (along with the affairs of LSOT, LBOT, the GP, and Liquor Stores). The Declaration of Trust was amended to replace the requirement that there be a minimum of three and maximum of nine trustees (each of whom is an individual) with the requirement that there be one corporate trustee, which must be a licensed trust

company. Unitholders appoint the Trustee biannually and direct the Trustee as to the election of the Board of Directors of the GP annually.

CIBC Mellon Trust Company was appointed as corporate trustee on September 1, 2008 for an initial term of office which shall expire upon the conclusion of the annual meeting of Voting Unitholders in 2010. Voting Unitholders may appoint or reappoint a successor to the Trustee by a resolution passed by a majority of the Voting Unitholders.

The Trustee may resign upon written notice to the GP and may be removed by written notice delivered by the GP to the Trustee in the event: (i) the Trustee ceases being legally registered to carry on the business of a trust company; (ii) the Trustee is declared bankrupt or insolvent or enters into liquidation; (iii) the assets of the Trustee are otherwise liable to seizure or confiscation by any public or governmental authority; (iv) the Trustee materially increases its fees; or (v) the Trustee otherwise becomes incapable of performing or fails in any material respect to perform its responsibilities under the Declaration of Trust. No decision to remove a Trustee shall become effective until (i) approved by a resolution passed by a majority of Voting Unitholders; (ii) the appointment of, and acceptance of such appointment, by a new Trustee in the place of the Trustee to be removed; and (iii) the legal and valid assumption by the new Trustee of all obligations of the resigning Trustee.

The Declaration of Trust was amended to account for this governance reorganization, and the Declaration of Trust provides that, subject to its terms and conditions, the Trustee has full, absolute and exclusive power, control and authority over the assets of the Fund and over the affairs of the Fund to the same extent as if the Trustee were the sole and absolute legal and beneficial owner of the assets of the Fund, and may, in respect of the assets of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The Trustee has delegated certain of these rights, powers and privileges to the GP pursuant to the Administration Agreement. (See “Material Contracts - Administration Agreement” below for more details)

Although the Trustee delegates certain rights, powers and privileges to the GP pursuant to the Administration Agreement, the Trustee is still responsible for (among other things) (i) acting for, voting on behalf of, and representing the Fund as a holder of LSOT Units and a holder of LSOT Notes and other securities (which would include the LBOT Units and the LBOT Notes); and (ii) causing LSOT to vote in favour of the Fund's nominees as directors of the GP (as directed by the Unitholders).

According to the Administration Agreement, the GP is responsible for, among other things: (i) supervising the activities and managing the investments and the affairs of the Fund; (ii) maintaining records and providing reports to Voting Unitholders; (iii) effecting payments of distributable cash from the Fund to Unitholders; (iv) providing advice with respect to the Trust's obligations as a reporting issuer and ensuring compliance by the Fund with the continuous disclosure obligations under applicable securities legislation; and (v) providing advice and assistance to the Trustee with respect to the performance of obligations of the Fund and the enforcement of the rights of the Fund under all agreements entered into by the Fund. (See “Material Contracts - Administration Agreement” below for more details)

The Declaration of Trust provides that the Trustee must act honestly and in good faith with a view to the best interests of the Fund and in connection therewith must exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Declaration of Trust also provides that the Trustee and its directors, officers, employees shareholders and agents (and all of their successors and assigns) will be entitled to indemnification from the assets of the Fund in respect of liability, losses, damages, costs, charges and expenses arising from (i) the exercise of all duties and responsibilities and the exercise of all powers and authorities exercised in connection with the Declaration of Trust; (ii) any action, suit, or proceeding that is commenced in connection with the Administration Agreement; and (iii) unpaid taxes or other tax matters respecting the Fund, unless any of the foregoing arises principally and directly out of a breach of the Trustee's standard of care, or the gross negligence or wilful default or fraud of the Trustee or any of its directors, officers, employees, shareholders or agents.

### **Cash Distributions**

The Fund makes monthly cash distributions of its distributable cash to Unitholders to the extent determined prudent by the GP. The amount of cash available for distribution is equal to the interest and principal repayments on the LSOT Notes and the distributions (if any) on or in respect of the LSOT Units owned by the Fund and all other amounts, if any, from any other investments from time to time held by the Fund (which would include the interest and principal repayments on the LBOT Notes and the distributions (if any) on or in respect of the LBOT Units owned by the Fund) received in such period, less amounts that are paid, payable, incurred or provided for in such

period in connection with: (a) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (b) satisfaction of debt service or other obligations of the Fund on account of both principal and interest; and (c) any amount that the GP may reasonably consider to be necessary to provide for the payment of any costs, expenses, obligations or liabilities including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs, expenses, obligations or liabilities have not otherwise been taken into account in the calculation of the available distributable cash of the Fund).

The Fund may make additional distributions in excess of the aforementioned monthly distributions during the year, as the GP may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the Tax Act in such year.

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund makes monthly cash distributions to Unitholders of record on the last business day of each month or such other date as may be determined from time to time by the GP, and the distributions are paid generally on the 15th day of the following month. See "Distributions".

Unitholders who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

The Fund, the Operating Trusts and Liquor Stores have considerable discretion in determining the amount of cash distributions. Cash distributions are not guaranteed and will fluctuate with, among other things, Liquor Stores' performance. See "Risk Factors – Risks Relating to the Structure of the Fund – Cash Distributions".

### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form approved by the GP specifying the number of Units to be redeemed. As the Units are issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer. As of the close of business on the date the Units are surrendered for redemption, all rights to and under the Units tendered for redemption shall (subject to the following) be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

- (a) 90% of the Market Price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) during the period of the last 10 trading days during which the Units traded on such stock exchange or market ending immediately prior to the date on which the Units were tendered for redemption; and
- (b) the Closing Market Price of the Units on the date on which the Units were tendered for redemption on the principal stock exchange on which Units are listed (or, if Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading).

For the purposes of determining the Redemption Price, "**Market Price**" for a specified trading period will be the amount equal to the weighted average of the trading prices of the Units on the applicable market or exchange for each of the trading days on which there was a trade during the specified trading day period; provided that if there was trading on the applicable exchange or market for fewer than five of the trading days during the specified trading day period, "**Market Price**" for a specified trading period will be the average of the following prices established for each of the trading days during the specified trading day period: the average of the last bid and ask prices for each trading day on which there was no trading and the weighted average trading prices of the Units for each trading day on which there was trading. For the purposes of determining the Redemption Price, "**Closing Market Price**" will be: (i) an amount equal to the closing price of the Units on the applicable market or exchange if there was a trade on the specified date and the applicable market or exchange provides a closing price; (ii) an amount equal to the

average of the highest and lowest prices of Units on the applicable market or exchange if there was trading on the specified date and the applicable market or exchange provides only the highest and lowest trading prices of Units traded on a particular day; or (iii) the average of the last bid and ask prices on the applicable market or exchange if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment by the Fund no later than the last day of the calendar month following the calendar month in which the Units were tendered for redemption, provided that the entitlement of the Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (a) the total amount payable in cash by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month may not exceed \$50,000, provided that the GP may, in its sole discretion, waive such limitation in respect of all Units tendered for redemption in any calendar month;
- (b) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on a stock exchange or traded or quoted on another market that, in the sole discretion of the GP, provides a representative fair market value price for the Units; and
- (c) the normal trading of Units must not be suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the 10 trading day period prior to the date on which the Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution in specie. In such circumstances, LSOT Units and Series 1 LSOT Notes of a value equal to the Redemption Price will be redeemed by LSOT in consideration of the issuance to the Fund of Series 2 LSOT Notes. The Series 2 LSOT Notes will then be distributed in satisfaction of the Redemption Price. The Fund will be entitled to all interest paid on the LSOT Notes and the distributions paid on the LSOT Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities of LSOT on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of LSOT Units and Series 1 LSOT Notes in exchange for Series 2 LSOT Notes, or as a result of the distribution of Series 2 LSOT Notes and Series 3 LBOT Notes to the Unitholder on the redemption of such Units. See Operating Trusts – The Operating Trusts Notes.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. LSOT Notes that may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in LSOT Notes and they may be subject to resale restrictions under applicable securities laws. LSOT Notes so distributed may not be qualified investments for trusts governed by Exempt Plans depending upon the circumstances at the time.

### **Repurchase of Units**

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities laws and the rules prescribed under applicable stock exchange or regulatory policies.

### **Meetings of Voting Unitholders**

The Declaration of Trust provides that meetings of Voting Unitholders are required to be called and held annually, for the purpose of: (i) the presentation of the audited financial statements of the Fund for the immediately preceding fiscal year; (ii) the direction and instruction of the Trustee with respect to the election of the directors of the GP; (iii) the appointment of auditors of the Fund for the ensuing year, (iv) generally, any other matter that requires a resolution of Voting Unitholders, and (v) transacting such other business as the Trustee may determine or as may be properly brought before the meeting. The Declaration of Trust provides that the Voting Unitholders are entitled to pass resolutions that will bind the Fund only with respect to:

- (a) the election or removal of the Trustee;

- (b) any amalgamation, arrangement, other merger or capital reorganization of the Fund with any other entity, except in conjunction with an internal reorganization or the acquisition by the Fund or a Liquor Stores Entity of the securities or assets of another entity;
- (c) if applicable, the appointment of the trustee of LSOT;
- (d) the appointment or removal of the auditors of the Fund;
- (e) the appointment of an inspector to investigate the performance by the Trustee in respect of its respective responsibilities and duties in respect of the Fund;
- (f) the approval of amendments to the Declaration of Trust (as described under "Liquor Stores Income Fund – Amendments to the Declaration of Trust");
- (g) the sale of all or substantially all of the assets of the Fund;
- (h) the election of nominees of the Fund to act as directors of the GP or the removal thereof (except filling casual vacancies), subject to the rights of the holders of shares of the GP, other than the Fund or LSOT, to elect or appoint a number of directors of the GP;
- (i) the termination of the Fund;
- (j) the sale, lease, or otherwise disposal of all of substantially all of the assets of the Fund (except pursuant to any guarantee of any obligation of Liquor Stores Entities, or any charge, pledge, mortgage, lien, security interest, or any other encumbrance granted by the Fund over assets of the Fund, or in connection with an internal reorganization, in which case the Trustee may approve same); and
- (k) respecting any material change to the subordination provisions attached to the Subordinated LP Units that is adverse to the Unitholders;
- (l) such other business as the GP may determine or as may properly be brought before the meeting, including, without limitation, any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval, including, if so required, the ratification of any Unitholder rights plan, distribution reinvestment plan, Unit purchase plan, Unit option plan or other compensation plan.

No other action taken by Voting Unitholders or any other resolution of the Voting Unitholders at any meeting will in any way bind the Fund or the Trustee.

Resolutions (i) electing or removing the Trustee, (ii) electing or removing the trustees of the Operating Trusts, (iii) appointing or removing the auditors of the Fund, (iv) electing the nominees of the Fund to act as directors of the GP or the removal thereof (except filling casual vacancies) (v) respecting the sale, lease, or otherwise disposal of all of substantially all of the assets of the Fund (except pursuant to any guarantee of any obligation of Liquor Stores Entities, or any charge, pledge, mortgage, lien, security interest, or any other interest granted by the Fund over assets of the Fund, or in connection with an internal reorganization, in which cases the Trustee may approve same); (vi) respecting any material change to the subordination provisions attached to the Subordinated LP Units that is adverse to the Unitholders; and (vii) where applicable, pertaining to matters required by securities law, stock exchange rules or other laws or regulations be submitted to Voting Unitholders, must be passed by a simple majority of the votes cast by Voting Unitholders. The balance of the foregoing matters must be passed by a resolution of the Voting Unitholders passed by not less than 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 2/3% of the Voting Units entitled to vote on such resolution.

Subject to the foregoing limitations, a meeting of Voting Unitholders may be convened at any time and for any purpose by the GP and must be convened if requisitioned in writing by the holders of not less than 5% of the Voting Units then outstanding. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxyholder need not be a Voting Unitholder. Two persons present in person and either holding personally or representing by proxy in the aggregate at least 10% of the votes attached to all outstanding Voting Units will constitute a quorum for the transaction of business at all such meetings. At any meeting at which a quorum is not

present within one-half hour after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the Voting Unitholders, will be terminated (not adjourned), but in any other case, the meeting will stand adjourned to a day not less than 14 days later and to a place and time as chosen by the chair of the meeting, and if at such adjourned meeting a quorum is not present, the Voting Unitholders present either in person or by proxy will be deemed to constitute a quorum.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

#### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the Units. This 49% limitation will be applied with respect to the issued and outstanding Units of the Fund on both a non-diluted basis and a fully diluted basis. The GP may require declarations as to the jurisdictions in which beneficial owners of Units and Special Voting Units are resident. In furtherance of the foregoing restrictions, the GP may also elect to not accept subscriptions for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a non-resident of Canada within the meaning of the Tax Act. If, notwithstanding the foregoing, the GP determines, in its sole discretion, that more than 49% of the Units are held by non-residents of Canada, or that such a situation is reasonably possible, the GP may send a notice to non-resident Unitholders, chosen in inverse order to the order of acquisition or registration or in any other manner the GP considers equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period. If the Unitholders receiving such notice have not sold the specified number of Units or provided the GP with satisfactory evidence that they are not non-residents of Canada within the meaning of the Tax Act within such period, the GP may, on behalf of such persons, sell such Units and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such a sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

#### **Amendments to the Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time with the consent of the Voting Unitholders by a Special Resolution.

The Trustee and the GP may, at their discretion and without the approval of the Voting Unitholders, make certain amendments to the Declaration of Trust, including amendments: (i) for the purpose of ensuring continuing compliance and conformity of the Declaration of Trust with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustee or the Fund (ii) which, in the opinion of counsel to the Fund, provide additional protection or added benefits for Unitholders, (iii) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor changes or corrections that, in the opinion of the GP, are necessary or desirable and not prejudicial to the Unitholders, (iv) which, in the opinion of the GP, is necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the Trustee or the Fund, or (v) for the purpose of ensuring that the Fund continues to qualify as a mutual fund trust under the Tax Act.

Notwithstanding the previous sentence, the Trustee may not amend the Declaration of Trust in a manner which would result in the Fund failing to qualify as a mutual fund trust under the Tax Act.

#### **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on August 10, 2004. On a date selected by the Trustee that is not more than two years prior to the expiry of the term of the Fund, the Trustee is obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Voting Unitholders may by a Special Resolution require the Trustee to commence the termination, liquidation or wind-up of the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustee will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Voting Unitholders may surrender their Voting Units for cancellation and the date at which the register of Voting Units will be closed. After the date the register is closed, the Trustee will proceed to

wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose will, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the LSOT Units, LSOT Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustee will distribute the remaining part of the proceeds of the sale of LSOT Units, LSOT Notes and other assets comprising the Fund together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustee is unable to sell all or any of LSOT Units, LSOT Notes or other assets which comprise part of the Fund by the date set for termination, the Trustee may distribute the remaining LSOT Units, LSOT Notes or other assets in specie directly to the Unitholders in accordance with their pro rata interests subject to obtaining all required regulatory approvals.

### **Take-over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and 90% or more of the Units on a fully diluted basis (other than any Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by holders who did not accept the take-over bid, on the same terms on which the offeror acquired Units pursuant to the take-over bid.

The Declaration of Trust, the Exchange Agreement and the Exchange and Support Agreement include provisions to facilitate the exchange of Exchangeable LP Units and Series 1 Exchangeable LP Units for Units so that a holders of Exchangeable LP Units and Series 1 Exchangeable LP Units can exercise its rights to exchange all or a portion of such holdings for Units, including conditionally, in order to tender to a take-over bid.

### **Information and Reports**

The Fund will furnish to Voting Unitholders, in accordance with applicable securities laws, such financial statements of the Fund (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation. Prior to each meeting of Voting Unitholders, the Trustee will provide the Voting Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to Voting Unitholders.

The directors and senior officers of the subsidiaries of the Fund, including the GP and Liquor Stores, are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units.

### **Book-Entry Only System**

Registration of interests in and transfers of Units are made only through a book-based system administered by CDS Units must be purchased, transferred and surrendered for redemption through a participant in the CDS depository service (a "**CDS Participant**"). All rights of Unitholders must be exercised through, and all payments or other property to which the Unitholder is entitled are made or delivered by, CDS or the CDS Participant through which the Unitholder holds the Units. Upon a purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer that is a CDS Participant and from or through which the Units are purchased. References in this annual information form to a Unitholder mean, unless the context otherwise requires, the owner of the beneficial interest in those Units.

The ability of a beneficial owner of Units to pledge those Units or otherwise take action with respect to the Unitholder's interest in those Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the CDS book-entry only system, in which case certificates for the Units in fully registered form would be issued to beneficial owners of those Units or their nominees.

### **Financial Year End**

The fiscal year end of the Fund is December 31.

## **Rights of Unitholders**

The rights of the Unitholders are established by the Declaration of Trust. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, significant differences exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Voting Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to direct the Trustee to elect the directors of the GP and to appoint auditors. The Declaration of Trust also includes provisions modelled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Voting Unitholders, the quorum for and procedures at such meetings and the right of Voting Unitholders to participate in the decision making process where certain fundamental actions are proposed to be undertaken. Unlike shareholders of a CBCA corporation, Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Fund. The matters in respect of which Voting Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities. These Voting Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are "reporting issuers" or the equivalent or listed on the TSX. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting: (i) the business or businesses that the corporation can carry on; or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to exercise the redemption rights provided by the Declaration of Trust, as described under "Redemption Right" above. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or that disregard the interests of securityholders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders may rely only on the general provisions of the Declaration of Trust which permit the winding-up of the Fund with the approval of a Special Resolution of the Voting Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust allows Voting Unitholders to pass resolutions appointing an inspector to investigate the Trustee's performance of its responsibilities and duties, but this process would not be subject to court oversight or assurance of the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

## **OPERATING TRUSTS**

The Declaration of Trust of each of the Operating Trusts contains provisions substantially similar to those of the Declaration of Trust. The following is a summary, which does not purport to be complete, of certain provisions of the Operating Trusts Declarations of Trust insofar as they differ from those of the Declaration of Trust. Reference is made to the Operating Trusts Declarations of Trust for the full text of their provisions. See "Material Contracts".

### **General**

The Operating Trusts are unincorporated trusts established under the laws of the Province of Alberta pursuant to the Operating Trusts Declarations of Trust. The activities of Operating Trusts are restricted to the conduct, directly or indirectly, of the business of, and the ownership, operation and lease of assets and property in connection with, the operation of the retail liquor store business, including all activities ancillary or incidental thereto, and such other businesses and activities as the GP may determine, and having investments and other direct or indirect rights in companies or other entities involved, directly or indirectly, in the retail liquor store business, including all activities

ancillary or incidental thereto, and such other businesses and activities as the GP may determine. The fiscal year end of each of the Operating Trusts is December 31.

### **Governance Reorganization and Appointment of the Corporate Trustee of the Operating Trusts**

Concurrent with the reorganization of the Fund's governance structure completed on September 1, 2008, the Operating Trusts Declaration of Trusts were also amended to complete a similar governance reorganization for the Operating Trusts. Prior to this reorganization, the Operating Trusts each had a board of "active" individual trustees that supervised the activities and managed the affairs of the Operating Trusts. The trustees of LSOT were the persons who served as the Trustees (R. John Butler, Gary Collins, Jim Dinning and Glen H. Heximer) and the trustees of LBOT were the officers of the GP (Irving Kipnes, Richard Crook and Pat de Grace). No person other than the Fund, as the holder of all of the outstanding Operating Trusts Units, had the right to appoint any trustees of Operating Trusts.

Under the Operating Trusts' new simplified governance structure, the Operating Trusts Declaration of Trusts were amended to replace the requirement that there be a minimum of three trustees and a maximum of nine trustees (each of whom was an individual) with the requirement that there be one corporate trustee, a corporation incorporated under the laws of Canada or of a province thereof and a resident of Canada for the purposes of the Tax Act. On September 1, 2008, LSOT Trustee Ltd. (formerly 1404945 Alberta Ltd) was appointed as the trustee of LSOT, and LBOT Trustee Ltd. (formerly 1404930 Alberta Ltd.) was appointed as the trustee of LBOT (together, LSOT Trustee Ltd and LBOT Trustee Ltd are the "**Operating Trusts Trustees**"). The directors of each of LSOT Trustee Ltd. and LBOT Trustee Ltd. are certain officers of the GP (Richard Crook, Patrick de Grace, and Craig Corbett). The Operating Trusts Trustees were each appointed for an initial term of office which shall expire at the conclusion of the annual meeting of LSOT Unitholders in 2010. Subsequent to the expiration of the initial term, the LSOT Unitholders (the Fund) shall reappoint or appoint a successor to the Operating Trust Trustee's biannually thereafter.

Each Operating Trust Trustee may resign upon written notice to the GP (as administrator of the Operating Trusts) and may be removed by written notice delivered by the GP (as Administrator of the Operating Trusts) to the Operating Trust Trustee in the event: (i) the Operating Trust Trustee is no longer a corporation incorporated under the laws of Canada or is no longer a resident of Canada for the purposes of the Tax Act; (ii) is declared bankrupt or insolvent or enters into liquidation whether compulsory or voluntary, (and not being merely a voluntary liquidation for the purposes of amalgamation or reconstruction); (iii) the assets of the Operating Trust Trustee are otherwise liable to seizure or confiscation by any public or governmental authority; (iv) the Operating Trust Trustee materially increases its fees; or (v) the Operating Trust Trustee otherwise becomes incapable of performing or fails in any material respect to perform its responsibilities under the Declaration of Trust. No decision to remove a Trustee shall become effective until (i) approved by a resolution passed by a majority of Voting Unitholders; (ii) the appointment of, and acceptance of such appointment, by a new Trustee in the place of the Trustee to be removed; and (iii) the legal and valid assumption by the new Trustee of all obligations of the resigning Trustee.

The Operating Trusts Declarations of Trusts provide that, subject to the terms and conditions thereof (and subject to the rights, powers and privileges that have specifically been delegated to the GP (as administrator of the Operating Trusts), the Operating Trusts Trustees have full, absolute and exclusive power, control and authority over the assets of the Operating Trusts and over the affairs of the Operating Trusts to the same extent as if the Operating Trusts Trustees were the sole and absolute beneficial owners of the assets of the Operating Trusts, and may, in respect of such assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. Subject to such terms and conditions, the Operating Trusts Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Operating Trusts as a holders of LP Units and, in the case of LSOT, a holder of GP Common Shares, (ii) maintaining records and providing reports to the Operating Trusts Unitholders, (iii) supervising the activities and managing the investments and affairs of Operating Trusts, and (iv) effecting payments of distributable cash from the Operating Trusts to the Operating Trusts Unitholders and payments of interest and principal on the Operating Trusts Notes.

No remuneration is paid to the Operating Trusts Trustees (or the directors of same) for serving in such capacity.

### **Cash Distributions**

Pursuant to the Operating Trust Administration Agreements and Operating Trusts Declarations of Trust, each of the Operating Trusts makes monthly cash distributions of its distributable cash to the extent determined prudent by the GP. The amount of cash distributed by each Operating Trust monthly per Operating Trust Unit to the Operating Trust's Unitholders is equal to a pro rata share of distributions on or in respect of Ordinary LP Units owned by the

Operating Trust and all other amounts, if any, from any other investments from time to time held by the Operating Trust received in such period, less amounts which are paid, payable, incurred or provided for in such period in connection with any and all costs or expenses, including any tax liability, of the Operating Trust and other amounts as provided in the applicable Operating Trust Indenture.

Such distributions are payable to holders of record of the Operating Trusts Units on the last business day of each month and are paid within 15 days following each month end. The cash distributions payable by the Operating Trusts are intended to be received by the Fund prior to its related cash distribution to Unitholders.

### **Unit Certificates**

As the Operating Trusts Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Operating Trusts Units will not be made through the book-entry only system. Rather, holders of Operating Trusts Units will be entitled to receive certificates therefor.

### **The Operating Trusts Notes**

The following is a summary of the material attributes and characteristics of the Operating Trusts Notes issuable by the Operating Trusts under the Note Indentures, which summary does not purport to be complete. Reference is made to the Note Indentures for a complete description of the Operating Trusts Notes and the full text of its provisions.

Two series of LSOT Notes are authorized for issuance under the LSOT Note Indenture. Currently, only Series 1 LSOT Notes are issued and outstanding, all of which are held by the Fund. Series 2 LSOT Notes are reserved by LSOT to be issued exclusively as full or partial payment of the redemption price of Series 1 LSOT Notes. LSOT Notes are issuable in Canadian currency. As at the date hereof, LSOT has issued approximately \$65.7 million principal amount of Series 1 LSOT Notes to the Fund.

Three series of LBOT Notes are authorized for issuance under the LBOT Note Indenture. Currently, only Series 1 LBOT Notes are issued and outstanding, all of which are held by the Fund. Series 2 LBOT Notes are reserved by LBOT to be issued exclusively as full or partial payment of the redemption price of LBOT Units and the Series 3 LBOT Notes are reserved by LBOT to be issued exclusively as full or partial payment of the redemption price of the LBOT Series 1 Notes. As at the date hereof, LBOT has issued approximately \$9.4 million principal amount of the Series 1 LBOT Notes, all of which are held by the Fund.

### ***Interest and Maturity***

The Series 1 LSOT Notes are payable on demand, mature on the 15th anniversary of the date of issuance and bear interest at a rate of 4% per annum, payable on the 15th day of each calendar month that such Series 1 LSOT Notes are outstanding. Each Series 2 LSOT Note matures on the same date as the Series 1 LSOT Notes and bears interest at a market rate to be determined by the applicable Operating Trusts Trustee at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 2 LSOT Note is outstanding.

The Series 1 LBOT Notes are payable on demand, mature on the 25th anniversary of the date of issuance and bear interest at a rate of 0.50% per annum, payable on the 15th day of each calendar month that such Series 1 LBOT Notes are outstanding. Each Series 2 LBOT Note will mature on a date which is no later than the first anniversary of the date of issuance and bear interest at a market rate to be determined by the applicable Operating Trust Trustee at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 2 LBOT Note is outstanding. Each Series 3 LBOT Note will mature on the same date as the Series 1 LBOT Notes and bear interest at a market rate to be determined by the applicable Operating Trusts Trustee at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 3 LBOT Note is outstanding.

### ***Payment upon Maturity***

On maturity, the Operating Trusts will repay the Operating Trusts Notes by paying to the trustee under the Note Indentures in cash an amount equal to the principal amount of the outstanding Operating Trusts Notes that have then matured, together with accrued and unpaid interest thereon.

### ***Redemption***

The Operating Trusts Notes are redeemable in whole or in part (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash or, in the case of a redemption of Series 1 Operating Trusts Notes, in Series 2 LSOT Notes and / or Series 3 LBOT Notes) at the option of the Operating Trusts prior to maturity.

***Subordination***

Payment of the principal amount and interest on the Operating Trusts Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness, which is defined as all indebtedness, liabilities and obligations of the Operating Trusts which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Operating Trusts Notes issued under the Note Indentures.

The Note Indentures provides that upon any distribution of the assets of the Operating Trusts in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Operating Trusts, the holders of all such senior indebtedness are entitled to receive payment in full before the holders of the Operating Trusts Notes are entitled to receive any payment.

***Default***

The Note Indentures provides that any of the following shall constitute an event of default:

- (a) default in payment of the principal of the Operating Trusts Notes when the same becomes due and the continuation of such default for a period of ten business days;
- (b) default in payment of any interest due on any Operating Trusts Notes and continuation of such default for a period of 15 business days;
- (c) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 30 days after notice in writing has been given to the applicable Operating Trusts Trustee specifying such default and requiring the Operating Trusts to rectify the same; and
- (d) certain events of dissolution, liquidation, reorganization or other similar proceedings relative to the Operating Trusts.

The provisions governing an event of default under the Note Indentures and remedies available thereunder do not provide protection to the holders of the Operating Trusts Notes that would be comparable to the provisions generally found in debt securities issued to the public.

***Additional Indebtedness***

From time to time, the Operating Trusts may issue additional debt securities to the Fund.

**LIQUOR STORES LIMITED PARTNERSHIP****General**

Liquor Stores is a limited partnership formed under the laws of Alberta. The business of Liquor Stores is to develop, acquire, make investments in and conduct the business and ownership, operation and lease of assets and property in connection with, the retail liquor business, together with all activities ancillary or incidental thereto and such other businesses and activities as the board of directors of the GP may determine. The following is a summary of the material attributes and characteristics of the LP Units and certain provisions of the Limited Partnership Agreement, which summary is not intended to be complete. Reference is made to the Limited Partnership Agreement and the full text of its provisions for a complete description of the LP Units.

**General Partner**

The managing general partner of Liquor Stores is the GP. As general partner of Liquor Stores, the GP has been issued LP Units for nominal consideration. The LP Units entitle the holder thereof to one vote for each whole unit held at all meetings of holders of partnership units and to an allocation of 0.001% of the income or loss of Liquor Stores for each fiscal year. As general partner and holder of the LP Units, the GP has the authority to manage the business and affairs of Liquor Stores and has unlimited liability for the obligations of Liquor Stores. See "Liquor Stores GP Inc."

## LP Units

Liquor Stores is entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as may be determined by the GP. As at the date hereof, Liquor Stores has issued and outstanding 18,443,909 Ordinary LP Units (which are held by the Operating Trusts), 3,267,651 Exchangeable LP Units (which are held by the LS Founders) and 845,409 Series 1 Exchangeable LP Units (which are held by the Series 1 Holders). Liquor Stores has also issued GP Units (which are held by the GP). The Ordinary LP Units represent a 81.76% equity interest in Liquor Stores, the Exchangeable LP Units represent a 14.49% equity interest in Liquor Stores and the Series 1 Exchangeable LP Units represent a 3.75% equity interest in Liquor Stores.

The Ordinary LP Units and the Exchangeable LP Units entitle the holder thereof to one vote for each whole unit held at all meetings of holders of the LP Units. The Ordinary LP Units, Exchangeable LP Units and Series 1 Exchangeable LP Units have economic rights that are substantially equivalent in all material respects, except that Exchangeable LP Units and Series 1 Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Units at the option of the holder at any time. Additionally, Exchangeable LP Units and Series 1 Exchangeable LP Units are accompanied by Special Voting Units that entitle the holder to receive notice of, attend and to vote at all meetings of Voting Unitholders. See "Material Contracts – Exchange Agreements".

## Distributions

Liquor Stores distributes its distributable cash to the extent determined prudent by the board of directors of the GP. Distributions are made on the Ordinary LP Units, the Exchangeable LP Units and the Series 1 Exchangeable Units within 15 days of the end of each month. Distributions are payable to the holders of LP Units of record on the last day of the period in respect of which the distribution is to be paid. Liquor Stores may, in addition, make a distribution at any other time.

Distributable cash represents, in general, all of Liquor Stores' EBITDA, after:

- (a) satisfaction of its debt service obligations (principal and interest) under credit facilities or other agreements with third parties, including amounts payable under the Credit Facility;
- (b) paying awards under the UAIP or other incentives to Management and other personnel;
- (c) retaining reasonable working capital reserves, maintenance capital expenditure reserves, renewal reserves, upgrade and renovation reserves or other reserves, including reserves to stabilize distributions to the partners, as may be considered appropriate by the GP; and
- (d) expenditures in excess of reserves.

Capital and other expenses, including amounts required to enable Liquor Stores to pay equal monthly distributions based on anticipated future distributable cash, may be financed with drawings under one or more credit facilities that may be established by Liquor Stores.

## Allocation of Net Income and Losses

The income or loss of Liquor Stores for each fiscal year will be allocated to the GP and to the remaining partners as to 0.001% and 99.999%, respectively. The income for tax purposes of Liquor Stores for a particular fiscal year will be allocated to each partner other than the GP by multiplying the total income allocated to such partners by a fraction, the numerator of which is the total sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by Liquor Stores to all partners other than the GP with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Liquor Stores to that limited partner.

If, with respect to a given fiscal year, no cash distribution is made by Liquor Stores to its partners, or Liquor Stores has a loss for tax purposes, one-twelfth of the income or loss, as the case may be, for tax purposes of Liquor Stores for that fiscal year will be allocated to the GP and the remaining partners at the end of each month ending in that fiscal year, as to 0.001% and 99.999%, respectively, and to each remaining partner in the proportion that the number of LP Units held at each of those dates by that partner is of the total number of LP Units issued and outstanding at each of those dates.

Income and loss of Liquor Stores for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

The fiscal year end of Liquor Stores is December 31.

### **Reimbursement of the GP**

Liquor Stores reimburses the GP for all direct costs and expenses incurred in the performance of its duties under the Limited Partnership Agreement.

### **Limited Liability**

Liquor Stores operates in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. The GP will indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Limited Partnership Agreement unless the liability is not so limited as a result of or arising out of any act of such limited partner. The GP has no significant assets or financial resources, however, and therefore the indemnity from the GP has nominal value.

### **Amendments to the Limited Partnership Agreement**

The Limited Partnership Agreement may only be amended with the consent of the holders of at least 66 2/3% of the outstanding voting partnership units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding more than 66 2/3% of the outstanding voting partnership units entitled to vote at a duly constituted meeting. Notwithstanding the foregoing:

- (a) no amendment is permitted to be made to the Limited Partnership Agreement altering the ability of the limited partners to remove the GP involuntarily, changing the liability of any limited partner, allowing any limited partner to exercise control over the business of Liquor Stores, changing the right of a partner to vote at any meeting, adversely affecting the rights, privileges or conditions attaching to any of the LP Units or GP Units, reducing the percentage of income allocable to limited partners to below 99.999% or changing Liquor Stores from a limited partnership to a general partnership, in each case, without the unanimous approval of the partners;
- (b) no amendment can be made to the Limited Partnership Agreement that would adversely affect the rights and obligations of any particular limited partner without similarly affecting the rights and obligations of all other limited partners without the unanimous approval of the partners; and
- (c) no amendment that would adversely affect the rights and obligations of the GP, as general partner, is permitted to be made without its consent.

The foregoing approval requirements are subject to additional restrictions on, or conditions to the approval of, amendments to the Limited Partnership Agreement pursuant to the Declaration of Trust. In particular, the approval or authorization by the GP or Liquor Stores of any action that would result in the Units constituting foreign property for the purposes of the Tax Act requires the prior approval of Voting Unitholders by a Special Resolution.

The GP may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding voting partnership units. Each partner (other than the holders of Series 1 Exchangeable LP Units) is entitled to one vote for each partnership unit held. A quorum of a meeting of partners consists of one or more partners present in person or by proxy.

## **LIQUOR STORES GP INC.**

### **General**

The GP is a corporation established under the CBCA to act as the general partner of Liquor Stores.

### **Capital of the GP**

The authorized share capital of the GP consists of an unlimited number of GP Common Shares. As at the date hereof, the Fund, indirectly through LSOT, owns 100%, of the outstanding GP Common Shares. Each GP Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of the GP and to one vote per share at such meetings (other than meetings of another class of shares of the GP). The GP Common Shares entitle the holders thereof to receive in any year dividends as and when declared by the board of directors on the GP Common Shares. In the event of a liquidation of the GP, holders of the GP Common Shares, after payment of or other proper provision for all of the liabilities of the GP, will be entitled to share rateably in all remaining assets of

the GP. The articles and by-laws of the GP contain standard restrictions, which restrict all shareholders from transferring their GP Common Shares without the consent of the directors or shareholders of the GP.

### **Functions and Powers of the GP**

The GP has the authority to manage the business and affairs of Liquor Stores, to make all decisions regarding the business of Liquor Stores and to bind Liquor Stores in respect of any such decision. The GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Liquor Stores and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power vested in the GP to manage the business and affairs of Liquor Stores includes all authority necessary or incidental to carry out the objects, purposes and business of Liquor Stores, including the ability to engage agents to assist the GP to carry out its management obligations and administrative functions in respect of Liquor Stores and its business.

### **Restrictions on Authority of the GP**

The authority of the GP is limited in certain respects under the Limited Partnership Agreement. The GP is prohibited, without the prior approval of the other partners given by a Partnership Special Resolution, from dissolving Liquor Stores or selling, exchanging or otherwise disposing of all or substantially all of the assets of Liquor Stores (otherwise than in conjunction with an internal reorganization that has been approved by the Fund).

### **Withdrawal or Removal of the GP**

The GP is permitted to resign as general partner on not less than 180 days prior written notice to the partners, provided that the GP may not resign if the effect thereof would be to dissolve Liquor Stores. The GP may be removed as general partner of Liquor Stores, without its consent, if: (i) the shareholders or directors of the GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding up of the GP, or the GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the Limited Partnership Agreement, or (ii) a Partnership Special Resolution has been passed and a successor general partner has agreed to act as general partner under the Limited Partnership Agreement.

## **RISK FACTORS**

The following is a summary of certain risk factors relating to the affairs of the Fund and the business of Liquor Stores. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this annual information form and the documents incorporated by reference herein. Unitholders and potential Unitholders should consider carefully the information contained herein and, in particular, the following risk factors.

These risks and uncertainties are not the only ones facing the Fund and Liquor Stores. Additional risks and uncertainties not currently known to the Fund or Liquor Stores, or that the Fund or Liquor Stores currently consider immaterial, may also impair the operations of the Fund or Liquor Stores. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of Liquor Stores, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

## **Risks Relating to Liquor Stores and its Business**

### ***State of Economy***

Liquor Stores' success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Liquor Stores recognizes that the current economic events are unprecedented and can provide no assurance that consumer spending patterns will not change. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and EBITDA, which in turn could adversely affect the availability of distributable cash.

### ***Government Regulation***

Liquor Stores primarily operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the State of Alaska. Decisions by the AGLC, BCLCLB or ABCB or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of Liquor Stores both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of the AGLC, the BCLCLB or the ABCB will not adversely affect the operations or distributable cash of Liquor Stores.

All of Liquor Stores' Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Since its inception in 2004, Liquor Stores has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked.

In British Columbia to operate a retail liquor store, an operator must have a LRS license, which must be associated with a primary license. The status of this LRS license is contingent upon the associated primary license being maintained, which in certain situations may be controlled by arms length interests. In order to mitigate this risk, where possible, Liquor Stores has negotiated the right to self help with the primary license holders.

All of Liquor Stores' Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually.

The AGLC, the BCLCLB, and ABCB have certain discretion in the granting or revocation of a license to operate a liquor store. See "Liquor Stores Income Fund – Regulatory Compliance".

### ***Competition***

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia is competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location and convenience and to a lesser degree price and service.

In Alberta, Liquor Stores competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. Certain of these competitors have greater financial resources than Liquor Stores. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Any change in this regulatory regime could materially adversely affect Liquor Stores' business and the results of its operations.

In British Columbia, Liquor Stores competes with government owned and operated liquor stores, local independent stores, and wine stores. Under the current regulatory environment, a LRS store cannot operate without an associated primary liquor license being in place. In order to establish a liquor store, an operator must enter into an arrangement with an eligible primary liquor license holder to obtain the associated LRS. This arrangement limits the number of entrants who are able to enter into the market.

In Alaska, Liquor Stores competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains. Under the Alaska regulatory environment, stores purchase product directly from distributors and are able to negotiate large volume discounts with suppliers. Organizations with greater financial resources are able to maintain a competitive advantage over smaller operators.

### ***Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions***

The success of Liquor Stores' liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as

demographic patterns change. It is possible that the current locations or economic conditions where Liquor Stores' liquor stores are located could decline in the future including as a result of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that Liquor Stores enters into long-term leases for its store locations, Liquor Stores' ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

#### ***Acquisition and Development Risks***

Acquisitions have been a significant part of Liquor Stores' growth strategy. The Fund expects to continue to selectively seek strategic acquisitions in both Canada and the U.S. The Fund's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Fund's resources and, to the extent necessary, the Fund's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose the Fund to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms, difficulties in maintaining uniform standards, controls, procedures and policies through all of the Fund's stores; entry into markets in which the Fund has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Fund's ongoing business; and diversion of management time and resources.

The Fund expects that new store development will also continue to be a significant part of the Fund's growth strategy. The development of new stores is subject to many of the same risks as acquisitions including limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on the Fund's resources. The rate of new store developments may be impacted by factors outside of the Fund's control such as the availability of suitable site locations if real estate development declines or the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital based on Management's projections of future store performance, which may prove to be incorrect.

#### ***Key Personnel***

Liquor Stores' success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of Liquor Stores' key employees could significantly weaken Liquor Stores' management expertise and its ability to deliver its services efficiently and profitably.

#### ***Labour Costs and Shortages and Labour Relations***

The success of Liquor Stores' business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Liquor Stores to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Liquor Stores' results of operations.

Liquor Stores does not currently have any unionized staff; however there is no assurance that some or all of the employees of Liquor Stores will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on Liquor Stores' results of operations.

#### ***Supply Interruption or Delay***

Liquor store operators in Alberta are dependent on the CLS warehouse and Brewers Distributor Ltd. for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. Any significant disruption in the operations of these companies, for example as a result of an organized work stoppage, and resulting interruption in supply may have a material adverse effect on liquor store operations including the operations of Liquor Stores.

***Excise Taxes***

Changes in tax rates, and their corresponding effect on product pricing, could affect sales and or earnings. If taxes increase and Liquor Stores increases prices by the full amount of the tax, sales volumes could be adversely impacted. If the Liquor Stores is not able to pass the full amount of the tax increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax rates in the future.

***Importance of Information and Control Systems***

Information and control systems play an important role in the support of Liquor Stores' core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. Liquor Stores' ability to maintain and upgrade its information systems capabilities is important to its future performance.

***Growth Strategy Restrictions***

The Fund presently has capital and unused credit facilities available for growth in the amount of approximately \$30 million at December 31, 2008, which Management believes will provide it with sufficient funds to complete additional acquisitions and/or new store development and have sufficient financing available for inventory.

However, the ability of Liquor Stores to make acquisitions beyond the amount of the current excess capital and unused credit facilities depends on the Fund being able to raise additional financing in the future through equity and/or debt capital markets. If the Fund is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to complete additional acquisitions, which could have an adverse effect on the future growth prospects of the Fund.

***Risks Relating to the Structure of the Fund******Dependence on the Operating Trusts and Liquor Stores***

Cash distributions to Unitholders are entirely dependent on the ability of the Operating Trusts to pay their interest obligations under the Operating Trusts Notes and any other debt obligations issued to the Fund, and to make distributions on the Operating Trusts Units. Payments by the Operating Trusts will depend, in turn, on the ability of Liquor Stores to satisfy its debt service obligations under the Credit Facility as well as Liquor Stores' ability to pay distributions on the Ordinary LP Units and pay the interest obligations under any other debt obligations issued to the Operating Trusts.

Distributions to Unitholders are entirely dependent on the ability of Liquor Stores to pay its operating expenses and to pay distributions. The sole source of cash flow of Liquor Stores is the operation of liquor stores. In the conduct of its business, Liquor Stores pays expenses and incurs debt and other obligations to third parties. These expenses, debts and obligations could impact Liquor Stores' ability to produce positive operating results.

***Tax Related Risks; SIFT Legislation***

The income of Liquor Stores, the Operating Trusts and the Fund must be computed and will be taxed in accordance with Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax consequences could materially and adversely affect Unitholders. Further, interest on the LSOT Notes and other debt accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income and provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans and RESP's ("Exempt Plans"). The Fund will endeavour to ensure that the Units continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments in such plans and there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. If the Fund ceases to qualify as mutual fund trust for

purposes of the Tax Act, the Fund may be required to pay tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund will affect the amount of cash available for distribution by the Fund and may have adverse consequences for Unitholders.

The SIFT Rules relating to trusts and partnerships, first announced on October 31, 2006, has been enacted and may significantly change the taxation of most publicly traded trusts and partnerships, including income trusts such as the Fund, and distributions and allocations from these entities to their investors. Existing trusts, such as the Fund, will have a transition period and, subject to the qualification below, will not be subject to the new rules until January 1, 2011. No assurance can be given that Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Fund and its Unitholders. The SIFT Rules applies an entity level tax on certain income (other than taxable dividends) earned by a SIFT trust, and treats the distributions of such income received by unitholders of a SIFT trust as taxable dividends received from a taxable Canadian corporation. Unitholders subject to the highest marginal rate of tax would receive an after-tax return approximately equal to the after-tax return if pre-tax distributions had been distributed directly to and taxed in the hands of the Unitholders. However, the incidence of entity level tax will be a cost to other types of Unitholders including but not limited to, pension funds and non-residents who would not benefit from the characterization of distributions as eligible dividends.

The Fund will constitute a SIFT trust and, as a result, the Fund and its Unitholders will be subject to the SIFT Rules commencing in 2011.

On December 15, 2006, the Department of Finance issued the Normal Growth Guidelines (the "**Guidelines**"). The Guidelines indicate that the 2011 date will continue to apply in respect of any SIFT trust or partnership whose equity capital grows as a result of issuances of new equity (which includes trust units and debt that is convertible into trust units and may include other substitutes for such equity) before 2011, by an amount that does not exceed the greater of \$50 million annually and a "safe harbour" amount that is a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a SIFT's issued and outstanding publicly-traded units, not including debt, options or other interests that were convertible into SIFT units). For the period from November 1, 2006 to the end of 2007, the Guidelines provide that a SIFT's safe harbour will be 40% of the October 31, 2006 benchmark. If the Fund issues additional Units, convertible debt or other equity substitutes on or before 2011, it may become subject to the SIFT Rules prior to 2011. No assurance can be provided that the SIFT Rules will not apply to the Fund prior to 2011. On December 4, 2008, the Department of Finance announced changes to the Guidelines to allow a SIFT Trust to accelerate the utilization of the SIFT Trust's annual safe harbour amount for each of 2009 and 2010 so that the aggregate safe harbour amount for 2009 and 2010 is available on and after December 4, 2008. This change does not alter the maximum permitted expansion for a SIFT Trust, but allows a SIFT Trust to use its normal growth room remaining as of December 4, 2008 in a single year, rather than staging a portion of the normal growth room over the 2009 and 2010 years.

It is expected that the SIFT Rules will subject the Fund to trust level taxation beginning on January 1, 2011, which will reduce the amount of cash available for distributions to Unitholders. The Fund estimates that the SIFT Rules will, commencing on January 1, 2011, reduce the amount of cash available to the Fund to distribute to its Unitholders by an amount equal to 29.5% of the pre-tax income available for distribution by the Fund. A reduction in distributions could adversely affect the value of the Units. A reduction in the value of the Units would be expected to increase the cost to the Fund of raising capital in the public capital markets. There can be no assurance that the Fund will be able to reorganize its legal and tax structure to reduce the expected impact of the SIFT Rules. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under the SIFT Rules until 2011. The Fund does not expect to exceed "normal growth" in the transition period. If the Fund exceeds "normal growth" during the transitional period from October 31, 2006 to December 31, 2010, the SIFT Rules would become effective on a date earlier than January 1, 2011. Loss of grandfathered status could have a material and adverse effect on the value of the Units.

On February 26, 2008, the Minister of Finance announced (the "**Provincial SIFT Tax Proposal**") that instead of basing the provincial component of the SIFT tax on a flat rate of 13%, the provincial component will instead be based on the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment. For purposes of calculating this component of the tax, the general corporate taxable income allocation formula will be used. Specifically, the Fund's taxable distributions will be allocated to provinces by taking half of the aggregate of:

- that proportion of the Fund's taxable distributions for the year that the Fund's wages and salaries in the province are of its total wages and salaries in Canada; and
- that proportion of the Fund's taxable distributions for the year that the Fund's gross revenues in the province are of its total gross revenues in Canada.

Under the Provincial SIFT Tax Proposal the Fund would be considered to have permanent establishments in Alberta and British Columbia. As proposed in recent provincial budgets, the Alberta provincial tax rate in 2011 is expected to be 10% and the British Columbia provincial tax rate in 2011 is expected to be 10%. Taxable distributions that are not allocated to any province would instead be subject to a 10% rate constituting the provincial component. There can be no assurance, however, that the Provincial SIFT Tax Proposal or provincial budgets will be enacted as proposed.

The Fund continues to review the impact of the SIFT Rules on its business strategy and to evaluate strategic alternatives that it could elect to pursue in response to the SIFT Rules. No assurance can be provided that the Fund will not undertake actions in the future that could cause the SIFT Rules to apply to it prior to 2011.

#### ***Unpredictability and Volatility of Unit Price***

A publicly traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Units.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Units.

#### ***Nature of Units***

The Units are hybrid securities in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Operating Trusts or Liquor Stores and should not be viewed as securities of the Operating Trusts or Liquor Stores. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. In addition, the benefit of certain statutes applicable to corporations, such as the *Companies' Creditors Arrangement Act* (Canada), may not be applicable to the Fund. See "Liquor Stores Income Fund – Rights of Unitholders". The Units represent a fractional interest in the Fund. The Fund's only assets are Operating Trusts Notes and the Operating Trusts Units. The price per Unit is a function of anticipated distributable cash of the Fund.

**The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although the Fund qualifies as a "mutual fund trust" as defined by the Tax Act, the Fund is not a "mutual fund" as defined by applicable securities legislation.**

#### ***Cash Distributions***

Although the Fund intends to distribute the cash it receives, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Liquor Stores and the Operating Trusts and paid to the Fund. The actual amounts of distributions paid by the Fund to the Unitholder will depend upon numerous factors, including profitability, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, deductibility for tax purposes of interest payments on the Operating Trusts Notes, applicable law and other factors beyond the control of the Fund, the Operating Trusts and Liquor Stores. Cash distributions are not guaranteed and will fluctuate with Liquor Stores' performance. Liquor Stores and the Operating Trusts have the discretion to establish cash reserves for the proper conduct of their business. Adding to these reserves in any year would reduce the amount of cash available for distribution by the Fund in that year. There can be no assurance as to

the levels of cash distributions to be paid by the Fund, if any. The market value of the Units may deteriorate if the Fund is unable to meet its cash distribution targets in the future, and such deterioration may be material.

### ***Cash-on-Cash Yield***

Cash-on-cash yield is a useful and widely used supplemental measure that provides investors with information on cash actually distributed relative to trading price. Investors are cautioned that cash-on-cash yield should not be construed as an alternate to net income as determined by GAAP. Investors are also cautioned that cash-on-cash yield represents a blend of return of investors' initial investment and a return on investors' initial investment and is not comparable to traditional yield on debt instruments where investors are entitled to full return of the principal amount of debt on maturity in addition to a return on investment through interest payments.

### ***Structural Subordination of the Units***

In the event of a bankruptcy, liquidation or reorganization of Liquor Stores or any of the Fund's other subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of Liquor Stores and those subsidiaries before any assets are made available for distribution to the Fund. The Units are effectively subordinated to most of the indebtedness and other liabilities of Liquor Stores and the Fund's other subsidiaries. Neither Liquor Stores nor any of the Fund's other subsidiaries are limited in its ability to incur secured or unsecured indebtedness.

### ***Leverage and Restrictive Covenants***

Liquor Stores has third party debt service obligations under the Credit Facility and any replacement or other credit facilities and the 6.75% Debentures and the 8.00% Debentures. See "Material Contracts – Credit Facility" and "Liquor Stores Income Fund – Debentures". The degree to which Liquor Stores is leveraged could have important consequences to the holders of the Units, including: (i) a portion of Liquor Stores' cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for distribution to the Fund; (ii) certain of Liquor Stores' borrowings are at variable rates of interest, which exposes Liquor Stores to the risk of increased interest rates. Liquor Stores' ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facility contains certain customary operating covenants that limit the discretion of Management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Liquor Stores to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that Liquor Stores' assets would be sufficient to repay in full that indebtedness.

### ***Restrictions on Potential Growth***

The payout by Liquor Stores of a substantial amount of its operating cash flow makes additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Liquor Stores and its cash flow.

### ***Dilution and Future Sales of Units***

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the GP without the approval of any Unitholders. Any further issuance of Units will dilute the interests of existing Unitholders. The Unitholders will have no pre-emptive rights in connection with such future issuances.

### ***Future Sales of Units by the Exchangeable Security Holders***

As at the date hereof, the LS Founders and Series 1 Holders hold in the aggregate approximately 18.3% of the outstanding Units (assuming the exchange for Units of all of the Exchangeable LP Units and Series 1 Exchangeable LP Units). If any of the LS Founders or Series 1 Holders sells a substantial number of its Units in the public market,

the market price of the Units could fall. The perception among the public that such sales may occur could also cause such effect.

### ***Conflicts of Interest***

Certain directors of the GP are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the GP are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the GP. See "Conflicts of Interest".

### ***Unitholder Limited Liability***

The Declaration of Trust provides that no Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort in connection with the Fund or its obligations or affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Fund's assets. Pursuant to the Declaration of Trust, the Fund will indemnify and hold harmless each Unitholder from any cost, damages, liabilities, expenses, charges or losses suffered by a Unitholder from or arising as a result of such Unitholder not having such limited liability. The Declaration of Trust provides that all contracts signed by or on behalf of the Fund must contain a provision to the effect that such obligation will not be binding upon Unitholders personally.

Unitholders have the benefit of the *Income Trusts Liability Act (Alberta)* (the "ITLA"), which came into force on July 1, 2004. The ITLA is designed to protect unitholders of Alberta income trusts such as the Fund from legal uncertainties regarding potential liability by providing a statutory limitation on unitholders' liability. Specifically, the ITLA provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustees that arises after the ITLA came into force. However, the effect of the ITLA has not been considered by any courts to date and there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable for the obligations of the Fund to the extent that contractual, tax, statutory or tort claims are not satisfied out of the assets of the Fund.

Under limited partnership legislation, a limited partner taking part in the management of a limited partnership is potentially responsible for partnership liabilities as a general partner. The investment of the Fund in Liquor Stores is held through the Operating Trusts and accordingly, the possibility of any such liability attaching to Unitholders is remote.

### ***Distribution of Securities on Redemption or Termination of the Fund***

Upon a redemption of Units or termination of the Fund, the Trustee may distribute LSOT Notes directly to Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Operating Trusts Notes. In addition, the LSOT Notes are not freely tradable and are not currently listed on any stock exchange. See "Liquor Stores Income Fund – Redemption Right". LSOT Notes so distributed may not be qualified investments for trusts governed by Exempt Plans, depending upon the circumstances at the time.

### ***Restrictions on Certain Unitholders and Liquidity of Units***

The Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49% of the Units (on a non-diluted and a fully diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents of Canada and U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

## DISTRIBUTIONS

### Distribution Record

The following table sets out the distributions paid by the Fund on the Units since inception.

Year	Total Distributions
2006	\$10,854,529 <sup>(1)</sup>
2007	\$22,188,533 <sup>(2)</sup>
2008	\$29,717,801 <sup>(3)</sup>

Notes:

- (1) The distribution rate for the period January to September 30, 2006 was \$0.10 per Unit per month. Thereafter, the distribution rate was \$0.1167 per Unit per month.
- (2) The distribution rate for the period January to February 28, 2007 was \$0.1167 per Unit per month. The distribution rate for the period March to November 30, 2007 was \$0.125 per Unit per month. Thereafter, the distribution rate was \$0.135 per Unit per month.
- (3) The distribution rate for the period January to December 31, 2008 was \$0.135 per Unit per month.

### Distribution Policy of the Fund

The Fund makes monthly distributions of its available cash to Unitholders to the extent determined prudent by the GP. Effective with the distribution payable on January 15, 2009 to Unitholders of record on December 31, 2008, the Fund's distribution level is currently set at \$0.135 per Unit per month (\$1.62 per Unit on an annualized basis). Monthly distributions are paid to Unitholders of record on the last business day of each calendar month or such other date as may be determined from time to time by the GP and are paid generally on the 15th day of the following month. See "Liquor Stores Income Fund – Cash Distributions" and "General Development of the Business – Three Year History".

The distributable cash of the Operating Trusts are derived primarily from distributions on or in respect of Ordinary LP Units owned by Operating Trusts. Each of the Operating Trusts makes monthly distributions to holders of Units of its distributable cash after satisfaction of its interest obligations, if any, including interest on the Operating Trusts Notes, less any administrative expenses and other obligations of the Operating Trusts, including principal repayments in respect of the Operating Trusts Notes.

Liquor Stores makes monthly distributions of distributable cash on the LP Units. The distributable cash of Liquor Stores is based on available cash from its operations less amounts required for debt service obligations, general and administrative expenses and other expense obligations, expenditures in excess of reserves, long-term incentive plan awards and other incentives, reserves, and such other amounts as may be considered appropriate by the board of directors of the GP. Capital and other expenditures (including amounts to enable Liquor Stores to pay equal monthly distributions based on expected annual cash distributions) may be financed with drawings under one or more credit facilities to be established on behalf of Liquor Stores, other borrowings or additional issuances of Units. See "Liquor Stores Limited Partnership – LP Units".

The Fund, the Operating Trusts and Liquor Stores have considerable discretion in determining the amount of cash distributions. Cash distributions are not guaranteed and will fluctuate with, among other things, Liquor Stores' performance. See "Risk Factors – Risks Relating to the Structure of the Fund – Cash Distributions".

The Credit Facility, the 6.75% Debenture Indenture and the 8.00% Debenture Indenture may in certain circumstances restrict the ability of Liquor Stores to pay distributions to the holders of LP Units if the payment would result in default thereunder. See "Material Contracts – Credit Facility" and "Liquor Stores Income Fund – Debentures".

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

See "Liquor Stores Income Fund" for a description of the rights, privileges and restrictions attached to the Units and the Special Voting Units. See "Material Contracts – Exchange Agreements" for a description of the rights, privileges and restrictions attached to the Exchange Rights. See "Liquor Stores Income Fund – Debentures" for a description of the rights, privileges and restrictions attached to the 6.75% Debentures and 8.00% Debentures.

See "Operating Trusts" for a description of the rights, privileges and restrictions attached to the securities of the Operating Trusts.

See "Liquor Stores Limited Partnership" and "Material Contracts – Exchange Agreements" for a description of the rights, privileges and restrictions attached to the securities of Liquor Stores.

See "Liquor Stores GP Inc." for a description of the rights, privileges and restrictions attached to the GP Common Shares.

### Constraints

See "Liquor Stores Income Fund – Limitation on Non-Resident Ownership" for a description of the constraints imposed on the ownership of the Units to ensure that the Units have a required level of Canadian ownership and the mechanism by which the level of Canadian ownership of the Units is monitored and maintained.

### Ratings

To the knowledge of Management, no ratings, including provisional ratings, have been received from any rating organization in respect of the Units of the Fund.

### Securities Held in Escrow

To the Fund's knowledge, no securities of the Fund are held in escrow.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Units are listed and posted for trading on the TSX under the trading symbol "LIQ.UN". The following table sets forth the closing price range and trading volume of the Units as reported by the TSX for each month in 2008.

Month	High	Low	Volume
January .....	24.80	22.00	915,965
February .....	24.78	21.51	710,202
March .....	22.25	19.26	1,168,581
April .....	22.69	20.26	790,962
May .....	20.95	17.50	2,122,173
June .....	19.22	17.51	1,060,953
July .....	18.14	15.01	1,441,882
August .....	16.52	15.31	1,262,106
September .....	16.10	14.13	1,232,581
October .....	15.00	11.25	1,369,926
November .....	13.77	9.47	1,085,820
December .....	10.55	8.77	1,991,399
<b>For the year</b> .....			<u><u>15,152,550</u></u>

The 6.75% Debentures are listed and posted for trading on the TSX under the trading symbol "LIQ.DB". The following table sets forth the closing price range and trading volume of the 6.75% Debentures as reported by the TSX for each month in 2008.

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January .....	105.01	101.50	30,340
February .....	104.00	101.60	14,990
March .....	104.00	101.25	6,510
April .....	104.00	102.12	7,065
May .....	104.00	100.00	12,580
June .....	103.50	101.00	12,790
July .....	102.50	100.00	13,080
August .....	104.00	100.25	9,540
September .....	104.00	98.55	7,950
October .....	101.00	90.00	5,410
November .....	99.25	79.00	6,110
December .....	98.50	81.00	4,290
<b>For the year</b> .....			<b>130,655</b>

#### **FORMER TRUSTEES, CORPORATE TRUSTEE, DIRECTORS AND OFFICERS**

##### **Former Trustees of the Fund and Corporate Trustee**

Prior to the reorganization of its governance structure completed on September 1, 2008, the Fund had a board of "active" individual trustees that supervised the activities and managed the affairs of the Fund, and who had delegated certain of their powers to the GP through the Declaration of Trust and the Administration Agreement. The former trustees, who are also directors of the GP (and trustees of LSOT), were R. John Butler, Gary Collins, Jim Dinning and Glen H. Heximer, C.A. (all of whom are "independent" within the meaning of applicable Canadian securities legislation). As a component of this simplification of its governance structure, the Fund replaced the board of trustees with a single corporate trustee and appointed CIBC Mellon Trust Company as the initial corporate trustee. See also "Liquor Stores Income Fund – Governance Reorganization and Corporate Trustee Appointment", and "Former Trustees, Corporate Trustee, Directors and Officers – Directors and Officers of the GP".

##### **Directors and Officers of the GP**

The following table sets out certain information in respect of the directors and officers of the GP. The term of office for each of the directors will expire at the time of the next annual meeting of securityholders of the GP.

<b>Name and Municipality of Residence</b>	<b>Position with GP</b>	<b>Date Appointed as a Director</b>	<b>Principal Occupation</b>
Irving Kipnes Alberta, Canada	Executive Chairman	August 10, 2004	Executive Chairman of the GP and President and Managing Director of the Delcon Development Group of Companies (real estate development)
Henry Bereznicki Alberta, Canada	Board Chairman	August 10, 2004	Board Chairman of the GP and President, Western Region, Centrecorp (real estate investment and services company)

<b>Name and Municipality of Residence</b>	<b>Position with GP</b>	<b>Date Appointed as a Director</b>	<b>Principal Occupation</b>
R. John Butler, Q.C. <sup>(1)(2)(3)(4)</sup> Alberta, Canada	Director	August 10, 2004	Counsel, Bryan & Company LLP (law firm)
Gary Collins <sup>(1)(2)(3)(4)</sup> British Columbia, Canada	Director	September 5, 2006	Senior Vice President, Belkorp Industries Inc. (private investment management company)
Jim Dinning <sup>(1)(2)(3)(4)(5)</sup> Alberta, Canada	Director	August 10, 2004	Chairman, Western Financial Group (financial services company)
Glen H. Heximer, C.A. <sup>(1)(2)(3)(4)</sup> Alberta, Canada	Director	August 10, 2004	Retired Partner, Ernst & Young LLP (chartered accountants)
Robert S. Green <sup>(1)(3)</sup> Ontario, Canada	Director	August 10, 2004	President of North American Development Group (a private real estate developer)
David B. Margolus, Q.C. <sup>(2)(3)</sup> Alberta, Canada	Director	August 10, 2004	Counsel and Partner, Witten LLP (law firm)
Richard J. Crook Alberta, Canada	Director, President & Chief Executive Officer	January 1, 2009	President & Chief Executive Officer of the GP
Patrick J. de Grace, C.A. Alberta, Canada	Vice President Finance and Chief Financial Officer	N/A	Vice President Finance and Chief Financial Officer of the GP
Simon P. McCaffery Alberta, Canada	Chief Operating Officer	N/A	Chief Operating Officer of the GP

## Notes:

- (1) GP Audit Committee member (Glen H. Heximer, C.A., Chair)
- (2) GP Governance Committee member (R. John Butler, Chair)
- (3) GP Compensation Committee member (Gary Collins, Chair)
- (4) Former member of Board of Trustees of Liquor Stores Income Fund prior to governance reorganization and appointment of CIBC Mellon Trust Company as corporate trustee on September 1, 2008
- (5) Former Chair of the Board of Trustees of Liquor Stores Income Fund

The following are brief profiles of the directors and executive officers of the GP.

**Irving Kipnes, Executive Chairman.** Mr. Kipnes founded Liquor Depot (one of the original companies involved in the formation of Liquor Stores Income Fund) in 1993, and served as its Managing Director and Chief Executive Officer throughout its eleven year history. Mr. Kipnes is also the President and Managing Director of Delcon Development Group, a group of private companies actively involved in the development of shopping centres and real estate subdivisions, which he founded in 1962. From 1982 to 1987, Mr. Kipnes was the largest shareholder, Co-Chairman, President and Chief Executive Officer of North West Trust Company. Mr. Kipnes has also served on the board of directors of Alberta Liquor Store Association, since its inception and was its first elected President. Mr. Kipnes was the Founding Chair of Alberta Liquor Industry Round Table, a position he held for six years and currently sits as past chair. Mr. Kipnes is active in many charitable endeavours and has served on the boards of directors of several charitable and community organizations including the University Hospital Foundation, co-Chair of the University Hospital Foundation Campaign for Prostate Health, the Campaign Cabinet of the Alberta Heart Institute, the Campaign Cabinet of the Capital Care Foundation (for relocation of the Mewburn Veteran's Centre which established the Dianne and Irving Kipnes Centre for Veterans) and Development Chair to develop a Jewish seniors residence in Edmonton. Mr. Kipnes graduated with a Bachelor of Science in Chemical Engineering (honours) in 1959 and worked as an Engineer for Imperial Oil until May 1963.

**Henry Bereznicki, Board Chairman.** Mr. Bereznicki founded Liquor World (one of the original companies involved in the formation of Liquor Stores Income Fund) in 1993, served as its President and Chief Executive Officer throughout its eleven year history. Mr. Bereznicki has been a partner in North American Development Group (a private real estate developer) and its predecessors since 1987 and has held the position of President, Western Region of Centrecorp and predecessors for the past seven years. Centrecorp is a Canadian and U.S. based real estate investment and services company, active in the development, acquisition, management and leasing of shopping centres across Canada and, through wholly owned United States subsidiaries, in the United States. Mr. Bereznicki is responsible for Centrecorp's activities across the four western Canadian provinces as well as Arizona and Colorado. Mr. Bereznicki served on the board of directors of Alberta Liquor Store Association for a period of five years from inception and is involved as a member and former executive in the Alberta Chapter of the Young President's Organization. Mr. Bereznicki holds a Bachelor of Science Degree in Civil Engineering, with distinction, from the University of Alberta as well as a Masters Degree in Business Administration (MBA) from Harvard University.

**R. John Butler, Q.C., Director.** Mr. Butler is counsel to Bryan & Company, a law firm. Mr. Butler is a member of the boards of directors of TELUS Corporation, Trans Global Insurance Company and Trans Global Life Insurance Company. Mr. Butler holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta. Mr. Butler is also the Chairman of the Audit Committee of the Kisonyaminaw Heritage Trust Fund, an independent trust established in 2007 for the exclusive benefit of the current and future generations of the Samson Cree Nation.

**Gary Collins, Director.** Mr. Collins is the Senior Vice President of Belcorp Industries Inc. and serves as a Director of Lantic Sugar Limited, the administrator of Rogers Sugar Income Fund. Mr. Collins is also a member of the Board of Catalyst Paper Corporation and Jazz Air Income Fund. Mr. Collins was President and CEO of Harmony Airways from December 2004 to December 2006. Previously Mr. Collins spent 13 years in public service, most recently as British Columbia's Minister of Finance from 2001 to 2005.

**Jim Dinning, Director.** Since 2004, Mr. Dinning has served as Chair of Western Financial Group, a leading western Canadian financial services company. Mr. Dinning was Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) from 1997 to 2004. Mr. Dinning served as Member of the Legislative Assembly of the Province of Alberta from 1986 to 1997 and held several key positions including Provincial Treasurer. Mr. Dinning received the Distinguished Service Award from the Institute of Chartered Accountants of Alberta in 1997 and an Honorary LLD from the University of Calgary in 2002. Mr. Dinning is a director of Russel Metals, Oncolytics, Parkland Income Fund, and Bronco Energy Ltd. In 2007, Mr. Dinning completed the Directors Education Program of the Institute of Corporate Directors.

**Glen H. Heximer, C.A., Director.** Mr. Heximer is a retired partner of Ernst & Young LLP (formerly Clarkson Gordon) where, from 1974 to 2000, he was the Senior Tax Partner of the Edmonton office specializing in advising entrepreneurial businesses and public companies. Mr. Heximer is a 1963 graduate of the University of Western Ontario (Honours Business Administration) and obtained his designation as a Chartered Accountant in 1966.

**Robert S. Green, Director.** Mr. Green is the President of North American Development Group, a company which he joined in 1985, after specializing in the practice of commercial real estate law with a major Canadian law firm. Mr. Green has over 23 years of experience in managing, leasing, developing and acquiring retail properties throughout North America. Mr. Green was formerly a member of the board of directors and investment committee of Centrefund Realty Corporation and Sterling Centrecorp Inc., both public real estate companies listed on the Toronto Stock Exchange. Mr. Green is also a founding partner and President of Centrecorp Management Services, a retail/commercial real estate service provider in North America with operations in both Canada and the United States. Mr. Green is a graduate of, and obtained an LLB from, the University of Toronto Law School.

**David B. Margolus, Q.C., Director.** Mr. Margolus is counsel to, a partner of, and former Managing Partner (for 13 years) of Witten LLP, with a legal practice focused primarily in the areas of corporate, commercial and real estate. Mr. Margolus is a trustee of XS Cargo Income Fund and a director of its general partner. Mr. Margolus is a director of The Edmonton Airport Authority and a director of PowerComm Inc. Mr. Margolus has served as legal counsel to Alberta Liquor Store Association since its inception in 1994.

**Richard J. Crook, Director, President & Chief Executive Officer.** Mr. Crook has held the following positions within Liquor Stores GP: Chief Operating Officer, Executive Vice President and President. Prior to that Mr. Crook was the Senior Vice President and General Manager of the Liquor Depot Corporation and also spent twelve years in sales and marketing with large international producers of wine and spirits. Mr. Crook is a director of the Alberta Liquor Store Association and also serves on the board of directors of the University Hospital Foundation.

**Patrick J. de Grace, C.A., Vice President Finance and Chief Financial Officer.** Mr. de Grace joined the Fund on January 1, 2006. Prior to that, Mr. de Grace was an independent consultant. From 1991 to August 2001, Mr. de Grace held finance roles of increasing responsibility in the national retail grocery industry. Mr. de Grace received his Bachelor of Arts from the University of Alberta in 1973 and his Chartered Accountant designation in 1980.

**Simon P. McCaffery, Chief Operating Officer.** Mr. McCaffery joined the fund in February 2008. Prior to that, Mr. McCaffery spent seventeen years in sales and marketing with major international producers of wines and spirits, including Bacardi Limited and E&J Gallo Winery. Most recently, from 2000 until January 2008, Mr. McCaffery held various positions with Brown-Forman Beverages of Louisville, including the positions of Country Manager and Director Canada.

### **Unit and LP Unit Ownership**

As at the date hereof, the directors and executive officers of the GP, as a group, own beneficially, or control or direct, directly or indirectly, an aggregate of 490,252 Units and 2,949,043 LP Units, representing approximately 15.2% of the outstanding Units (assuming the exchange for Units of all of the outstanding Exchangeable LP and Exchangeable Series 1 Units) and no GP Common Shares. Irving Kipnes owns beneficially, or controls or directs, directly or indirectly, 1,675,842 LP Units and LWGI owns beneficially, controls or directs, directly or indirectly, 981,398 LP Units. Richard J. Crook owns beneficially, or controls or directs, directly or indirectly, 165,694 Units. The remaining 1,243,018 LP Units are held by the other LS and LB Founders. Mr. Berezniaki and Mr. Green and their respective associates and affiliates own beneficially, directly or indirectly, or control or direct approximately 50% of the outstanding shares of LWGI.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Fund, no director or executive officer of the GP, or shareholder holding a sufficient number of securities of the Fund, to affect materially the control of the Fund:

- (a) is, as at the date of this annual information form, or has been, within the 10 years before the date of this annual information form, a director or executive officer of any company (including the Fund) that while that person was acting in that capacity:
  - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
  - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar

order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

- (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has within the 10 years before the date of this annual information form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

To the knowledge of the Fund, no director or executive officer of the GP, or shareholder holding a sufficient number of securities of the Fund to affect materially the control of the Fund or Liquor Stores, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **CONFLICTS OF INTEREST**

Certain directors of the GP are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the GP are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the GP. Other than as described above and elsewhere in this annual information form, there are no existing material conflicts of interest between the Fund or its subsidiaries and any director or officer of the Fund or its subsidiaries.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There are no material interests, direct or indirect, of any director or executive officer of the GP, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the voting units, or any associate or affiliate of any of the foregoing persons or companies, in any transaction during the Fund's three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Fund, other than as disclosed elsewhere in this annual information form or as set forth below:

1. Mr. Margolus, a Director of the GP, is counsel to and a partner of Witten LLP, which firm, among others, receives fees for legal services provided to the Fund, Liquor Stores and its affiliates, Liquor Depot and Liquor World. For the years ended December 31, 2007 and December 31, 2008, such fees for legal services amounted to \$287,202 and \$281,860, respectively;
2. One of Liquor Stores' stores is located in a shopping centre that, until July 1, 2007 when the shopping centre was sold, was owned by an entity of which Mr. Bereznicki, Board Chairman of the GP, and Mr. Green, Director of the GP, are officers, directors and shareholders. For the year ended December 31, 2007, the Fund paid \$41,845 in rent;
3. During part of 2007, Liquor Stores leased warehouse premises from a company owned by the family of Mr. Margolus. The lease terminated April 30, 2007. For the year ended December 31, 2007, the Fund paid \$4,134 in rent;
4. During part of 2007, companies controlled by Mr. Kipnes, Executive Chairman of the GP, had been contracted to assist in supervising new store construction and the renovation of acquired stores at industry competitive rates and to provide services in reviewing operating costs and lease payments to landlords. These arrangements were terminated in 2007. Other companies controlled by Mr. Kipnes rented meeting space and provided tax services to the Fund. For the year ended December 31, 2007 the Fund paid \$31,454

for such construction and tax services and for the year ended December 31, 2008, Liquor Stores paid \$53,529 for tax services;

5. Liquor Stores entered into a lease for new head-office office premises in 2007 with a limited partnership in which Mr. Kipnes has a 50% indirect interest and for which Mr. Kipnes is presently the sole officer and director of the general partner. The Fund has received independent fairness and legal opinions concerning the rental rate and terms of the lease. For the years ended December 31, 2007 and December 31, 2008, the Fund paid \$275,204 and \$460,110, respectively, in rent.
6. Liquor Stores has entered into a lease for a new store with a company controlled by Mr. Kipnes. This agreement was finalized on March 4, 2008. The Fund received independent fairness and legal opinions concerning the rental rate and terms of the lease. For the year ended December 31, 2008, Liquor Stores paid \$33,752 in rent.

For additional information in respect of the foregoing, see note 22 to the Fund's audited annual financial statements for the year ended December 31, 2008, which note is incorporated herein by reference. The Fund's financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **LEGAL PROCEEDINGS**

There were no material legal proceedings during the Fund's last completed fiscal year to which the Fund is or was a party to, or in respect of which any of its property is or was the subject of, nor are any such proceedings known to the Fund to be contemplated.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Units and the 6.75% Debentures is CIBC Mellon Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario. The transfer agent and registrar for the 8.00% Debentures is Computershare Investor Services Inc. at its principal offices in Calgary, Alberta.

### **MATERIAL CONTRACTS**

The following is a list of contracts, other than contracts entered into in the ordinary course of business, that are material to the Fund and that were entered into during the period commencing with the year ended December 31, 2004 up to and including the date of this Annual Information Form:

1. the Declaration of Trust described under "Liquor Stores Income Fund";
2. the Non-Competition Agreements described below;
3. the Exchange Agreement described below;
4. the Exchange and Support Agreement described below;
5. the Termination and Amending Agreement described below;
6. the Limited Partnership Agreement described under "Liquor Stores Limited Partnership";
7. the LSOT Declaration of Trust described under "Operating Trusts";
8. the LBOT Declaration of Trust described under "Operating Trusts";
9. the Note Indentures described under "Operating Trusts";
10. the Administration Agreement described below;
11. the Operating Trust Administration Agreements described below;
12. the Credit Facility described below; and
13. the 6.75% Debenture Indenture described under "Liquor Stores Income Fund – Debentures – 6.75% Convertible, Unsecured, Subordinated Debentures".

## **Exchange Agreements**

### ***Exchange Rights***

Pursuant to the Exchange Agreement and the Exchange and Support Agreement, the Exchangeable LP Units and the Series 1 Exchangeable LP Units are indirectly exchangeable for Units on the basis of one Unit for each Exchangeable LP Unit and Series 1 Exchangeable LP Unit. The exchange procedure may be initiated by the holders of an Exchangeable LP Unit and Series 1 Exchangeable LP Unit at any time and from time to time by delivering to the GP a unit certificate in respect of that portion of its Exchangeable LP Units and Series 1 Exchangeable LP Units to be exchanged, duly endorsed in blank for transfer. . The GP will give notice of the proposed exchange to LSOT, which will acquire Units from the Fund in consideration for the issuance of LSOT Units and LSOT Notes in the number required to complete the exchange. LSOT will deliver to the GP a certificate for the requisite number of Units duly endorsed in blank for transfer. The GP will effect the exchange procedure by causing to be issued in the name of LSOT a unit certificate for that number of Ordinary LP Units to be issued on the exchange, entering LSOT in the register of limited partners of Liquor Stores and in the register of shareholders of the GP in respect of such additional Ordinary LP Units, causing the Exchangeable LP Units, and Series 1 Exchangeable LP Units so tendered for exchange to be cancelled, and delivering to the previous holder of the Exchangeable LP Units and Series 1 Exchangeable LP Units a certificate for that number of Units of the Fund to be received on the exchange. Certain amendments were made to the Exchange Agreement effective September 1, 2008 to reflect the fact that as a component of the Fund's corporate governance reorganization, LSOT acquired all of the outstanding GP Common Shares from the holders of Exchangeable LP Units for nominal consideration. Subsequently, the Exchange Agreement now provides that the holders of an Exchangeable LP Unit are no longer required to tender GP Common Shares when exercising Exchange Rights.

### ***Voting Rights***

Holders of Exchangeable LP Units and Series 1 Exchangeable LP Units hold Special Voting Units of the Fund that are attached to, and are evidenced by, the certificates representing the Exchangeable LP Units and Series 1 Exchangeable LP Units. The Special Voting Units entitle the holders thereof to vote in all votes of Voting Unitholders (including resolutions in writing) as if they were the holders of the number of Units that they would receive if all their Exchangeable LP Units and Series 1 Exchangeable LP Units were exchanged for Units. See "Liquor Stores Income Fund – Units and Special Voting Units".

### ***Dilution Rights and Economic Equivalence***

The Exchange Agreement provides that in the event that there is a change in the number of Exchangeable LP Units or the number of Units outstanding as a result of a subdivision, consolidation, reclassification, capital reorganization or similar change in the Exchangeable LP Units or Units (other than a consolidation of Units immediately following a distribution of Units in lieu of a cash distribution), the exchange ratio will be adjusted by the Fund. The Exchange Agreement also provides that the Fund will not issue or distribute Units to the holders of all or substantially all of the then outstanding Units (other than a distribution of Units in lieu of cash distribution), issue or distribute rights, options or warrants to the holders of all or substantially all of the then outstanding Units or issue or distribute property of the Fund to the holders of all or substantially all of the then outstanding Units unless, in each case, the economic equivalent thereof (as determined by the GP) is issued or distributed simultaneously to the holders of Exchangeable LP Unit.

The Exchange and Support Agreement provides substantially the same dilution rights to holders of Series 1 Exchangeable LP Units and provides for the economic equivalence of the Series 1 Exchangeable Units.

### ***Reclassification of Units***

If at any time while any Exchangeable LP Unit or Series 1 Exchangeable LP Units are outstanding there is any reclassification of the Units outstanding, any change of the Units into other units or securities or any other capital reorganization or distribution of the Fund or any consolidation, amalgamation, arrangement, merger or other form of business combination of the Fund with or into any other entity resulting in a reclassification of the outstanding Units, then the Exchange Rights will be adjusted in a manner approved by the GP, acting reasonably, so that holders of Exchangeable LP Units and Series 1 Exchangeable LP Units will be entitled to receive, in lieu of the number of Units which they would otherwise have been entitled, the kind and number or amount of securities that they would have been entitled to receive as a result of such event if, on the effective date thereof, they had been the registered

holder of the number of Units which they would have received had they exercised the Exchange Rights immediately before the effective date of any such transaction.

### ***Registration Rights***

The holders of Exchangeable LP Units have been granted "demand" and "piggy back" registration rights by the Fund that will enable them to require the Fund to file a prospectus and otherwise assist with a public offering of Units subject to certain limitations, with the Fund's expenses to be borne by the LS Founder Group (or on a pro rata basis if both the LS Founder Group and the Fund are offering Units) pursuant to the terms and conditions of the Exchange Agreement. In the event of a "piggy back" offering, the Fund's financing requirements are to take priority.

### **Non-Competition Agreements**

Each of Irving Kipnes and Henry Bereznicki have entered into the Non-Competition Agreements with Liquor Stores in which they have individually agreed that, until the earliest of: (i) the later of (A) September 28, 2007, and (B) the date on which he ceases to be a director of the GP ; (ii) the date on which any person or group of persons acting jointly or in concert (other than such individual or his associates and affiliates or the Fund or any of its affiliates, either individually or together) acquires more than 50% of the outstanding securities of the Fund; and (iii) Liquor Stores or the Fund and its affiliates cease to carry on the business formerly carried on by Liquor Depot and Liquor World, subject to exceptions for certain passive investments: (a) he will not, directly or indirectly, operate or have any financial interest in any entity the principal business of which is the operation of retail liquor stores in Alberta or British Columbia; and (b) he will not, directly or indirectly, operate or have any interest in any entity the principal business of which is the operation of retail liquor stores in any other province of Canada unless the opportunity to enter into the liquor store business in such other province has first been offered to the Fund and the GP has decided that the Fund will not participate. The term of the Non-Competition Agreements was amended on September 1, 2008 pursuant to the Termination and Amending Agreement to better reflect the fact that the LS Founders no longer have the ability to nominate individuals to the board of directors of the GP (which occurred with the termination of the Securityholders Agreement, as described below under "Securityholders Agreement").

### **Securityholders Agreement**

The Fund, LSOT, Liquor Stores, the GP and the LS Founders had entered into the Securityholders Agreement governing their security holdings in, and the business and affairs of the GP and Liquor Stores. The Securityholders Agreement provided the LS Founder Group with certain rights relative to the ability to nominate individuals to the board of directors of the GP, it allowed the LS Founder Group to place certain restrictions on the Fund's ability to accept any offer or agree to support any other proposal involving the Ordinary LP Units unless the same offer or proposal was made to the holders of the Exchangeable LP Units, and allowed the LS Founder Group certain tag-along rights relative to the participation in any sale by the Fund of its direct or indirect interest in Liquor Stores. The Securityholders Agreement was terminated effective September 1, 2008 pursuant to the terms of the Termination and Amending Agreement. See "Termination and Amending Agreement" below.

### **Termination and Amending Agreement**

The Fund, LSOT, Liquor Stores, the GP, the parties to the Securityholders Agreement, the parties to the Exchange Agreement, certain shareholders of Liquor Depot, a corporation associated with Liquor World, and each of Irving Kipnes and Henry Bereznicki entered into the Termination and Amending Agreement to provide for (i) the termination of the Securityholders Agreement; (ii) the transfer to LSOT of all outstanding GP Common Shares not already held by LSOT to LSOT; (iii) the amendment of the Exchange Agreement as described above under "Exchange Agreement; and (iv) the amendment of the Non-Competition Agreements as described above under "Non-Competition Agreements".

### **Administration Agreement**

As a component of the Fund's recent reorganization of its governance structure and concurrent appointment of the Trustee as corporate trustee of the Fund, the Fund terminated its previous administration agreement and the Trustee and the GP entered into the Administration Agreement whereby the GP has agreed to provide or arrange for the provision of services required in the administration of the Fund. The GP's duties include: (i) ensuring compliance by the Fund with its continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (ii) providing investor relations services; (iii) providing or causing to be provided to Voting Unitholders all information to which Voting Unitholders are entitled under the Declaration of Trust, including

relevant information with respect to income taxes; (iv) convening meetings of Voting Unitholders and distributing required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) providing for the calculation of distributions to Unitholders; (vi) attending to all administrative and other matters arising in connection with any redemptions of Units; (vii) using its best efforts to ensure compliance with the Fund's limitations on non-resident ownership; (viii) attending to all administrative and other matters arising in connection with the Note Indenture, including the payment of interest and principal on the LSOT Notes and in connection with any redemption of the LSOT Notes; and (ix) providing general accounting, bookkeeping and administrative services to the Fund.

The Administration Agreement is in force for an initial period of ten years (with an automatic renewal for an additional three year period), which may be terminated at any time by the Fund upon notice in writing to the GP and upon payment to the GP of all costs and expenses incurred by the GP in terminating contracts entered into by the GP with the approval of the Fund, as applicable, for the performance by the GP of its duties under the Administration Agreement. No additional fees are payable to the GP on termination.

The Fund will pay all expenses incurred by the GP and attributable to the exercise of its duties in the administration of the Fund and no fee is payable to the GP for the services provided by it to the Fund under the Administration Agreement.

### **Operating Trusts Administration Agreements**

Concurrent with the entering into of the Administration Agreement, each of the Operating Trusts entered into administration agreements with the Operating Trusts Trustees whereby the Operating Trust Trustees agreed to provide or arrange for the provision of services required in the administration of the Operating Trusts. The Operating Trusts Administration Agreements contain terms similar to the Administration Agreement.

### **Credit Facility**

Pursuant to the Credit Facility, Liquor Stores has available the following committed revolving credit facilities: a \$90 million facility for general working capital purposes (the "**Operating Facility**"); a \$30 million facility for capital assets and acquisitions (the "**Capital/Acquisition Facility**"); a \$4.0 million facility for issuance of letters of credit and letters of guarantee for operations; and a \$3.5 million demand non-revolving loan to cover payroll and other electronic funds transfer payments (the "**EFT Facility**"). The Credit Facility is secured by a first security interest in all present and after acquired personal property of Liquor Stores and certain subsidiaries, as well as corporate guarantees from certain subsidiaries. Interest on the Operating Facility is payable at rates ranging from the lender's prime rate plus 0.50% to prime plus 1.0%, with stamping fees ranging from 1.75% to 2.25%. Interest on the Capital/Acquisition Facility is payable at rates from the lender's prime rate plus 0.75% to prime plus 1.75%, with stamping fees ranging from 2.0% to 2.50%, and interest on the EFT Facility is payable at the lender's prime rate plus 0.75% per annum. Liquor Stores' current Credit Facility interest rates are on the lower range of the foregoing interest rate scale. The Credit Facility includes limits on incurring additional indebtedness or granting encumbrances without the consent of the lender and other customary restrictive covenants. Under the Credit Facility, Liquor Stores must maintain: (i) a ratio of adjusted debt to earnings before interest, taxes, depreciation and amortization, plus rent, of less than 5.0 to 1.0; (ii) a ratio of current assets to current liabilities of not less than 1.1 to 1.0; and (iii) a fixed coverage ratio 1.0 to 1.0. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness or restrict the ability of Liquor Stores to pay distributions to the holders of Liquor Stores Units. Liquor Stores is in compliance with such covenants and ratios. At March 16, 2009, the aggregate outstanding under the Credit Facility was approximately \$55.8 million.

### **INTERESTS OF EXPERTS**

The Fund's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated March 16, 2009 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2008 and 2007. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## AUDIT COMMITTEE

### Reorganization

As a component of the Fund's recent reorganization of its governance structure and concurrent appointment of the Trustee as corporate trustee of the Fund, the former board of trustees of the Fund approved the dissolution of the Audit Committee as a committee of the Fund, and the board of directors of the GP approved the formation of an Audit Committee as a committee of the board of the GP (consisting of the existing members of the former Audit Committee of the Fund). See also "Liquor Stores Income Fund – Governance Reorganization and Corporate Trustee Appointment."

### Audit Committee Charter

The Charter of the Fund's Audit Committee is attached as **Schedule B**.

### Composition of the Audit Committee

Members of the Audit Committee are Glen H. Heximer (Chair), R. John Butler, Gary Collins, Jim Dinning and Rob Green. Each member of the Audit Committee is independent and financially literate.

### Relevant Education and Experience

#### *Glen H. Heximer, CA – Chair- Director since August 10, 2004*

From 1974 until retirement in 2000 - Senior Tax Partner of Edmonton office of Ernst & Young LLP.

Mr. Heximer has a B.A in Honours Business Administration from the University of Western Ontario and is a Chartered Accountant. During his 37 year career in public accounting with an international firm of Chartered Accountants, Mr. Heximer participated in the audit of private and public corporations and, in the course of advising clients in merger and acquisition activities and taxation matters, was called upon to analyze and interpret financial statements and records of many business organizations.

#### *R. John Butler, QC –Director since August 10, 2004*

Counsel, Bryan & Company (law firm)

Other Public Company Directorships	TELUS Corporation
	Trans Global Insurance Company
	Trans Global Life Insurance Company

Trans Global Insurance Company and Trans Global Life Insurance Company are subsidiaries of The Brick Group Income Fund.

Mr. Butler holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta. Mr. Butler is a member of the Audit Committees of Trans Global Insurance Company and Trans Global Life Insurance Company. Mr. Butler is also the Chairman of the Audit Committee of the Kisonyaminaw Heritage Trust Fund, an independent trust established in 2007 for the exclusive benefit of the current and future generations of the Samson Cree Nation., and a former Chairman of the Audit and Finance Committee for the Canadian Football League, a former member of the Edmonton Eskimos Football Club Audit Committee and, prior to its merger with B.C. Telecom Inc., was a member of the TELUS Corporation Audit Committee.

**Gary Collins –Director since September 5, 2006**

Other Public Company Directorships	Catalyst Paper Corporation Lantic Sugar Limited, administrator of Rogers Sugar Income Fund Jazz Air Income Fund
From 2004 to 2006	President & Chief Executive Officer, Harmony Airways
From 1991 to 2004	Member of the Legislative Assembly of the Province of British Columbia
2001 to 2004	Minister of Finance British Columbia

**Jim Dinning –Director since August 10, 2004**

Chair, Western Financial Group Inc.

Other Public Company Directorships	Russel Metals Inc. Oncolytics Biotech Inc. Parkland Income Fund Bronco Energy Ltd.
From 1999 to 2001	Chair, Calgary Health Region
From 1992 to 1997	Provincial Treasurer (Alberta)

Mr. Dinning has a B.Comm. and a Masters in Public Administration from Queen's University. Presently Mr. Dinning is a member of the Audit Committees of Parkland Income Fund, Russel Metals Inc., Western Financial Group, Oncolytics Biotech Inc., and Bronco Energy Ltd. In the past Mr. Dinning chaired the Audit Committee of Finning International Inc. and has been a member of the Audit Committee of Shaw Communications Inc.

**Robert S. Green – Director since August 10, 2004**

President, North American Development Group & President, Centrecorp Management Services Inc.

Mr. Green obtained an LLB from the University of Toronto Law School, and his current position as President of a large-scale private retail real estate development company combined with his past experience on the boards of both public and private companies have provided him with a strong background in business, finance and mergers & acquisition matters, as well as expertise relative to reviewing, analyzing and interpreting financial statements and business records.

**Pre-approval Policies and Procedures**

The Audit Committee Charter provides that the Audit Committee approves in advance all permitted non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law. The Audit Committee is permitted to but has not delegated any of its authority to grant pre-approvals.

**External Auditor Service Fees**

Fee Description	2008	2007
	\$	\$
Audit services	231,750	268,395
Audit related services <sup>(1)</sup>	75,000	191,050
Tax <sup>(2)</sup>	36,250	49,575
Other <sup>(3)</sup>	39,526	339,252
Total	382,526	848,272

<sup>(1)</sup> Audit related services include the review of interim financial statements and services rendered in connection with financings.

<sup>(2)</sup> Tax services comprising tax compliance, tax advice and tax planning, including the preparation of corporate tax returns.

<sup>(3)</sup> Other includes services provided in connection with International Financial Reporting Standards planning, goodwill impairment testing and Alberta Securities Commission requirements.

**ADDITIONAL INFORMATION**

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.liquorstoresincomefund.ca](http://www.liquorstoresincomefund.ca).

Additional information, including former trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, is contained in the Fund's Information Circular for its most recent annual meeting which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in the Fund's financial statements and management's discussion and analysis for the year ended December 31, 2008, which documents may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "A"**  
**GLOSSARY OF TERMS**

In this annual information form, the following terms have the meanings set forth below, unless otherwise indicated:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder;

"**ABCB**" means the Alcoholic Beverage Control Board (Alaska);

"**Administration Agreement**" means the administration agreement dated September 1, 2008 entered into between the Trustee and the GP, by which the GP provides certain administrative services to the Fund;

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

"**AGLC**" means the Alberta Gaming and Liquor Commission (formerly the Alberta Liquor Control Board), established pursuant to the GLA, which, among other things, administers the GLA and controls, in accordance with the GLA, 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 GLA;

"**associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta);

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

"**BCLDA**" means the *Liquor Distribution Act* (British Columbia);

"**business day**" means a day when banks are generally open for the transaction of business in Edmonton, Alberta, other than a Saturday, Sunday or statutory or civic holiday;

"**BCBA**" means the *Canada Business Corporations Act*, as amended, including the regulations promulgated thereunder;

"**CLS**" means Connect Logistics Services, Inc.;

"**Credit Facility**" means the credit facility dated November 28, 2007, as amended October 28, 2008, and further amended effective January 1, 2009, entered into by Liquor Stores with a Canadian chartered bank. See "Material Contracts – Credit Facility";

"**6.75% Debentures**" has the meaning ascribed thereto under "Liquor Stores Income Fund – Debentures – 6.75% Convertible Unsecured Subordinated Debentures";

"**6.75% Debenture Indenture**" has the meaning ascribed thereto under "Liquor Stores Income Fund – Debentures – 6.75% Convertible Unsecured Subordinated Debentures";

"**8.00% Debentures**" has the meaning ascribed thereto under "Liquor Stores Income Fund – Debentures – 8.00% Convertible Unsecured Subordinated Debentures";

"**8.00% Debenture Indenture**" has the meaning ascribed thereto under "Liquor Stores Income Fund – Debentures – 8.00% Convertible Unsecured Subordinated Debentures";

"**Declaration of Trust**" means the amended and restated declaration of trust dated August 10, 2004, as amended September 1, 2008, pursuant to which the Fund was established, as the same may be amended, supplemented or restated from time to time. See "Liquor Stores Income Fund";

"**Deferred Income Plans**" means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans, each as defined in the Tax Act;

"**diluted basis**" means, for purposes of the Securityholders Agreement, the number of Units outstanding assuming the exchange of all Exchangeable LP Units;

"**EBITDA**" means earnings before provision for interest, income taxes and amortization. See "Non-GAAP Measures" for information concerning the use of EBITDA;

"**Exchange Agreement**" means the exchange agreement dated September 28, 2004, as amended September 1, 2008, entered into among the Fund, LSOT, Liquor Stores, and the LS Founders providing for, among other things,

Exchange Rights in respect of the Exchangeable LP Units and demand and piggy-back registration rights for the LS Founders. See "Material Contracts – Exchange Agreements";

"**Exchange and Support Agreement**" means the exchange and support agreement dated January 1, 2008 entered into among the Fund, LSOT, Liquor Stores, and the Series 1 Holders providing for, among other things, Exchange Rights in respect of the Series 1 Exchangeable LP Units. See "Material Contracts – Exchange Agreements";

"**Exchange Rights**" means the right of a holder of Exchangeable LP Units or Series 1 Exchangeable LP Unit to exchange one Exchangeable LP Unit or Series 1 Exchangeable LP Unit for one Unit by delivering such Exchangeable LP Unit or Series 1 Exchangeable LP Unit in exchange for a Unit. See "Material Contracts – Exchange Agreements";

"**Exchangeable LP Units**" means the exchangeable units of Liquor Stores held by the LS Founders;

"**Exchangeable Securities**" means any securities that are exchangeable, directly or indirectly, for Units;

"**Exempt Plans**" means, collectively, Deferred Income Plans and RESPs;

"**Fund**" means Liquor Stores Income Fund, a trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust;

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

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

"**GP Common Shares**" means the common shares in the capital of the GP;

"**GP Units**" means the ordinary general partner units of Liquor Stores held by the GP;

"**ITLA**" means the *Income Trusts Liability Act* (Alberta);

"**LBOT**" means Liquor Barn Operating Trust, a trust established under the laws of the Province of Alberta;

"**LBOT Administration Agreement**" means the administration agreement dated September 1, 2008 entered into among LBOT Trustee Ltd. and the GP, by which the GP provides certain administrative services to LBOT;

"**LBOT Note Indenture**" means the note indenture dated May 16, 2006, made between LBOT and the LBOT Note Trustee, providing for the issuance of the LBOT Notes, including the supplemental note indenture dated September 1, 2008;

"**LBOT Note Trustee**" means the Trustee of the LBOT Note Indenture;

"**LBOT Declaration of Trust**" means the amended and restated declaration of trust dated May 5, 2006, as amended September 1, 2008, pursuant to which LBOT was established, as the same may be amended, supplemented or restated from time to time. See "Operating Trusts";

"**LBOT Notes**" means, collectively, the Series 1 LBOT Notes and Series 2 LBOT Notes of LSOT;

"**LBOT Units**" means the trust units of LBOT;

"**Limited Partnership Agreement**" means the amended and restated limited partnership agreement originally dated September 28, 2004, as amended, supplemented or restated from time to time, between the LS Founders, the Series 1 Holders, the GP and LSOT, by which Liquor Stores is governed;

"**Liquor Barn Fund**" means Liquor Barn Income Fund, an unincorporated open-ended trust established under the laws of the Province of Alberta;

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

"**Liquor Depot**" means The Liquor Depot Corporation, a corporation incorporated under the ABCA;

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

"**Liquor Stores Entities**" means, and includes LSOT, LBOT, the GP, Liquor Stores, and the Operating Trusts Trustees, any of their affiliates and any other direct or indirect subsidiary of the Fund;

"**Liquor World**" means, collectively, LWGI and certain entities associated with or managed by LWGI or an affiliate;

"**LP Units**" means, collectively, the Ordinary LP Units, the Exchangeable LP Units and the Subordinated LP Units;

"**LS Founder Group**" means, collectively, the LS Founders and any shareholder, associate or affiliate of an LS Founder, including any family member of a shareholder of an LS Founder or any company, trust or other entity owned by or maintained for the benefit of any such person;

"**LS Founders**" means, collectively, Liquor Depot and Liquor World;

"**LSOT**" means Liquor Stores Operating Trust, a trust established under the laws of the Province of Alberta pursuant to the LSOT Declaration of Trust;

"**LSOT Administration Agreement**" means the administration agreement dated September 1, 2008 entered into among LSOT Trustee Ltd. and the GP, by which the GP provides certain administrative services to LSOT;

"**LSOT Declaration of Trust**" means the amended and restated declaration of trust dated August 10, 2004, as amended September 1, 2008, pursuant to which LSOT was established, as the same may be amended, supplemented or restated from time to time. See "Operating Trusts";

"**LSOT Note Indenture**" means the note indenture dated September 28, 2004 made between LSOT and LSOT Note Trustee, providing for the issuance of the LSOT Notes;

"**LSOT Note Trustee**" means the Trustee under the LSOT Note Indenture;

"**LSOT Notes**" means, collectively, the Series 1 LSOT Notes and Series 2 LSOT Notes of LSOT issued under the Note Indenture;

"**LSOT Unitholders**" means, at the relevant time, the holders of the LSOT Units;

"**LSOT Units**" means the trust units of LSOT;

"**LTO**" means "a limited time offer" made available by a liquor manufacturer to all retailers to purchase products at a discount to the regular wholesale price;

"**LWGI**" means Liquor World Group Inc., a corporation incorporated under the ABCA;

"**Management**" means senior management of the GP;

"**Non-Competition Agreements**" means the non-competition agreements dated September 28, 2004, as amended September 1, 2008, entered into between each of Henry Bereznicki and Irving Kipnes and Liquor Stores as more particularly described under "Material Contracts – Non-Competition Agreements";

"**non-resident**" means a non-resident of Canada within the meaning of the Tax Act;

"**Operating Trusts**" means, collectively LSOT and LBOT;

"**Operating Trust Notes**" means, collectively, the LSOT Notes and the LBOT Notes;

"**Operating Trusts Administration Agreements**" means, collectively, the LSOT Administration Agreement and the LBOT Administration Agreement;

"**Operating Trusts Declarations of Trust**" means, collectively, the LSOT Declaration of Trust and the LBOT Declaration of Trust

"**Operating Trusts Trustees**" means, collectively, the corporate trustees for each of the Operating Trust, currently LSOT Trustee Ltd., and LBOT Trustee Ltd.;

"**Operating Trust Units**" means, collectively, the LBOT Units and the LSOT Units;

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

"**Partnership Special Resolution**" means a resolution of the partners of Liquor Stores passed with the consent of the holders of at least 66 <sup>2</sup>/<sub>3</sub>% of the voting LP Units and GP Units, in the aggregate, voted on such resolution at a duly constituted meeting or by a written resolution of partners holding more than 66 <sup>2</sup>/<sub>3</sub>% of the voting LP Units and GP Units, in the aggregate, entitled to vote at a duly constituted meeting;

**"Permitted Investments"** means: (i) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof; (ii) term deposits, guaranteed investment certificates, certificates of deposit or bankers' acceptances of or guaranteed by any Canadian chartered bank or other financial institution, the short-term debt or deposits of which have been rated at least "A" or the equivalent by Standard & Poor's, a division of The McGraw-Hill Company Inc., Moody's Investor Services, Inc. or Dominion Bond Rating Services Limited; and (iii) commercial paper rated at least "R-1" or the equivalent by Dominion Bond Rating Services Limited, in each case maturing not more than 180 days after the date of acquisition;

**"Person"** means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

**"Redemption Price"** has the meaning given to that term under "Liquor Stores Income Fund – Redemption Right";

**"RESP"** means a registered education savings plan as defined in the Tax Act;

**"Securityholders Agreement"** means the agreement dated December 31, 2004 (and terminated September 1, 2008), entered into among LSOT, the GP and the LS Founders providing for, among other things, the governance of the GP as more particularly described under "Material Contracts – Securityholders Agreement"

**"Series 1 Exchangeable LP Units"** means the Series 1 exchangeable units of Liquor Stores held by the Series 1 Holders;

**"Series 1 Holders"** means the holders of Series 1 Exchangeable LP Units from time to time;

**"Series 1 LBOT Notes"** means the series 1 notes of LBOT issued under the LBOT Note Indenture;

**"Series 2 LBOT Notes"** means the series 2 notes of LBOT issued under the LBOT Note Indenture;

**"Series 3 LBOT Notes"** means the series 3 notes of LBOT issued under the LBOT Note Indenture;

**"Series 1 LSOT Notes"** means the series 1 notes of LSOT issued under the LSOT Indenture;

**"Series 2 LSOT Notes"** means the series 2 notes of LSOT issued under the LSOT Indenture;

**"SIFT Rules"** means the legislative provisions implementing proposals originally announced on October 31, 2006 relating to the taxation of certain specified investment flow-through entities, which received Royal Assent and became law on June 22, 2007;

**"Special Resolution"** means a resolution of the Voting Unitholders passed by not less than 66 <sup>2</sup>/<sub>3</sub>% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 <sup>2</sup>/<sub>3</sub>% of the Voting Units entitled to vote on such resolution;

**"Special Voting Units"** means the special voting units of the Fund, issued to or for the benefit of holders of Exchangeable Securities and certified under the Declaration of Trust for the time being outstanding and entitled to the benefits and subject to the limitations set forth therein;

**"Subordinated LP Units"** means the previously outstanding subordinated exchangeable units of Liquor Stores, which were held by the LS Founders;

**"subsidiary"** has the meaning set out in the *Securities Act* (Alberta) and includes a partnership or other entity;

**"Tax Act"** means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder;

**"Termination and Amending Agreement"** means that agreement dated September 1, 2008 entered into among the Fund, LSOT, Liquor Stores, the GP, the parties to the Securityholders Agreement, the parties to the Exchange Agreement, certain shareholders of Liquor Depot, a corporation associated with Liquor World, and each of Irving Kipnes and Henry Bereznicki, providing for, among other things, the termination of the Security Agreement, as more particularly described under "Material Contracts – Termination and Amending Agreement";

**"Trustee"** means the corporate trustee of the Fund from time to time, such corporate trustee currently being CIBC Mellon Trust Company;

**"TSX"** means the Toronto Stock Exchange;

**"Unit"** means a trust unit of the Fund other than a Special Voting Unit;

“**Unit Awards Incentive Plan**” means the unit-awards incentive plan of Liquor Stores;

"**United States**" or "**U.S.**" means the United States, as defined in Rule 902(1) under Regulation S;

"**Unitholders**" mean the holders of Units from time to time;

"**Voting Unitholders**" means the Unitholders and the holders of Special Voting Units;

"**Voting Units**" means the Units and the Special Voting Units.

*All dollar amounts set forth in this annual information form are in Canadian dollars*

**SCHEDULE "B"**  
**LIQUOR STORES GP INC.**

**AUDIT COMMITTEE CHARTER**

The term "**Fund**" refers to Liquor Stores Income Fund and the term "**Board**" refers to the board of directors of Liquor Stores GP Inc. (the "**GP**"). The term "**Governance Agreements**" refers, collectively, to the declaration of trust of the Fund; the declaration of trust of Liquor Stores Operating Trust ("**LSOT**"); the declaration of trust of Liquor Barn Operating Trust ("**LBOT**"); the Administration Agreement between CIBC Mellon Trust Company, as trustee of the Fund, and the GP; the Administration Agreement between LSOT Trustee Ltd., as trustee of LSOT, and the GP; the Administration Agreement between LBOT Trustee Ltd. as trustee of LBOT, the GP; the Exchange Agreement between the Fund, LSOT, the GP, Liquor Stores Limited Partnership (the "**LP**") and others and the Limited Partnership Agreement governing the LP.

**PURPOSE**

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Fund's financial reporting, including responsibility to:

- oversee the integrity of the Fund's consolidated financial statements and financial reporting process, including the audit process and the Fund's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Fund's external auditors;
- oversee the work of the Fund's financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board and the officers of the GP (collectively, "**Management**").

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

**COMPOSITION AND PROCEDURES**

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

**1. Composition**

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Fund, the LP or the GP or any of their respective subsidiaries and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Fund's units are listed for trading).

**2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be

elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of unitholders after his or her election or until his or her successor shall be duly elected and qualified.

**3. Financial literacy**

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Fund's units are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

**4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, and more often as warranted, with the Chief Financial Officer of the GP and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

**5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Fund's expense.

**6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Fund and the GP from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Fund and its subsidiaries.

**7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Fund.

**8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

**9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

**SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

**I. In Respect of the Fund's External Auditors**

- (a) review the performance of the external auditors of the Fund who are accountable to the Committee and the Board as the representatives of the unitholders of the Fund, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Fund to be proposed in the Fund's proxy circular for unitholder approval and shall have authority to terminate the external auditors;
- (b) review the reasons for any proposed change in the external auditors of the Fund which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;
- (c) approve the terms of engagement and the compensation to be paid by the Fund to the Fund's external auditors;
- (d) review the independence of the Fund's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (e) approve in advance all permitted non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Fund's external auditors;
- (g) approve any hiring by the Fund or its subsidiaries of employees or former employees of the Fund's external auditors;
- (h) review a written or oral report describing:
  - (i) critical accounting policies and practices to be used in the Fund's annual audit,
  - (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management and that are significant to the Fund's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and
  - (iii) other material written communication between the Fund's external auditors and Management, such as any management letter or schedule of unadjusted differences;
- (i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Fund, the LP and the GP, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (j) if a review engagement report is requested of the external auditors, review such report before the release of the Fund's interim consolidated financial statements; and
- (k) discuss with the external auditors any difficulties or disputes that arose with Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies.

**II. In Respect of the Fund's Financial Disclosure**

- (a) review with the external auditors and Management:
  - (i) the Fund's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Fund contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Fund, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the GP and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (ii) the Fund's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO and CFO of the GP and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (iii) the quality, appropriateness and acceptability of the Fund's accounting principles and practices used in its financial reporting, changes in the Fund's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
  - (iv) all significant financial reporting issues and judgments made in connection with the preparation of the Fund's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;
  - (v) the effect of regulatory and accounting initiatives on the Fund's consolidated financial statements and other financial disclosures;
  - (vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Fund;
  - (vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Fund and their impact on the reported financial results of the Fund;
  - (viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Fund's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Fund's consolidated financial statements;
  - (ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Fund's operations; and
  - (x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.

- (b) review and resolve disagreements between Management and the Fund's external auditors regarding financial reporting or the application of any accounting principles or practices;
- (c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Fund gives earning guidance;
- (d) establish and monitor procedures for the receipt and treatment of complaints received by the Fund regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;
- (e) receive from the Chief Executive Officer and the Chief Financial Officer of the GP a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and
- (f) review and discuss the Fund's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

**III. In Respect of Insurance**

- (a) review periodically insurance programs relating to the Fund and its investments.

**IV. In Respect of Internal Controls**

- (a) review the adequacy and effectiveness of the Fund's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls; and
- (b) oversee compliance with internal controls and the Joint Code of Business Conduct.

**V. In respect of Other Items**

- (a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (b) on a quarterly basis review compliance with Governance Agreements;
- (c) on a quarterly basis review the prior quarter distributions;
- (d) on an annual basis review the dividend reinvestment plan;
- (e) on an annual basis review the performance of the Board under the Board's mandate;
- (f) on a quarterly basis review compliance with the Joint Disclosure Policy of the Fund.

**OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Fund's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Fund's external auditors. The Committee, its Chair and any Committee members identified as having

accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Fund, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Fund's financial information or public disclosure.