



**LIQUOR STORES INCOME FUND**

**NOTICE OF SPECIAL MEETING OF THE SECURITYHOLDERS OF  
LIQUOR STORES INCOME FUND**

**to be held on Tuesday, December 14, 2010**

**and**

**MANAGEMENT INFORMATION CIRCULAR**

**with respect to a**

**PLAN OF ARRANGEMENT**

**involving**

**LIQUOR STORES INCOME FUND, LIQUOR STORES LIMITED PARTNERSHIP, LIQUOR STORES  
GP INC., LIQUOR STORES N.A. LTD., AND THE SECURITYHOLDERS OF LIQUOR STORES  
INCOME FUND AND LIQUOR STORES LIMITED PARTNERSHIP**

**November 17, 2010**

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## LIQUOR STORES INCOME FUND

November 17, 2010

Ladies and Gentleman:

Please accept my personal invitation to join us at a Special Meeting (the "**Meeting**") of Liquor Stores Income Fund ("**Liquor Stores**" or the "**Fund**") to take place at 4:00 p.m. (Edmonton time) on Tuesday, December 14, 2010 in the Devonshire Room, Union Bank Inn, 10053 Jasper Avenue, Edmonton, Alberta.

At the Meeting, you will be asked to consider and vote upon a proposed plan of arrangement (the "**Arrangement**") involving, among others, the Fund, Liquor Stores Limited Partnership (the "**LP**"), Liquor Stores GP Inc., Liquor Stores N.A. Ltd., the holders ("**Fund Unitholders**") of trust units ("**Fund Units**") of the Fund, and the holders (collectively, "**LP Unitholders**") of exchangeable limited partner units and Series 1 exchangeable LP units of the LP (collectively, the "**LP Units**").

### **The Arrangement**

The Arrangement is the result of changes to Canadian federal income tax legislation (the "**SIFT Rules**") announced on October 31, 2006 relating to specified investment flow through trusts ("**SIFTs**") and the subsequent limitations placed on SIFTs. If approved, the Arrangement will result in the reorganization of the Fund into a publicly-traded corporation named "Liquor Stores N.A. Ltd." ("**New Liquor Stores**") effective on or about December 31, 2010.

Pursuant to the Arrangement, among other things, each outstanding Unit and LP Unit (collectively, the "**Fund Securities**") will be exchanged for one (1) common share (a "**New Liquor Stores Share**") of New Liquor Stores. Following the Arrangement, the board and management of New Liquor Stores will be comprised of the current members of the board and management of Liquor Stores GP Inc. (the "**GP**"), the current administrator of the Fund, and, subject to the approval of its board of directors, New Liquor Stores will establish a dividend policy pursuant to which it is anticipated it will initially declare monthly dividends of \$0.09 per New Liquor Stores Share.

In order for the Arrangement to proceed, it must be approved by not less than 66 $\frac{2}{3}$ % of the votes cast at the Meeting by Fund Unitholders and LP Unitholders (collectively, the "**Fund Securityholders**"), voting together as a single class, either in person or by proxy. The directors and officers of the GP, collectively holding approximately 13.67% of the outstanding Fund Securities, have indicated they intend to vote in favour of the Arrangement.

If the requisite Fund Securityholder approval is obtained, an order of the Court of Queen's Bench of Alberta approving the Arrangement will be sought following the Meeting.

**The board of directors of the GP (the "Board"), following consultation with its advisors and consideration of relevant matters, has unanimously determined that the Arrangement is fair to the Fund Securityholders and is in the best interests of the Fund and the Fund Securityholders. The Board unanimously recommends that you vote in favour of the Arrangement.**

The accompanying management information circular (the "**Information Circular**") of the Fund contains a detailed description of the Arrangement as well as detailed information regarding New Liquor Stores. **Please give this material your careful consideration and, if you require assistance, consult your financial, legal, tax and other professional advisors.**

### **Proxies**

**All of the Fund Units are registered under the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc). Only proxies deposited by Fund Securityholders whose names appear on the records of the Fund or the LP, as the case may be, as the registered holders of Fund Securities can be recognized and acted upon at the Meeting. Accordingly, in order to be represented at the Meeting, a Fund Unitholder or non-registered holder of LP Units must complete and sign the applicable instrument of proxy or other voting instruction form provided by the Fund Securityholder's broker or other intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided to the Fund Securityholder. Failure to do so will result in a Fund Unitholder or non-registered LP Unitholder's Fund Securities not being eligible to be voted at the Meeting. Registered holders of LP Units who are unable to attend the Meeting in person may also complete and deliver the applicable enclosed form of proxy in order to ensure their representation at the Meeting. Fund Securityholders should also complete and submit the enclosed letter of transmittal, together with the certificates representing their Fund Securities (or instruct their broker or nominee to complete the letter of transmittal on their behalf) to receive their New Liquor Stores Shares as soon as possible following the effective date of the Arrangement.**

On behalf of the board of directors of the GP, I would like to express our gratitude for the support the Fund Securityholders have demonstrated with respect to our decision to move forward with the proposed Arrangement. We look forward to seeing you at the Meeting.

Sincerely,  
(signed) "Irving Kipnes"  
Executive Chairman  
Liquor Stores GP Inc.



**LIQUOR STORES INCOME FUND**

**NOTICE OF SPECIAL MEETING**

**TO: THE UNITHOLDERS OF LIQUOR STORES INCOME FUND**  
**AND TO: THE HOLDERS OF EXCHANGEABLE LIMITED PARTNER UNITS AND**  
**SERIES 1 EXCHANGEABLE LP UNITS OF LIQUOR STORES LIMITED PARTNERSHIP**

TAKE NOTICE that a Special Meeting (the "**Meeting**") of the holders (the "**Holders**") of (i) trust units ("**Fund Units**") of Liquor Stores Income Fund (the "**Fund**"); and (ii) exchangeable limited partner units and Series 1 exchangeable LP units (collectively, "**LP Units**") of Liquor Stores Limited Partnership (the "**LP**"), will be held in the Devonshire Room, Union Bank Inn, 10053 Jasper Avenue, Edmonton, Alberta on Tuesday, the 14<sup>th</sup> day of December, 2010 (the "**Meeting Date**"), at 4:00 p.m. (Edmonton time) for the following purposes:

1. to consider, pursuant to an interim order (the "**Interim Order**") of the Court of Queen's Bench of Alberta, and if deemed advisable, to pass, with or without variation, a special resolution (the "**Arrangement Resolution**"), the full text of which is set forth in Schedule A to the accompanying management information circular (the "**Information Circular**") of the Fund dated November 17, 2010, approving a plan of arrangement (the "**Arrangement**") under Section 192 of the *Canada Business Corporations Act*, all as more particularly described in the Information Circular; and
2. to transact such other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Information Circular accompanying and forming part of this Notice.

The record date for the Meeting as the close of business on November 8, 2010 (the "**Record Date**"). Holders of record at the close of business on the Record Date will be entitled to vote at the Meeting. No person who became a Holder after the Record Date shall be entitled to vote at the Meeting.

Registered holders who are unable to attend the Meeting in person are requested to date and sign the enclosed form of proxy and to mail it to or deposit it with the Fund, c/o Proxy Dept., CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario, M1S 0A1 (or by facsimile to 416-368-2502 or toll free: 1-866-781-3111 Canada & U.S. only) not less than 48 hours before the time set for the holding of the Meeting or any adjournment or postponement thereof, or deposit it on the Meeting Date with the Chair of the Meeting prior to the commencement of the Meeting. **All of the Fund Units are registered in the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc). Accordingly, in order to be represented at the Meeting, a beneficial holder of Fund Units must complete and sign the applicable instrument of proxy or other voting instruction form provided by its broker or other intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein well in advance of the Meeting. Failure to do so will result in your Fund Units not being eligible to be voted at the Meeting. See "Advice to Beneficial Holders of Fund Units and LP Units" in the Information Circular.**

Pursuant to the Interim Order, holders of Fund Units and LP Units have been granted the right to dissent with respect to the Arrangement Resolution and, if the Arrangement Resolution becomes effective, to be paid the fair value of their Fund Units and LP Units, as the case may be, in accordance with the provisions of Section 190 of the *Canada Business Corporations Act*, as modified by the Interim Order. A Holder's right to dissent is more particularly described in the Information Circular and the text of the

**Interim Order and Section 190 of the *Canada Business Corporations Act* set forth in Schedules B and E, respectively, to the accompanying Information Circular. To exercise such right, the dissenting securityholder must send to the Fund or the LP, as the case may be, a written objection to the Arrangement Resolution, which written objection must be received by the Fund c/o Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: Dan McDonald, Q.C. by 4:00 p.m. (Edmonton time) on the second business day immediately preceding the date of the Meeting or any adjournment thereof.**

**Failure to strictly comply with the requirements set forth in Section 190 of the *Canada Business Corporations Act*, as modified by the Interim Order, may result in the loss of any right to dissent. Persons who are beneficial owners of Fund Units and LP Units registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent should be aware that only the registered holders of Fund Units and LP Units are entitled to dissent. Accordingly, a beneficial owner of Fund Units and/or LP Units desiring to exercise the right to dissent must make arrangements for the Fund Units and LP Units beneficially owned by such holder to be registered in the holder's name prior to the time the written objection to the Arrangement Resolution is required to be received by the Fund, or, alternatively, make arrangements for the registered holder of such Fund Units and/or LP Units to dissent on behalf of the holder.**

Dated this 17<sup>th</sup> day of November, 2010

**LIQUOR STORES INCOME FUND,  
BY ITS ADMINISTRATOR, LIQUOR STORES  
GP INC.**

(Signed) "Irving Kipnes"  
Executive Chairman  
Liquor Stores GP Inc.

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF Section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended**

**AND IN THE MATTER OF a Plan of Arrangement involving Liquor Stores Income Fund, Liquor Stores Limited Partnership, Liquor Stores GP Inc., Liquor Stores N.A. Ltd., the holders of trust units of Liquor Stores Income Fund, and the holders of exchangeable limited partner units and Series 1 exchangeable LP units of Liquor Stores Limited Partnership**

**NOTICE OF APPLICATION**

**NOTICE IS HEREBY GIVEN** that an Application (the "**Application**") has been filed with the Court of Queen's Bench of Alberta, Judicial District of Calgary (the "**Court**") on behalf of Liquor Stores Income Fund (the "**Fund**"), Liquor Stores Limited Partnership (the "**LP**"), Liquor Stores GP Inc. (the "**GP**") and Liquor Stores N.A. Ltd. ("**New Liquor Stores**") for approval of an arrangement (the "**Arrangement**") pursuant to Section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "**CBCA**"), involving the Fund, LP, the GP, New Liquor Stores, the holders ("**Fund Unitholders**") of trust units of the Fund, and the holders ("**LP Unitholders**") of exchangeable limited partner units and Series 1 exchangeable LP units of the LP, which Arrangement is described in greater detail in the Management Information Circular of the Fund, which accompanies this Notice of Application. At the hearing of the Application, the Fund, the LP, the GP and New Liquor Stores intend to seek the following:

3. a declaration that the terms and conditions of the Arrangement, and the procedures relating thereto, are fair to the persons affected;
4. an order approving the Arrangement pursuant to the provisions of Section 192 of the CBCA;
5. a declaration that the registered Fund Unitholders and LP Unitholders shall have the right to dissent in respect of the Arrangement pursuant to the provisions of Section 190 of the CBCA, as modified by the interim order (the "**Interim Order**") of the Court dated November 16, 2010;
6. a declaration that the Arrangement will, upon the filing of the Articles of Arrangement pursuant to the provisions of Section 192 of the CBCA, become effective in accordance with its terms and will be binding on and after the Effective Date (as defined in the Arrangement); and
7. such other and further orders, declarations and directions as the Court may deem just.

The Court has been advised that the final order approving the Arrangement, if granted, will constitute the basis for an exemption from the registration requirements of the *United States Securities Act of 1933*, as amended, pursuant to Section 3(a)(10) thereof, with respect to the issuance of the common shares of New Liquor Stores issuable to securityholders of the Fund and the LP pursuant to the Arrangement.

**AND NOTICE IS FURTHER GIVEN** that the said Application was directed to be heard before a Justice of the Court at the Calgary Courts Centre, 601 - 5th Street S.W., Calgary, Alberta, on December 15, 2010 at 1:00 p.m. (Edmonton time) or as soon thereafter as counsel may be heard. **Any Fund Unitholder, LP Unitholder or other interested party (each an "Interested Party") desiring to support or oppose the Application may appear at the time of the hearing in person or by counsel for that purpose; provided that any Interested Party desiring to appear or be heard or present evidence at the hearing is required to file with the Court and serve upon the Fund, on or before 4:00 p.m. (Edmonton time) on December 8, 2010, a Notice of Intention to Appear including such Interested Party's address for service, and indicating whether such Interested Party intends to support or oppose the application or make submissions thereat, together with a summary of the position that such Interested Party intends to advance before the Court and any evidence or**

**materials which are to be presented to the Court.** Service on the Fund is to be effected by delivery to the solicitors for the Fund at the address set forth below.

**AND NOTICE IS FURTHER GIVEN** that, at the hearing, subject to the foregoing, the Fund Unitholders, LP Unitholders and any other interested parties will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the Arrangement. If you do not attend, either in person or by counsel, at that time, the Court may approve the terms and conditions of the Arrangement as presented, approve the Arrangement subject to such terms and conditions as the Court shall deem fit, or refuse to approve the Arrangement without any further notice.

**AND NOTICE IS FURTHER GIVEN** that no further notice of the Application will be given by the Fund, the LP, the GP or New Liquor Stores and that in the event the hearing of the Application is adjourned, only those persons who have appeared before the Court for the application at the hearing shall be served with notice of the adjourned date.

**AND NOTICE IS FURTHER GIVEN** that the Court, by the Interim Order, has given directions as to the calling and holding of a special meeting of the Fund Unitholders and LP Unitholders for the purpose of such holders voting upon a special resolution to approve the Arrangement and, in particular, has directed that registered Fund Unitholders and LP Unitholders shall have the right to dissent under the provisions of Section 190 of the CBCA, as modified by and upon compliance with the terms of such Order.

**AND NOTICE IS FURTHER GIVEN** that a copy of the Application and other documents in the proceedings will be furnished to any Fund Unitholder, LP Unitholder or other interested party requesting the same by the undermentioned counsel for the Fund upon written request delivered to such solicitors.

**AND NOTICE IS FURTHER GIVEN** that the Counsel for the Fund is as follows:

Burnet, Duckworth & Palmer LLP  
Barristers and Solicitors  
1400, 350 – 7th Avenue S.W.  
Calgary, Alberta T2P 3N9  
Attention: Dan McDonald, Q.C.

DATED this 17<sup>th</sup> day of November, 2010.

**BY ORDER OF THE BOARD OF DIRECTORS OF  
LIQUOR STORES GP INC. on behalf of LIQUOR  
STORES INCOME FUND**

(signed) "Irving Kipnes"  
Executive Chairman  
Liquor Stores GP Inc.

## MANAGEMENT INFORMATION CIRCULAR

### Introduction

**This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of management of the GP for use at the Meeting and any adjournments thereof. No Person has been authorized to give any information or make any representation in connection with the Arrangement or any other matters to be considered at the Meeting other than those contained in this Information Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.**

This Information Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation of an offer or a proxy solicitation. Neither the delivery of this Information Circular nor any distribution of the securities referred to in this Information Circular will, under any circumstances, create an implication that there has been no change in the information set forth herein since the date as of which such information is given in this Information Circular.

All summaries of, and references to, the Arrangement in this Information Circular are qualified in their entirety by reference to the complete text of the Plan of Arrangement, a copy of which is attached as Exhibit A to Schedule C of this Information Circular. **Fund Securityholders are urged to carefully read the full text of this Information Circular, the Arrangement Agreement and the Plan of Arrangement.**

All capitalized terms used in this Information Circular but not otherwise defined herein have the meanings set forth under "*Glossary of Terms*". **Unless otherwise noted, the information provided in this Information Circular is given as of November 12, 2010.**

### Forward-Looking Statements

This Information Circular contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this Information Circular contains forward-looking statements relating to:

- the benefits of the Arrangement;
- the timing of the Final Order;
- the occurrence of the Effective Date;
- the satisfaction of conditions for listing of the New Liquor Stores Shares;
- the treatment of the Fund and Fund Securityholders under tax laws;
- the business strategy of New Liquor Stores;
- the business to be carried on by New Liquor Stores following the Arrangement; and
- the potential for payment of dividends by New Liquor Stores.

Forward-looking statements respecting:

- the perceived benefits of the Arrangement are based upon the financial and operating attributes of the Fund as at the date hereof, anticipated operating and financial results from the date hereof to the Effective Date, the views of management and the Board respecting the benefits associated with the Arrangement and current and anticipated market conditions. See "*Background to and Reasons for the Arrangement – Anticipated Benefits of the Arrangement*";
- the attributes of New Liquor Stores following completion of the Arrangement are based upon the existing attributes of the Fund (including financial and operating attributes) and the opinions of management and the Board concerning perceived benefits associated with the Arrangement. See "*Information Concerning New Liquor Stores*" and "*Background to and Reasons for the Arrangement – Anticipated Benefits of the Arrangement*";
- the structure and effect of the Arrangement are based upon the terms of the Arrangement Agreement and the transactions contemplated thereby and assumptions that all conditions in the Arrangement Agreement will be met. See "*The Arrangement - Arrangement Agreement*";
- the consideration to be received by Fund Securityholders as a result of the Arrangement is based upon the terms of the Arrangement Agreement and the Plan of Arrangement; and
- certain steps in, and timing of, the Arrangement are based upon the terms of the Arrangement Agreement and advice received from counsel to the Fund relating to timing expectations.

Other forward-looking statements regarding the Fund and New Liquor Stores are contained in the documents incorporated by reference herein and are based on certain key expectations and assumptions of the Fund and New Liquor Stores concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, tax laws, and the ability to obtain financing on acceptable terms, which are subject to change based on market conditions and potential timing delays. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. Undue reliance should not be placed on forward-looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward-looking statements, including those set out below and those detailed elsewhere in this Information Circular (and in documents incorporated by reference herein):

- failure of the parties to the Arrangement Agreement to satisfy the conditions set out therein;
- inability to meet TSX listing requirements;
- inability to obtain required consents, permits or approvals, including Court approval of the Arrangement and the Fund Securityholders' approval of the Arrangement Resolution;
- failure to realize anticipated benefits of the Arrangement;
- competition for, among other things, capital and skilled personnel; and
- the other factors discussed in the AIF and the MD&A incorporated by reference herein and the risk factors set forth under "*Information Concerning New Liquor Stores – Risk Factors*".

Readers are cautioned that the foregoing list is not exhaustive.

The reader is further cautioned that the preparation of financial statements and other financial information, including unaudited *pro forma* financial information, requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

**The information contained in this Information Circular, including the documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of the Fund and New Liquor Stores. We urge you to carefully consider those factors.**

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as of the date of this Information Circular and the Fund does not undertake any obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

#### **Advice to Beneficial Holders of Fund Units and LP Units**

**The information set forth in this section is of significant importance to non-registered LP Unitholders and to all Fund Unitholders, as all of the Fund Units are registered in the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc.). All Fund Unitholders and non-registered LP Unitholders hold their Fund Units and LP Units, respectively, through their brokers, intermediaries, trustees or other persons.** Fund Securityholders who do not hold their Fund Securities in their own name ("**Beneficial Securityholders**") should note that only proxies or voting instruction forms deposited by Fund Securityholders whose names appear on the records of the registrar and transfer agent for the Fund and the LP as the registered holders of Fund Securities can be recognized and acted upon at the Meeting. If Fund Securities are listed in an account statement provided to a Fund Securityholder by a broker, then in almost all cases those Fund Securities will not be registered in the Fund Securityholder's name on the records of the Fund or the LP, as the case may be. Such Fund Securities will more likely be registered under the name of the Fund Securityholder's broker or an agent of that broker. In Canada, the vast majority of such Fund Securities are registered under the name of CDS & Co., the registration name for CDS Clearing and Depository Services Inc., which acts as nominees for many Canadian brokerage firms. Fund Securities held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Securityholder. Without specific instructions, the broker/nominees are prohibited from voting Fund Securities for their clients. Neither of the Fund or the LP know for whose benefit the Fund Securities registered in the name of CDS & Co. are held. The majority of Fund Securities held in the United States are registered in the name of Cede & Co., the nominee for the Depository Trust Company, which is the United States equivalent of CDS Clearing and Depository Services Inc.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Holders in advance of securityholder meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Holders in order to ensure that their Fund Securities are voted at the Meeting. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge typically mails a scannable voting instruction form. The Beneficial Holder is requested to complete and return the voting instruction form to them by mail or facsimile. Alternatively, the Beneficial Holder can call a toll-free telephone number or access the internet to vote the Fund Securities held by the Beneficial Holder. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Fund Securities to be represented at a meeting. A Beneficial Holder receiving a voting instruction form cannot use that voting instruction form to vote Fund Securities directly at the Meeting as the voting instruction form must be returned as directed by Broadridge well in advance of the Meeting in order to have the Fund Securities voted.

Although Beneficial Holders may not be recognized directly at the Meeting for the purposes of voting Fund Securities registered in the name of CDS & Co., a Beneficial Holder may attend at the Meeting as a proxyholder and vote their Fund Securities in that capacity. If a Beneficial Holder wishes to attend the Meeting and vote their Fund Securities, it must do so as proxyholder for the registered holder of the Fund Securities. To do this, a Beneficial Holder should enter their name in the blank space on the applicable form of proxy or voting instruction form provided to them and return the document to their broker or other intermediary (or the agent of such broker or

other intermediary) in accordance with the instructions provided by such broker, intermediary or agent well in advance of the Meeting.

See "*General Proxy Matters*" in this Information Circular.

### **Non-Canadian GAAP Measures**

The Fund's management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2009 and the three and nine month periods ended September 30, 2010 (collectively, the "**MD&A**"), which is incorporated by reference herein, makes reference to certain non-GAAP financial measures to assist in assessing the Fund's financial performance. Non-GAAP financial measures do not have standard meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. For information regarding the non-GAAP financial measures used by the Fund, see the MD&A.

### **Notice to Fund Securityholders in the United States**

The offer and sale of the New Liquor Stores Shares issuable to Fund Securityholders in exchange for their Fund Securities, pursuant to the Arrangement have not been and will not be registered under the 1933 Act, and such securities will be issued to such securityholders in reliance upon the exemption from the registration requirements of the 1933 Act set forth in section 3(a)(10) thereof. The solicitation of proxies or voting instruction forms for the Meeting is not subject to the proxy requirements of section 14(a) of the 1934 Act. Accordingly, the solicitations and transactions contemplated in this Information Circular are made in the United States for securities of a Canadian issuer in accordance with Canadian securities laws, and this Information Circular has been prepared solely in accordance with disclosure requirements applicable in Canada. Fund Securityholders in the United States should be aware that such requirements are different from those of the United States applicable to registration statements under the 1933 Act and proxy statements under the 1934 Act. Specifically, information concerning the operations of the Fund contained herein has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards. All financial statements and historical financial information included herein or incorporated by reference in this Information Circular have been presented in Canadian dollars, were prepared in accordance with Canadian GAAP and are subject to Canadian auditing and auditor independence standards, which differ from United States GAAP and auditing and auditor independence standards in certain material respects, and thus may not be comparable to financial statements and historical financial information prepared in accordance with United States GAAP and that are subject to United States auditing and auditor independence standards.

The enforcement of civil liabilities under the United States federal and state securities laws may be affected adversely by the fact that the Fund and New Liquor Stores are or will be organized under the laws of Canada, that all of their respective officers and directors are residents of countries other than the United States, that certain of the experts named in this Information Circular are residents of countries other than the United States, and that large portions of the assets of the Fund and New Liquor Stores and such other persons are, or will be, located outside the United States.

The New Liquor Stores Shares issuable to Fund Securityholders will be freely tradable under U.S. federal securities laws, except by persons who are "affiliates" of New Liquor Stores after the completion of the Arrangement or within 90 days prior to the completion of the Arrangement. See "*The Arrangement - Securities Law Matters - United States*" in this Information Circular.

**Fund Securityholders should also be aware that the Arrangement and the ownership of New Liquor Stores Shares may have material tax consequences in the United States, including, without limitation, the possibility that the Arrangement is a taxable transaction, in whole or in part, for United States federal income tax purposes. Tax considerations applicable to Fund Securityholders subject to United States federal taxation have not been included in this Information Circular. Fund Securityholders are advised to consult their own tax advisors to determine the particular tax consequences to them of the Arrangement.**

**THE NEW LIQUOR STORES SHARES ISSUABLE PURSUANT TO THE ARRANGEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH STATE REGULATORY AUTHORITY PASSED ON THE ADEQUACY OR ACCURACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

### References to Currency

Unless otherwise noted, all references in this Information Circular to monetary amounts are expressed in Canadian dollars and "\$" means Canadian dollars.

### Currency Exchange Rates

The exchange rates shown are expressed as the number of U.S. dollars required to purchase one Canadian dollar. These exchange rates are based on those published on the Bank of Canada's website as being in effect at approximately noon on each trading day (the "**Bank of Canada noon rate**"). The following table sets forth the Canada/U.S. exchange rates on the last day of the periods indicated as well as the high, low and average rates for such periods. The high, low and average exchange rates for each period were identified or calculated from the Bank of Canada noon rate in effect on each trading day during the relevant period. On November 12, 2010, the Bank of Canada noon rate was USD\$0.9921 equals CAD\$1.00.

|                        | Nine Months Ended  | Year Ended December 31 |        |        |
|------------------------|--------------------|------------------------|--------|--------|
|                        | September 30, 2010 | 2009                   | 2008   | 2007   |
| High                   | 1.0039             | 0.9716                 | 1.0289 | 1.0905 |
| Low                    | 0.9278             | 0.7692                 | 0.7711 | 0.8437 |
| Average <sup>(1)</sup> | 0.9656             | 0.8754                 | 0.9386 | 0.9304 |
| Rate at end of period  | 0.9711             | 0.9501                 | 0.8185 | 1.0120 |

Note:

- (1) Average represents the average of the rates on the last day of each month during the period.

## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Information Circular, including the Summary Information hereof. Terms and abbreviations used in the Schedules to this Information Circular are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated.

"**1933 Act**" means the *United States Securities Act of 1933*, as amended;

"**1934 Act**" means the *United States Securities Exchange Act of 1934*, as amended;

"**6.75% Convertible Debentures**" means the \$57.5 million aggregate principal amount of 6.75% convertible unsecured subordinated debentures of the Fund issued pursuant to the 6.75% Debenture Indenture;

"**6.75% Debenture Indenture**" means the trust indenture dated as of December 21, 2007 between the Fund and the 6.75% Debenture Trustee pursuant to which the 6.75% Convertible Debentures were issued;

"**6.75% Debenture Trustee**" means CIBC Mellon Trust Company, in its capacity as trustee under the 6.75% Debenture Indenture;

"**8.00% Convertible Debentures**" means the \$500,000 aggregate principal amount of 8.00% convertible unsecured subordinated debentures of the Fund issued pursuant to the 8.00% Debenture Indenture;

"**8.00% Debenture Indenture**" means the trust indenture dated as of January 4, 2007 between the Fund and the 8.00% Debenture Trustee pursuant to which the 8.00% Convertible Debentures were issued, as supplemented and amended from time to time;

"**8.00% Debenture Trustee**" means Computershare Trust Company of Canada, in its capacity as trustee under the 8.00% Debenture Indenture;

"**affiliate**" has the meaning ascribed thereto in MI 62-104;

"**AGM Circular**" means the information circular of the Fund in respect of the annual and special meeting of unitholders of the Fund held on May 6, 2010;

"**AIF**" means the annual information form of the Fund for the year ended December 31, 2009;

"**Arrangement**" means the arrangement pursuant to Section 192 of the CBCA contemplated by the Arrangement Agreement and set forth in the Plan of Arrangement;

"**Arrangement Agreement**" means the arrangement agreement dated effective November 12, 2010 among the Fund, the GP, the LP and New Liquor Stores with respect to the Arrangement, a copy which is set forth in Schedule C hereto;

"**Arrangement Resolution**" means the special resolution set forth in Schedule A hereto in respect of the Arrangement to be considered at the Meeting;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required by the CBCA to be sent to the Director after the Final Order has been granted, and which are expected to be filed on or about December 31, 2010;

"**Board**" or "**Board of Directors**" means the board of directors of the GP as it may be comprised from time to time;

"**Business Day**" means a day other than a Saturday, Sunday or a day when banks in the City of Edmonton, Alberta are not generally open for business;

"**Canadian GAAP**" means GAAP in Canada;

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, including the regulations promulgated thereunder;

"**Certificate**" means the certificate of arrangement which may be issued by the Director pursuant to subsection 192(7) of the CBCA in respect of the Articles of Arrangement and giving effect to the Arrangement;

"**CIBC Mellon**" means CIBC Mellon Trust Company;

"**Counsel**" means Burnet, Duckworth & Palmer LLP;

"**Court**" means the Court of Queen's Bench of Alberta;

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

"**Debenture Indentures**" means, collectively, the 6.75% Debenture Indenture and the 8.00% Debenture Indenture;

"**Debentures**" means, collectively, the 6.75% Convertible Debentures and the 8.00% Convertible Debentures;

"**Depository**" means CIBC Mellon, or such other person as may be designated by the Fund or, following the Effective Time, New Liquor Stores, for the purpose of receiving the deposit of certificates formerly representing Fund Securities;

"**Director**" means the Director appointed under section 260 of the CBCA;

"**Dissent Rights**" means the rights of registered Fund Securityholders to dissent in respect of the Arrangement Resolution pursuant to and in accordance with Section 190 of the CBCA, as modified by the Interim Order;

"**Dissenting Securityholders**" means registered holders of Fund Securities who validly exercise the Dissent Rights and do not prior to the Effective Date withdraw or otherwise relinquish such Dissent Rights;

"**Effective Date**" means the date the Arrangement is effective under the CBCA, which is anticipated to be on or about December 31, 2010;

"**Effective Time**" means 11:59 p.m. (Edmonton time) on the Effective Date or such other time on the Effective Date as may be specified in writing by the Fund, the GP, in its capacity as administrator of the Fund and general partner of the LP, or New Liquor Stores;

"**Final Order**" means the order of the Court approving the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

"**Financial Statements**" means, collectively, the audited comparative consolidated financial statements of the Fund as at and for the years ended December 31, 2009 and 2008, together with the notes thereto and the auditors' report thereon, and the unaudited comparative consolidated financial statements of the Fund as at and for the nine and three month periods ended September 30, 2010, together with the notes thereto;

"**Fund**" or "**Liquor Stores**" means Liquor Stores Income Fund, a trust organized under the laws of the Province of Alberta and governed by the Fund Declaration of Trust;

"**Fund Arrangement Parties**" means, collectively, the Fund, the GP, the LP and New Liquor Stores;

"**Fund Declaration of Trust**" means the amended and restated declaration of trust of the Fund, as the same may be further amended or amended and restated from time to time;

"**Fund Entities**" means, collectively, the Fund, New Liquor Stores, the LP and the GP;

"**Fund Incentive Plans**" means, collectively, the Fund Option Plan and the Fund LTIP;

"**Fund Incentive Rights**" means, collectively, Fund Options and the Fund LTIP Rights;

"**Fund LTIP**" means the Long Term Incentive Plan of the Fund, as amended from time to time;

"**Fund LTIP Rights**" means rights of participants to receive Fund Units outstanding under the Fund LTIP;

"**Fund Option Plan**" means the Unit Option Plan of the Fund, as amended from time to time;

"**Fund Options**" means options to acquire Fund Units outstanding under the Fund Option Plan;

"**Fund Securities**" means, collectively, the Fund Units and the LP Units;

"**Fund Securityholders**" means, collectively, the Fund Unitholders and the LP Unitholders;

"**Fund Trustee**" means CIBC Mellon Trust Company, in its capacity as trustee under the Fund Declaration of Trust;

"**Fund Unitholders**" means the holders from time to time of Fund Units;

"**Fund Units**" means the Units of the Fund, as defined in the Fund Declaration of Trust;

"**GAAP**" means generally accepted accounting principles in Canada;

"**Holders**" has the meaning set forth under "*Certain Canadian Federal Income Tax Considerations*";

"**Information Circular**" means this management information circular of the Fund;

"**Interim Order**" means the interim order of the Court dated November 16, 2010 containing declarations and directions with respect to the notice to be given in respect of, and the conduct of, the Meeting and otherwise with respect to the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

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

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

"**LP Agreement**" means the amended and restated limited partnership agreement of the LP, as the same may be further amended or amended and restated from time to time;

"**LP Unitholders**" means the holders from time to time of LP Units;

"**LP Units**" means, collectively, exchangeable limited partner units and Series 1 exchangeable LP units of the LP;

"**Letter of Transmittal**" means the letter of transmittal accompanying this Information Circular pursuant to which LP Unitholders are required to deliver certificates representing their LP Units in order to receive the New Liquor Stores Shares issuable to them pursuant to the Arrangement;

"**MD&A**" means, collectively, the management's discussion and analysis of the financial condition and operations of the Fund for the year ended December 31, 2009 and the nine and three month periods ended September 30, 2010;

"**Meeting**" means the special meeting of Fund Unitholders and LP Unitholders to be held to consider the Arrangement Resolution and related matters, and any adjournment(s) thereof;

"**MI 62-104**" means Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids*;

"**Minister**" means the Federal Finance Minister;

"**New Liquor Stores**" means Liquor Stores N.A. Ltd., a corporation incorporated under the CBCA and which, assuming completion of the Arrangement, will be the publicly traded corporation the Fund's income trust structure is converted into pursuant to the Arrangement;

"**New Liquor Stores Board**" means the board of directors of New Liquor Stores;

"**New Liquor Stores Incentive Rights**" means, collectively, New Liquor Stores Options and the New Liquor Stores LTIP Rights;

"**New Liquor Stores LTIP Rights**" means rights to acquire New Liquor Stores Shares to be granted to holders of Fund LTIP Rights under the Arrangement;

"**New Liquor Stores Options**" means options to acquire New Liquor Stores Shares to be granted to holders of Fund Options under the Arrangement;

"**New Liquor Stores Share Fair Market Value**" means the weighted average trading price of a Fund Unit on the Toronto Stock Exchange for the 10 trading days preceding the Effective Date;

"**New Liquor Stores Shares**" means the common shares in the capital of New Liquor Stores;

"**New Liquor Stores Shareholders**" means the holders from time to time of New Liquor Stores Shares;

"**Non-Resident Holder**" has the meaning set forth under "*Certain Canadian Federal Income Tax Considerations*";

"**Ordinary LP Units**" means the Ordinary LP Units of the LP, as defined in the LP Agreement;

"**person**" includes any individual, firm, partnership, joint venture, venture capital fund, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, governmental entity, syndicate or other entity, whether or not having legal status;

"**Plan of Arrangement**" means the plan of arrangement in the form set out in Exhibit A to Schedule C to this Information Circular, as amended, modified, supplemented or restated from time to time in accordance with its terms and the Arrangement Agreement;

"**Proposed Amendments**" has the meaning set forth under "*Certain Canadian Federal Income Tax Considerations*";

"**Regulation S**" means Regulation S adopted by the SEC under the 1933 Act;

"**Resident Holder**" has the meaning set forth under "*Certain Canadian Federal Income Tax Considerations*";

"**SEC**" means the United States Securities and Exchange Commission;

"**Section 85 Election**" has the meaning set forth under "*Certain Canadian Federal Income Tax Considerations*";

"**Securities Authorities**" means the securities commissions or similar securities regulatory authorities in each of the provinces of Canada;

"**SIFT Conversion Rules**" means the legislative provisions intended to allow the conversion of "specified investment flow-through" trusts and partnerships to corporations on a tax-deferred basis, which were announced by the Minister on July 14, 2008 and which were enacted on March 12, 2009, pursuant to Bill C-10;

"**Special Voting Units**" means the Special Voting Units of the Fund, as defined in the Fund Declaration of Trust, the holders of which are the LP Unitholders;;

"**subsidiary**" has the meaning ascribed thereto in the *Securities Act* (Alberta) (and, for greater certainty, includes all partnerships (general or limited) and trusts directly or indirectly owned by the Fund);

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;

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

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

## SUMMARY INFORMATION

The following is a summary of certain information contained elsewhere in this Information Circular, including the Schedules hereto, and is qualified in its entirety by reference to the more detailed information contained or referred to elsewhere in this Information Circular or in the Schedules hereto. Terms with initial capital letters used in this summary are defined in the "Glossary of Terms".

### The Meeting

The Meeting will be held in the Devonshire Room, Union Bank Inn, 10053 Jasper Avenue, Edmonton, Alberta at 4:00 p.m. (Edmonton time) on Tuesday, December 14, 2010. The business of the Meeting will be to consider and vote upon the Arrangement Resolution and to transact such further and other business as may properly be brought before the Meeting. See "*The Arrangement*".

### The Arrangement

The purpose of the Arrangement is to convert the Fund to a corporate structure and to provide long-term stability of dividends for Fund Securityholders while minimizing the impact of the SIFT Rules.

Pursuant to the Arrangement, Fund Unitholders and LP Unitholders will exchange their Fund Units and LP Units for New Liquor Stores Shares on a one-for-one basis and become shareholders of New Liquor Stores. Following the Arrangement, New Liquor Stores will operate the existing business of the Fund and its subsidiaries and the existing directors and management of the GP, the Fund's administrator, will become the board and management of New Liquor Stores. Based on the number of issued and outstanding Fund Securities as at the date hereof, and assuming that there are no Dissenting Securityholders, immediately following completion of the Arrangement an aggregate of approximately 22,556,969 New Liquor Stores Shares will be issued and outstanding, the holders of which will be the former Fund Unitholders and LP Unitholders. See "*The Arrangement – General*", "*The Arrangement – Effect on the Fund Securityholders*", "*Information Concerning New Liquor Stores*" and the unaudited *pro forma* consolidated financial information of New Liquor Stores after giving effect to the Arrangement included in Schedule D of this Information Circular.

Distributions expected to be paid to Fund Unitholders and LP Unitholders during the balance of 2010 will not be affected by the proposed Arrangement and it is anticipated that they will be paid in the usual manner. Following completion of the Arrangement, management anticipates a monthly dividend in the amount of \$0.09 per New Liquor Stores Share (\$1.08 per New Liquor Stores Share on an annualized basis) will be paid to New Liquor Stores Shareholders. See "*The Arrangement – Effect on Distributions*" and "*Information Concerning New Liquor Stores – Dividend Policy*".

Pursuant to the Arrangement: (i) each of the Fund Incentive Plans will be amended such that, among other things, all references therein to Fund Units shall be changed to New Liquor Stores Shares; and (ii) the outstanding Fund Incentive Rights at the Effective Time will be exchanged for New Liquor Stores Incentive Rights entitling the holders thereof to acquire New Liquor Stores Shares in the same number and on the same terms as they were entitled to acquire Fund Units pursuant to the Fund Incentive Rights. See "*The Arrangement – Effect on the Fund Incentive Plans*" and "*The Arrangement - Details of the Arrangement*".

Upon completion of the Arrangement, New Liquor Stores will, in accordance with the provisions of the Debenture Indentures, expressly assume all of the covenants and obligations of the Fund under the Debenture Indentures and the outstanding Debentures. See "*The Arrangement – Effect on the Holders of 6.75% Convertible Debentures*" and "*The Arrangement – Effect on the Holders of the 8.00% Convertible Debentures*".

Also see "*Pre-Arrangement Structure*" and "*Post-Arrangement Structure*" under "*The Arrangement - Details of the Arrangement*" for diagrams of the organizational structure of the Fund and New Liquor Stores before and after the Arrangement, respectively.

## **Background to and Reasons for the Arrangement**

On October 31, 2006, the Minister announced the federal government's plan to change the tax treatment of income trusts (the "**SIFT Rules**"). The SIFT Rules will result in a tax being applied at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to unitholders. The Minister announced that existing trusts would have a four year transition period and generally would not be subject to the new rules until 2011, provided such trusts experienced only "normal growth" and no "undue expansion" before then. The SIFT Rules had an immediate impact on the Canadian capital markets and resulted in a significant decline in trading prices for income trusts, including Liquor Stores, royalty trusts and numerous other Canadian securities. On December 15, 2006, the Minister issued guidelines which established objective tests with respect to what would be considered "normal growth" for the purposes of determining how much existing trusts are permitted to grow without jeopardizing their transitional relief. On December 4, 2008, the Minister announced certain changes to the guidelines issued on December 15, 2006. Bill C-52, which received Royal Assent on June 22, 2007, contained legislation implementing the SIFT Rules.

Following the announcement of the SIFT Rules, Liquor Stores' management considered the implications thereof on the then current structure of Liquor Stores as well as the anticipated effects on the Fund if Liquor Stores were to convert to a corporate structure. Liquor Stores' management updated the Board with its analysis on a regular basis.

On July 14, 2008, the Minister issued proposed amendments to the Tax Act to implement the SIFT Conversion Rules, which are intended to facilitate the conversion of mutual fund trusts (as defined in the Tax Act) such as Liquor Stores into corporations without any undue tax consequences. The SIFT Conversion Rules were enacted on March 12, 2009.

Following the announcement of the SIFT Conversion Rules, the Board and management reviewed the Fund's strategic objectives and the options available to it in respect thereof to ensure that the Fund's capital structure was efficient and that Fund Unitholder value is being maximized.

After consulting with legal counsel and the Fund's auditors, management presented various conversion alternatives to the Board of Directors.

On October 7, 2010, the Fund announced it plans to reorganize its income trust structure into a publicly-traded corporation.

On November 9, 2010 the Board of Directors reviewed the Plan of Arrangement. At such meeting, presentations were made by management and after duly considering the financial and legal aspects and other considerations relating to the proposed Arrangement, including the terms of the proposed Plan of Arrangement, and the directors duties and responsibilities to Fund Unitholders, LP Unitholders and other stakeholders, the Board of Directors unanimously approved the proposed Arrangement providing for the reorganization of the Fund's income trust structure into a corporate structure and concluded that the proposed Arrangement was in the best interests of the Fund, the Fund Unitholders and the LP Unitholders, and resolved to recommend that the Fund Unitholders and the LP Unitholders vote in favour of the Arrangement Resolution approving the Plan of Arrangement.

See "*Background to and Reasons for the Arrangement*".

## **Anticipated Benefits of the Arrangement**

In recommending the proposed reorganization to the Fund Unitholders and the LP Unitholders, the Board of Directors believe that the conversion to a corporation pursuant to the Plan of Arrangement provides a number of benefits to the Fund, the Fund Unitholders and the LP Unitholders including, without limitation, the following.

- (a) the Plan of Arrangement provides for an effective and efficient method of converting from a SIFT to a corporation consistent with existing legislation;
- (b) the conversion is expected to be tax deferred for the Fund Securityholders resident in Canada;
- (c) the unique nature of Liquor Stores as a growth company allows it to pay both a substantial yield and continue to grow. This remains true regardless of whether Liquor Stores is an income fund or a corporation;
- (d) it is expected that the conversion will provide New Liquor Stores with greater flexibility regarding growth and retention of its capital;
- (e) its anticipated that as a corporation, New Liquor Stores will have greater access to capital markets to the extent that issuance of equity should be required to exploit acquisition and other growth opportunities;
- (f) foreign ownership limitations on income funds will no longer apply to Liquor Stores;
- (g) certain taxable Fund Unitholders which are Canadian residents should benefit from lower income taxes paid on dividends received by them compared to income taxes paid on an equivalent distribution of the Fund;
- (h) the dividend yield as a corporation combined with New Liquor Stores' growth prospects are expected to focus market attention on the value of the New Liquor Stores Shares;
- (i) it is anticipated that the reorganized structure of the Fund as a corporation with a focus on delivering yield will attract new investors, including non-resident investors, and provide, in the aggregate, a more active and attractive market for the New Liquor Stores Shares than currently exists for the Fund Units; and
- (j) New Liquor Stores will be managed by the same experienced team of professionals.

See "*Background to and Reasons for the Arrangement – Anticipated Benefits of the Arrangement*".

#### **Recommendation of the Board**

**The Board has unanimously determined that the Arrangement is fair to the Fund Unitholders and the LP Unitholders, is in the best interests of the Fund, the Fund Unitholders and the LP Unitholders, and unanimously recommends that the Fund Unitholders and the LP Unitholders vote in favour of the Arrangement Resolution.**

Each director and executive officer of the GP has indicated that he or she intends to vote all Fund Securities that he or she beneficially owns or exercises control or direction over in favour of the Arrangement Resolution. As of the date hereof, the directors and executive officers of the GP, as a group, beneficially owned, or exercised control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 Fund Securities (which represents approximately 13.67% of the outstanding Fund Securities). See "*Background to and Reasons for the Arrangement – Recommendation of the Board*".

#### **Approvals**

##### ***Fund Securityholder Approval***

Pursuant to the Interim Order, the number of votes required to pass the Arrangement Resolution is not less than 66 $\frac{2}{3}$ % of the votes cast by the Fund Securityholders voting together as a single class either in person or by proxy at the Meeting. See "*The Arrangement – Approvals – Fund Securityholder Approval*".

### ***Court Approvals***

The CBCA provides that an arrangement requires Court approval. If the Arrangement Resolution is approved by the Fund Securityholders, voting together as a single class, at the Meeting, and provided that the Board has not determined to not proceed with the Arrangement, the Fund and New Liquor Stores will make an application to the Court for the Final Order at the Calgary Court Centre, 601 - 5th Street, S.W., Calgary, Alberta, Canada, on December 15, 2010 at 1:00 p.m. (Edmonton time) or as soon thereafter as counsel may be heard. The Notice of Application for the Final Order accompanies this Information Circular. At the application the Court will be requested to consider the fairness of the Arrangement. See "*The Arrangement – Approvals – Court Approvals*".

### ***Stock Exchange Listing Approvals***

It is a condition to completion of the Arrangement that the TSX shall have conditionally approved: (i) the substitutional listing of the New Liquor Stores Shares; (ii) the substitutional listing of the 6.75% Convertible Debentures to be assumed by New Liquor Stores; and (iii) the additional listing of the New Liquor Stores Shares (the "**Underlying Shares**") issuable pursuant to the New Liquor Stores Incentive Rights and upon conversion of the 6.75% Convertible Debentures and the 8.00% Convertible Debentures to be assumed by New Liquor Stores. The TSX has conditionally approved the substitutional listing of the New Liquor Stores Shares and the 6.75% Convertible Debentures, and the additional listing of the Underlying Shares subject to New Liquor Stores fulfilling the requirements of the TSX. Following the Arrangement, the New Liquor Stores Shares and the 6.75% Convertible Debentures will be listed on the TSX under the trading symbols "LIQ" and "LIQ.DB", respectively. See "*The Arrangement – Approvals – Stock Exchange Listing Approvals*".

### **Timing of Completion of the Arrangement**

If the Meeting is held as scheduled and is not adjourned and the other necessary conditions to be satisfied at that time are satisfied or waived, the Fund and New Liquor Stores intend to apply for the Final Order approving the Arrangement on December 15, 2010. If the Final Order is obtained on December 15, 2010 in form and substance satisfactory to the Fund, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date will be on or about December 31, 2010. It is not possible, however, to state with certainty when the Effective Date will occur. See "*The Arrangement – Timing of Completion of the Arrangement*".

### **Procedure for Exchange of Securities**

#### ***Exchange of Fund Units***

As the Fund Units trade in the "book entry" system and no certificates are issued to unregistered Fund Unitholders, no new certificates for New Liquor Stores Shares will be issued to former beneficial holders of Fund Units following the completion of the Arrangement and beneficial holders of Fund Units do not need to take any action.

#### ***Exchange of LP Units***

In order to receive their New Liquor Stores Shares on the completion of the Arrangement, each LP Unitholder must deposit with the Depositary (at one of the addresses specified on the last page of the Letter of Transmittal accompanying this Information Circular) a validly completed and duly executed Letter of Transmittal together with the certificates representing such holder's LP Units. **LP Unitholders whose LP Units are registered in the name of a broker, dealer, bank, trust company or other nominee must contact their nominee to deposit their LP Units.**

The use of the mail to transmit certificates representing LP Units and the Letter of Transmittal is at each holder's risk. The Fund recommends that such certificates and documents be delivered by hand to the Depositary and a receipt therefore be obtained or that registered mail be used.

**From and after the Effective Time, certificates formerly representing LP Units exchanged pursuant to the Plan of Arrangement shall represent only the right to receive New Liquor Stores Shares to which the holders are entitled pursuant to the Arrangement.**

**LP Unitholders will not receive New Liquor Stores Shares or any dividends which may be declared thereon after the Effective Date until they submit the certificates for their LP Units to the Depositary along with a duly completed Letter of Transmittal. Each certificate formerly representing LP Units that is not deposited with all other documents as required pursuant to the Plan of Arrangement on or before the day prior to the fifth anniversary of the Effective Date shall cease to represent a right or claim of any kind or nature including the right of the holder to receive New Liquor Stores Shares or any distributions or dividends which may have been declared thereon.**

See "*The Arrangement – Procedure for Exchange of Securities*".

### **Right to Dissent**

Pursuant to the Interim Order, holders of Fund Units and LP Units have been granted the right to dissent with respect to the Arrangement Resolution and, if the Arrangement Resolution becomes effective, to be paid the fair value of their Fund Units and LP Units, as the case may be, in accordance with the provisions of Section 190 of the *Canada Business Corporations Act*, as modified by the Interim Order. To exercise such right, the dissenting securityholder must send to the Fund a written objection to the Arrangement Resolution, which written objection must be received by the Fund c/o Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: Dan McDonald, Q.C. by 4:00 p.m. (Edmonton time) on the second business day immediately preceding the date of the Meeting or any adjournment thereof.

**Failure to strictly comply with the requirements set forth in Section 190 of the *Canada Business Corporations Act*, as modified by the Interim Order, may result in the loss of any right to dissent. Persons who are beneficial owners of Fund Units and LP Units registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent should be aware that only the registered holders of Fund Units and LP Units are entitled to dissent. Accordingly, a beneficial owner of Fund Units and/or LP Units desiring to exercise the right to dissent must make arrangements for the Fund Units and LP Units beneficially owned by such holder to be registered in the holder's name prior to the time the written objection to the Arrangement Resolution is required to be received by the Fund, or, alternatively, make arrangements for the registered holder of such Fund Units and/or LP Units to dissent on behalf of the holder.**

See "*The Arrangement – Right to Dissent*" and Schedules B and E for a copy of the Interim Order and the provisions of Section 190 of the CBCA, respectively.

### **Certain Canadian Federal Income Tax Considerations**

This Information Circular contains a summary of the principal Canadian federal income tax considerations applicable to certain Fund Securityholders who receive New Liquor Stores Shares in exchange for their Fund Units or LP Units, as the case may be, under the Arrangement. See "*Certain Canadian Federal Income Tax Considerations*".

Under the SIFT Conversion Rules, the disposition of Fund Units by a Fund Unitholder (other than a Dissenting Securityholder) for New Liquor Stores Shares under the Arrangement will generally occur on an automatic tax-deferred basis and should not result in a capital gain or capital loss to the Fund Unitholder. See the discussion under the heading, "*Certain Canadian Federal Income Tax Considerations-Holders Resident in Canada – Exchange of Fund Securities – Fund Unitholders*".

If the LP is a "SIFT partnership" the disposition of LP Units by LP Unitholders (other than a Dissenting Securityholder) for New Liquor Stores Shares under the Arrangement will also occur on an automatic tax-deferred basis and will not result in a capital gain or capital loss to the LP Unitholder. However, it is possible that the LP will not qualify as a "SIFT partnership" for the purpose of the Tax Act in which case the SIFT Conversion Rules will not

apply and the exchange of LP Units by an LP Unitholder for New Liquor Stores Shares under the Arrangement may result in a capital gain or capital loss to the LP Unitholder. Accordingly, it is strongly recommended that LP Unitholders exchanging LP Units for New Liquor Stores Shares under the Arrangement make a joint election with New Liquor Stores under Section 85 of the Tax Act to defer all or part of the capital gain that may otherwise be realized. See the discussion under the heading "*Certain Canadian Federal Income Tax Considerations – Holders Resident in Canada Exchange of Fund Securities – LP Unitholder*".

A Non-Resident Holder (other than a Dissenting Securityholder) generally should not be subject to Canadian federal income taxation in respect of the disposition of Fund Units provided the Fund Units are not "taxable Canadian property" within the meaning of the Tax Act to such Fund Unitholder. See the discussion under the heading "*Certain Canadian Federal Income Tax Considerations – Non-Resident Holders*".

**The foregoing summary is qualified in its entirety by the more detailed discussion of Canadian federal income tax consequences of the Arrangement set forth under the heading "*Certain Canadian Federal Income Tax Considerations*". All Fund Securityholders should consult their own tax advisors for advice with respect to their own particular circumstances.**

#### **Other Tax Considerations**

**This Information Circular does not address any tax considerations of the Arrangement other than Canadian federal income tax considerations. Fund Securityholders who are resident in jurisdictions other than Canada should consult their tax advisors with respect to the tax implications of the Arrangement, including any associated filing requirements, in such jurisdictions and with respect to the tax implications in such jurisdictions of owning New Liquor Stores Shares after the Arrangement. Fund Securityholders should also consult their own tax advisors regarding provincial, state or territorial tax considerations of the Arrangement or of holding New Liquor Stores Shares.**

#### **Risk Factors**

Risk factors related to the business of the Fund and its subsidiaries will generally continue to apply to New Liquor Stores after the Effective Date and will not be affected by the Arrangement. In the event that the Arrangement is completed, the business and operations of, and an investment in, New Liquor Stores will be subject to various risk factors set forth under "*Information Concerning New Liquor Stores – Risk Factors*", and under the heading "Risk Factors" in the AIF, as well as the other risk factors set forth elsewhere herein and in the documents incorporated by reference, including the MD&A. Fund Securityholders should consider carefully such risk factors.

## **BACKGROUND TO AND REASONS FOR THE ARRANGEMENT**

On October 31, 2006, the Minister announced the federal government's plan to change the tax treatment of income trusts (the "**SIFT Rules**"). The SIFT Rules will result in a tax being applied at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to unitholders. The Minister announced that existing trusts would have a four year transition period and generally would not be subject to the new rules until 2011, provided such trusts experienced only "normal growth" and no "undue expansion" before then. The SIFT Rules had an immediate impact on the Canadian capital markets and resulted in a significant decline in trading prices for income trusts, including Liquor Stores, royalty trusts and numerous other Canadian securities. On December 15, 2006, the Minister issued guidelines which established objective tests with respect to what would be considered "normal growth" for the purposes of determining how much existing trusts are permitted to grow without jeopardizing their transitional relief. On December 4, 2008, the Minister announced certain changes to the guidelines issued on December 15, 2006. Bill C-52, which received Royal Assent on June 22, 2007, contained legislation implementing the SIFT Rules.

Following the announcement of the SIFT Rules, Liquor Stores' management considered the implications thereof on the then current structure of Liquor Stores as well as the anticipated effects on the Fund if Liquor Stores were to convert to a corporate structure. Liquor Stores' management updated the Board with its analysis on a regular basis.

On July 14, 2008, the Minister issued proposed amendments to the Tax Act to implement the SIFT Conversion Rules, which are intended to facilitate the conversion of mutual fund trusts (as defined in the Tax Act) such as Liquor Stores into corporations without any undue tax consequences. The SIFT Conversion Rules were enacted on March 12, 2009.

Following the announcement of the SIFT Conversion Rules, the Board and management reviewed the Fund's strategic objectives and the options available to it in respect thereof to ensure that the Fund's capital structure was efficient and that Fund Unitholder value is being maximized.

On October 7, 2010, the Fund announced it plans to reorganize its income trust structure into a publicly-traded corporation.

On November 9, 2010 the Board of Directors reviewed the Plan of Arrangement. At such meeting, presentations were made by management and after duly considering the financial and legal aspects and other considerations relating to the proposed Arrangement, including the terms of the proposed Plan of Arrangement and the directors duties and responsibilities to Fund Unitholders, LP Unitholders and other stakeholders, the Board of Directors of the GP unanimously approved the proposed Arrangement providing for the reorganization of the Fund's income trust structure into a corporate structure and concluded that the proposed Arrangement was in the best interests of the Fund, the Fund Unitholders and the LP Unitholders, and resolved to recommend that the Fund Unitholders and the LP Unitholders vote in favour of the Arrangement Resolution approving the Plan of Arrangement.

### **Anticipated Benefits of the Arrangement**

In recommending the proposed reorganization to the Fund Unitholders and the LP Unitholders, the Board of Directors believe that the conversion to a corporation pursuant to the Plan of Arrangement provides a number of benefits to the Fund, the Fund Unitholders and the LP Unitholders including, without limitation, the following.

- (a) the Plan of Arrangement provides for an effective and efficient method of converting from a SIFT to a corporation consistent with existing legislation;
- (b) the conversion is expected to be tax deferred for the Fund Securityholders resident in Canada;

- (c) the unique nature of Liquor Stores as a growth company allows it to pay both a substantial yield and continue to grow. This remains true regardless of whether Liquor Stores is an income fund or a corporation;
- (d) it is expected that the conversion will provide New Liquor Stores with greater flexibility regarding growth and retention of its capital;
- (e) its anticipated that as a corporation, New Liquor Stores will have greater access to capital markets to the extent that issuance of equity should be required to exploit acquisition and other growth opportunities;
- (f) foreign ownership limitations on income funds will no longer apply to Liquor Stores;
- (g) certain taxable Fund Unitholders which are Canadian residents should benefit from lower income taxes paid on dividends received by them compared to income taxes paid on an equivalent distribution of the Fund;
- (h) the dividend yield as a corporation combined with New Liquor Stores' growth prospects are expected to focus market attention on the value of the New Liquor Stores Shares;
- (i) it is anticipated that the reorganized structure of the Fund as a corporation with a focus on delivering yield will attract new investors, including non-resident investors, and provide, in the aggregate, a more active and attractive market for the New Liquor Stores Shares than currently exists for the Fund Units; and
- (j) New Liquor Stores will be managed by the same experienced team of professionals.

### **Recommendation of the Board**

The Board has unanimously determined that the Arrangement is fair to the Fund Unitholders and the LP Unitholders, is in the best interests of the Fund, the Fund Unitholders and the LP Unitholders, and unanimously recommends that the Fund Unitholders and the LP Unitholders vote in favour of the Arrangement Resolution.

In reaching its conclusions and formulating its recommendation, the Board considered a number of factors, including the expected benefits of the Arrangement described above. In reaching such determination, the Board did not assign any relative or specific weight to the factors that were considered, and individual directors may have given a different weight to each factor.

Each director and executive officer of the GP has indicated that he or she intends to vote all Fund Securities that he or she beneficially owns or exercises control or direction over in favour of the Arrangement Resolution. As of the date hereof, the directors and executive officers of the GP, as a group, beneficially owned, or exercised control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 Fund Securities (which represents approximately 13.67% of the outstanding Fund Securities).

## **THE ARRANGEMENT**

### **General**

The purpose of the Arrangement is to convert the Fund to a corporate structure and to provide long-term stability of distributions for Fund Securityholders while minimizing the impact of the SIFT Rules. Pursuant to the Arrangement, Fund Unitholders and LP Unitholders will become shareholders of New Liquor Stores. New Liquor Stores will operate the existing businesses of the Fund and its subsidiaries and the existing directors and management of the GP, the Fund's administrator, will become the board and management of New Liquor Stores. See "*Information Concerning New Liquor Stores*".

### **Effect on the Fund Securityholders**

If the Arrangement is approved by the Fund Securityholders, voting together as a single class, the Arrangement will, through a series of transactions, result in the exchange of the Fund Securities (other than Fund Units and LP Units held by Dissenting Securityholders, if any) for New Liquor Stores Shares on a one-for-one basis. Based on the number of issued and outstanding Fund Securities as at the date hereof, and assuming that there are no Dissenting Securityholders, immediately following completion of the Arrangement an aggregate of approximately 22,556,969 New Liquor Stores Shares will be issued and outstanding, the holders of which will be the former Fund Securityholders.

### **Effect on Distributions**

Distributions expected to be paid to Fund Unitholders and LP Unitholders during the balance of 2010 will not be affected by the proposed Arrangement and it is anticipated that they will be paid in the usual manner. Following completion of the Arrangement, management anticipates a monthly dividend in the amount of \$0.09 per New Liquor Stores Share (\$1.08 per New Liquor Stores Share on an annualized basis) will be paid to New Liquor Stores Shareholders. See "*Information Concerning New Liquor Stores – Dividend Policy*".

### **Effect on Holders of Debentures**

Holders of Debentures who convert their Debentures prior to the Effective Time will receive, in exchange for the Fund Units issued on conversion, the same consideration under the Arrangement as Fund Unitholders based upon the number of Fund Units so issued.

From and after the Effective Time, New Liquor Stores will, in accordance with the provisions of the Debenture Indentures, expressly assume, by supplemental indentures executed and delivered to the 6.75% Debenture Trustee and the 8.00% Debenture Trustee in form satisfactory to such trustees, all of the covenants and obligations of the Fund under the Debenture Indentures and the outstanding Debentures, whereupon New Liquor Stores will succeed to and be substituted for Fund under the Debenture Indentures.

Following completion of the Arrangement (and assumption by New Liquor Stores of the Debentures in accordance with the Debenture Indentures), the conversion terms of the Debentures will be adjusted in accordance with the Debenture Indentures to reflect the exchange of Fund Units for New Liquor Stores Shares under the Arrangement. Holders of Debentures who do not convert their Debentures prior to the Effective Time will thereafter be entitled to receive, upon conversion of such Debentures (as assumed by New Liquor Stores in accordance with the Debenture Indentures), in lieu of each Fund Unit that would have been issuable on conversion prior to the Effective Time, one (1) New Liquor Stores Share. The adjusted conversion terms will be confirmed in the supplemental indentures to be entered into between New Liquor Stores and the 6.75% Debenture Trustee and 8.00% Debenture Trustee.

As the Debentures trade in the "book entry" system and no individual certificates are issued, no new certificates for Debentures will be issued following the completion of the Arrangement and beneficial holders of Debentures do not need to take any action.

### **Effect on the Fund Incentive Plans**

As at the date hereof, an aggregate of 13,246 Fund Units are issuable in accordance with outstanding Fund Incentive Rights. Pursuant to the Arrangement: (i) each of the Fund Incentive Plans will be amended such that, among other things, all references therein to Fund Units shall be changed to New Liquor Stores Shares; and (ii) the outstanding Fund Incentive Rights at the Effective Time will be exchanged for New Liquor Stores Incentive Rights entitling the holders thereof to acquire New Liquor Stores Shares in the same number and on the same terms as they were entitled to acquire Fund Units pursuant to the Fund Incentive Rights.

## **Certain Differences between the Fund Declaration of Trust and the CBCA**

Upon successful completion of the Arrangement, Fund Unitholders will hold New Liquor Stores Shares. Unlike the Fund, where rights of Fund Unitholders are governed by the Fund Declaration of Trust, New Liquor Stores is a corporation existing under CBCA, and as such, the rights of New Liquor Stores Shareholders are governed by the CBCA and New Liquor Stores' articles and by-laws.

While the Fund Declaration of Trust provides Fund Unitholders with many of the same rights and remedies as are enjoyed by shareholders of a corporation governed by the CBCA, a summary of some of the material differences is provided below. This summary is not an exhaustive review and reference should be made to the full text of the articles and by-laws of New Liquor Stores, the Fund Declaration of Trust and the CBCA, and any regulations thereunder, for complete particulars of any differences between Fund Units and New Liquor Stores Shares and the rights of holders of such. Fund Unitholders should consult their legal or other professional advisors with respect to the implications of holding New Liquor Stores Shares instead of Fund Units.

### ***Redemption Rights***

Fund Units are redeemable at any time on demand by the holders thereof in accordance with the terms and conditions of the Fund Declaration of Trust. A Fund Unitholder exercising the right of redemption will receive a price per Fund Unit calculated and paid in accordance with the Fund Declaration of Trust. No redemption rights will exist for holders of New Liquor Stores Shares.

### ***Dissent Rights***

The CBCA provides for dissent rights in certain circumstances under which holders of New Liquor Stores Shares are entitled to receive the fair value of their shares where certain fundamental changes affecting New Liquor Stores are undertaken. The Fund Declaration of Trust does not provide for any equivalent right.

### ***Oppression and Similar Actions***

Holders of New Liquor Stores Shares have recourse to an oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive or unfairly prejudicial to or that unfairly disregard the interests of securityholders and certain other parties. 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 Fund Declaration of Trust does not provide for any equivalent rights.

### ***Fund Unitholder or Shareholder Meetings***

The Fund Declaration of Trust provides that annual meetings of Fund Unitholders will be called on or before June 30 of each year. Under the CBCA, annual meetings must be called within 18 months of a corporation coming into existence, and subsequently not later than 15 months after the last preceding annual meeting.

### ***Director Residency Requirements***

Under the CBCA, at least 25% of a company's directors must be resident Canadians. No such restriction exists in the Fund Declaration of Trust.

### ***Securityholder Residency***

Under the Fund Declaration of Trust, at no time may non-residents of Canada be the beneficial owners of more than 49% of the outstanding Fund Units. No such restriction exists under the CBCA with respect to the ownership of shares of a corporation.

***Short Selling***

Under the CBCA, insiders of a corporation are prohibited from short selling any securities of the corporation. The Fund Declaration of Trust does not contain any restrictions on short selling.

**Details of the Arrangement*****Arrangement Steps***

The Plan of Arrangement, a copy of which is attached as Exhibit A to Schedule C of this Information Circular, sets out the transactions that will occur pursuant to the Arrangement. At the Effective Time, the following transactions shall occur and shall be deemed to occur in the following sequence without any further act or formality, except as otherwise expressly provided.

*Amendment of Fund Declaration of Trust*

- (a) the Fund Declaration of Trust shall be amended to the extent necessary to facilitate the Arrangement and the implementation of the steps and transactions contemplated herein;

*Amendment of the LP Agreement*

- (b) the LP Agreement shall be amended to the extent necessary to facilitate the Arrangement and the implementation of the steps and transactions contemplated herein;

*Fund Distribution*

- (c) the Fund shall declare a distribution to the Fund Unitholders of an amount equal to any remaining taxable income not declared payable or paid to Fund Unitholders prior to the Effective Time;

*Dissenting Securityholders*

- (d) the Fund Units held by Dissenting Securityholders shall be deemed to have been transferred to the Fund (free and clear of any and all liens, claims and encumbrances) and shall be immediately cancelled and cease to be outstanding, and such Dissenting Securityholders shall cease to be Fund Unitholders or to have any rights as Fund Unitholders, other than the right to be paid the fair value of their Fund Units in accordance with Article 4 of the Plan of Arrangement;
- (e) the LP Units held by Dissenting Securityholders shall be deemed to have been transferred to the LP (free and clear of any and all liens, claims and encumbrances) and shall be immediately cancelled and cease to be outstanding, and such Dissenting Securityholders shall cease to be LP Unitholders or to have any rights as LP Unitholders, other than the right to be paid the fair value of their LP Units in accordance with Article 4 of the Plan of Arrangement;

*Removal of New Liquor Stores Share Transfer and Issue Restrictions*

- (f) the articles of New Liquor Stores shall be amended to eliminate the restrictions on share transfers and the limitations on share issuances and shareholders by deleting Item 4 and paragraphs a and b of Item 7 thereof in their entirety;

*Exchange of Fund Units*

- (g) all of the issued and outstanding Fund Units (for greater certainty, other than those Fund Units (if any) previously transferred to the Fund by Dissenting Securityholders and immediately cancelled by the Fund pursuant to paragraph (d)) shall be transferred by Fund Unitholders to, and acquired by, New Liquor Stores (free and clear of any and all liens, claims and encumbrances);

- (h) in exchange for each one (1.0) Fund Unit acquired by New Liquor Stores pursuant to paragraph (g), New Liquor Stores shall issue one (1.0) New Liquor Stores Share to the Fund Unitholder who transferred such Fund Unit to New Liquor Stores;

*Exchange of LP Units*

- (i) all of the issued and outstanding LP Units (for greater certainty, other than those LP Units (if any) previously transferred to the LP by Dissenting Securityholders and immediately cancelled by the LP pursuant to paragraph (e)) shall be transferred by LP Unitholders to, and acquired by, New Liquor Stores (free and clear of any and all liens, claims and encumbrances);
- (j) in exchange for each one (1.0) LP Unit acquired by New Liquor Stores pursuant to paragraph (i), New Liquor Stores shall transfer one (1.0) New Liquor Stores Share to the LP Unitholder who transferred such LP Unit to New Liquor Stores;

*Exchange of Rights Under Fund Incentive Plans*

- (k) each of the issued and outstanding Fund Options shall be exchanged for an New Liquor Stores Option to acquire the same number of New Liquor Stores Shares as the number of Fund Units subject to the Fund Option, at the same price and on the same terms as provided in the Fund Option;
- (l) each of the issued and outstanding Fund LTIP Rights shall be exchanged for a New Liquor Stores LTIP Right to receive the same number of New Liquor Stores Shares as the number of Fund Units subject to the Fund LTIP Right on the same terms as provided in the Fund LTIP Rights;

*Repurchase and Cancellation of Initial New Liquor Stores Shares*

- (m) New Liquor Stores shall repurchase the 100 New Liquor Stores Shares held by the Fund at a price per share equal to the New Liquor Stores Share Fair Market Value and such New Liquor Stores Shares shall be cancelled;

*Transfer of the LP Units*

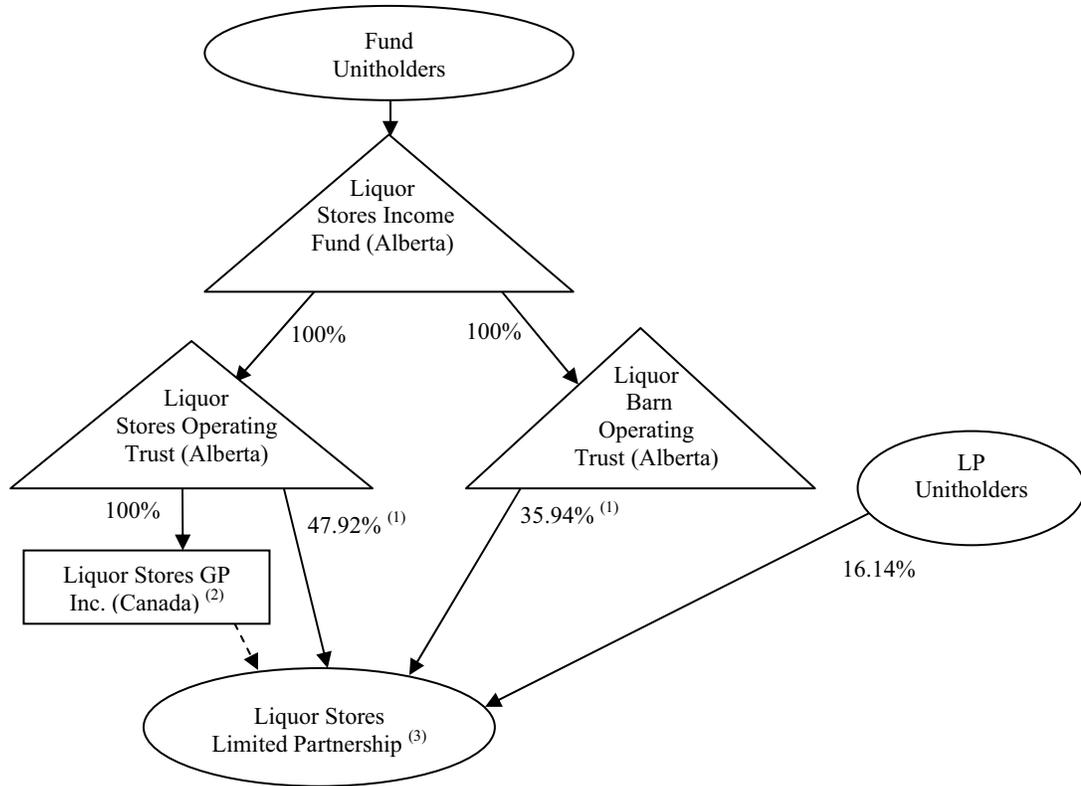
- (n) New Liquor Stores shall sell, transfer, assign and convey to the LP the LP Units acquired by New Liquor Stores pursuant to paragraph (i), and as consideration therefor, the LP shall issue to New Liquor Stores that number of Ordinary LP Units having a fair market value that is equal to the fair market value of the LP Units so sold, transferred, assigned and conveyed; and

*Cancellation of the LP Units*

- (o) the LP Units acquired by the LP pursuant to paragraph (n), and the Special Voting Units issued by the Fund in connection with the issuance of such LP Units, shall be cancelled and shall cease to be outstanding.

***Pre-Arrangement Structure***

The following diagram sets forth the simplified organizational structure of the Fund immediately prior to completion of the Arrangement.

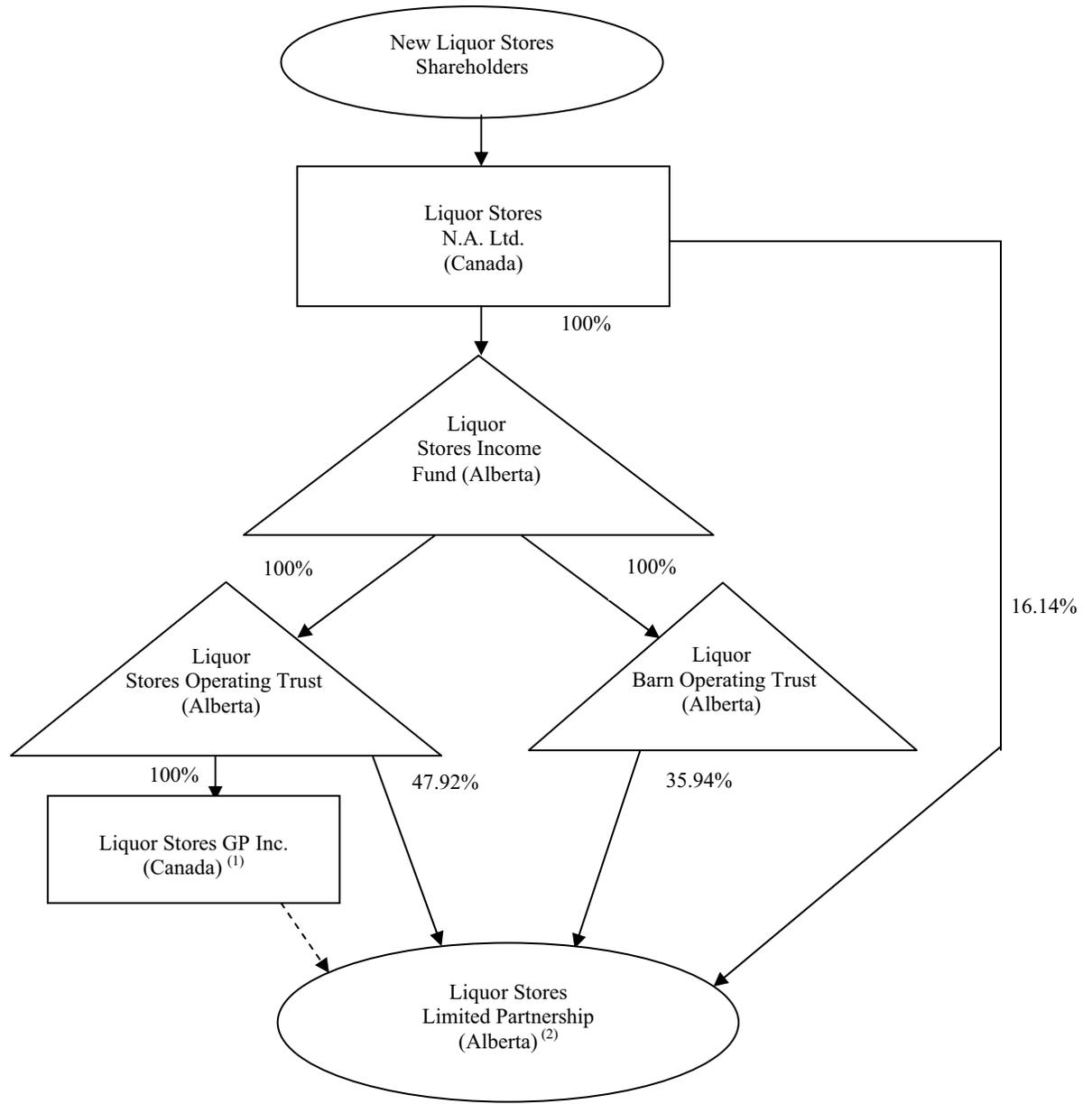


Notes:

- (1) Ordinary LP Units.
- (2) The GP holds all of the outstanding GP Units of LP.
- (3) LP, directly and indirectly, currently operates 235 retail liquor stores, including 28 liquor stores in the United States it operates through certain United States subsidiaries.

**Post-Arrangement Structure**

The following diagram sets forth the simplified organizational structure of New Liquor Stores immediately after completion of the Arrangement.



Notes:

- (1) The GP holds all of the outstanding GP Units of LP.
- (2) LP, directly and indirectly, currently operates 235 retail liquor stores, including 28 liquor stores in the United States it operates through certain United States subsidiaries.
- (3) Liquor Stores Income Fund and the other subsidiary trusts of New Liquor Stores will be wound-up in due course.

Upon the completion of the Arrangement, based upon the number of issued and outstanding Fund Securities as at the date hereof and assuming that no Dissent Rights are exercised, an aggregate of approximately

22,556,969 New Liquor Stores Shares will be issued and outstanding, all of which will be held by the Fund Securityholders.

### **Arrangement Agreement**

The Arrangement is being effected pursuant to the Arrangement Agreement. The Arrangement Agreement contains covenants of and from each of the Fund Entities and various conditions precedent.

The following is a summary of certain provisions of the Arrangement Agreement. The Arrangement Agreement is attached as Schedule C to this Information Circular and reference is made thereto for the full text thereof.

### ***Conditions Precedent to the Arrangement***

The respective obligations of the parties to consummate the transactions contemplated by the Arrangement Agreement are subject to the satisfaction, on or before the Effective Date or such other time as is specified below, of the following conditions, any of which may be waived by the mutual consent of the Fund Entities without prejudice to their right to rely on any other of such conditions:

- (a) the Interim Order shall have been granted in form and substance satisfactory to the Fund Entities, acting reasonably, not later than December 1, 2010 or such later date as the Fund Entities may agree and shall not have been set aside or modified in a manner unacceptable to such parties on appeal or otherwise;
- (b) the Arrangement Resolution shall have been approved by the requisite number of votes cast by the Fund Securityholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (c) the Final Order shall have been granted in form and substance satisfactory to the Fund Entities, acting reasonably, not later than December 31, 2010 or such later date as the Fund Entities may agree;
- (d) the Articles of Arrangement and all necessary related documents, in form and substance satisfactory to the Fund Entities, acting reasonably, shall have been accepted for filing by the Director together with the Final Order in accordance with subsection 192(6) of the CBCA;
- (e) no material action or proceeding shall be pending or threatened by any person and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
  - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated in the Arrangement Agreement; or
  - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated in the Arrangement Agreement;
- (f) all necessary or advisable material third party and regulatory consents, approvals and authorizations with respect to the transactions contemplated by the Arrangement Agreement shall have been completed or obtained including, without limitation, consents and approvals from the Fund's principal lenders and suppliers;
- (g) there shall not, as of the Effective Date, be holders of Fund Securities that hold, in aggregate, in excess of 2.5% of all outstanding Fund Securities, that have validly exercised and not withdrawn their rights of dissent under the CBCA and the Interim Order;

- (h) the TSX shall have conditionally approved the listing or the substitutional listing of the New Liquor Stores Shares (including the New Liquor Stores Shares issuable on the conversion of the Debentures and pursuant to the equity incentive plans to be adopted or assumed by New Liquor Stores in replacement of the Fund Incentive Plans) to be issued pursuant to the Arrangement and of the 6.75% Convertible Debentures to be assumed by New Liquor Stores pursuant to the Arrangement; and
- (i) the board of directors of the GP shall not have determined in its sole and absolute discretion that to proceed with the Arrangement would not be in the best interests of the Fund Securityholders.

The foregoing conditions are for the mutual benefit of the Fund Entities and may be asserted by any of the Fund Entities regardless of the circumstances and may be waived by such Fund Entities in their sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which such Fund Entities may have.

### ***Termination and Amendment***

The Arrangement Agreement may, at any time and from time to time before or after the Meeting, be amended in any respect whatsoever by written agreement of the parties thereto without further notice to or authorization on the part of the Fund Securityholders; provided that any such amendment that changes the consideration to be received by the Fund Securityholders pursuant to the Arrangement is brought to the attention of the Court before approval of the Final Order and is subject to such requirements as may be ordered by the Court.

The Arrangement Agreement may be terminated: (i) by the mutual agreement of the parties; (ii) if the Arrangement shall not have become effective on or before December 31, 2010 or such later date as may be agreed to by the parties thereto; and (iii) if any of the conditions precedent to the Arrangement have not been satisfied or otherwise waived by the parties.

### **Procedure for the Arrangement Becoming Effective**

The Arrangement is proposed to be carried out pursuant to Section 192 of the CBCA. The following procedural steps must be taken for the Arrangement to become effective:

- (a) the Arrangement Resolution must be approved by the Fund Securityholders, voting together as a single class in the manner required by the Interim Order;
- (b) the Arrangement must be approved by the Court pursuant to the Final Order;
- (c) all conditions precedent to the Arrangement set forth in the Arrangement Agreement must be satisfied or waived; and
- (d) the Final Order, Articles of Arrangement and related documents, in the form prescribed by the CBCA, must be sent to the Director.

### **Approvals**

#### ***Fund Securityholder Approval***

Pursuant to the Interim Order, the number of votes required to pass the Arrangement Resolution is not less than 66 $\frac{2}{3}$ % of the votes cast by the Fund Securityholders voting together as a single class either in person or by proxy at the Meeting.

Notwithstanding the foregoing, the Arrangement Resolution proposed for consideration by the Fund Securityholders, authorizes the Board, without further notice to or approval of the Fund Securityholders, subject to the terms of the Arrangement, to amend the Plan of Arrangement, decide not to proceed with the Arrangement or to revoke the Arrangement Resolution at any time prior to the Arrangement becoming effective

pursuant to the provisions of the Act. The full text of the Arrangement Resolution is attached as Schedule A to this Information Circular.

### ***Court Approvals***

#### *Interim Order*

On November 16, 2010, the Court granted the Interim Order facilitating the calling of the Meeting and prescribing the conduct of the Meeting and other matters. The Interim Order is attached as Schedule B to this Information Circular.

#### *Final Order*

The CBCA provides that an arrangement requires Court approval. If the Arrangement Resolution is approved by the Fund Securityholders, voting together as a single class, at the Meeting, and provided that the Board has not determined to not proceed with the Arrangement, the Fund and New Liquor Stores will make an application to the Court for the Final Order at the Calgary Courts Centre, 601 - 5th Street, S.W., Calgary, Alberta, Canada, on December 15, 2010 at 1:00 p.m. (Edmonton time) or as soon thereafter as counsel may be heard. The Notice of Application for the Final Order accompanies this Information Circular. At the application the Court will be requested to consider the fairness of the Arrangement.

Any Fund Securityholder or other interested party desiring to support or oppose the Application with respect to the Arrangement, may appear at the hearing in person or by counsel for that purpose, subject to filing with the Court and serving on the Fund and New Liquor Stores on or before 4:00 p.m. (Edmonton time) on December 8, 2010, a notice of intention to appear setting out their address for service and indicating whether they intend to support or oppose the Application or make submissions, together with any evidence or materials which are to be presented to the Court. Service of such notice on Liquor Stores is required to be effected by service upon the solicitors for Liquor Stores: Burnet, Duckworth & Palmer LLP, Suite 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: Dan McDonald, Q.C..

The Court has been advised that the Final Order, if granted, will constitute the basis for an exemption from the registration requirements of the 1933 Act, pursuant to Section 3(a)(10) thereof, with respect to the issuance pursuant to the Arrangement of the New Liquor Stores Shares and New Liquor Stores Incentive Rights issuable to Fund Securityholders and holders of Fund Incentive Rights, respectively.

Liquor Stores has been advised by its counsel that the Court has broad discretion under the CBCA when making orders with respect to the Arrangement and that the Court, in hearing the application for the Final Order, will consider, among other things, the fairness of the Arrangement to the Fund Securityholders and any other interested party as the Court determines appropriate. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court may determine appropriate. Liquor Stores may determine not to proceed with the Arrangement in the event that any amendment ordered by the Court is not satisfactory to it.

### ***Stock Exchange Listing Approvals***

It is a condition to completion of the Arrangement that the TSX shall have conditionally approved: (i) the substitutional listing of the New Liquor Stores Shares; (ii) the substitutional listing of the 6.75% Convertible Debentures to be assumed by New Liquor Stores; and (iii) the additional listing of the New Liquor Stores Shares (the "**Underlying Shares**") issuable pursuant to the New Liquor Stores Incentive Rights and upon conversion of the Debentures to be assumed by New Liquor Stores. The TSX has conditionally approved the substitutional listing of the New Liquor Stores Shares and the 6.75% Debentures, and the additional listing of the Underlying Shares subject to New Liquor Stores fulfilling the requirements of the TSX. Following the Arrangement, the New Liquor Stores Shares and the 6.75% Convertible Debentures will be listed on the TSX under the trading symbols "LIQ" and "LIQ.DB", respectively.

### ***Other Approvals***

In addition to the approval of the Court and approval of the Arrangement Resolution by Fund Securityholders, voting together as a single class, it is a condition precedent to the implementation of the Arrangement that all requisite regulatory approvals be obtained, including from applicable government agencies in respect of the Fund's Canadian liquor licenses.

### ***Third Party Approvals***

Certain of the transactions contemplated by the Arrangement require the consent of third parties, including the consent of the Fund's lenders and the landlords of certain of the Fund's Canadian store locations.

### **Timing of Completion of the Arrangement**

If the Meeting is held as scheduled and is not adjourned and the other necessary conditions to be satisfied at that point in time are satisfied or waived, the Fund and New Liquor Stores intend to apply for the Final Order approving the Arrangement on December 15, 2010. If the Final Order is obtained on December 15, 2010 in form and substance satisfactory to the Fund, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date will be on or about December 31, 2010. It is not possible, however, to state with certainty when the Effective Date will occur.

The Arrangement will become effective upon the sending to the Director of the Articles of Arrangement and a copy of the Final Order.

### **Procedure for Exchange of Securities**

#### ***Exchange of Fund Units***

As the Fund Units trade in the "book entry" system and no certificates are issued to unregistered Fund Unitholders, no new certificates for New Liquor Stores Shares will be issued to former beneficial holders of Fund Units following the completion of the Arrangement and beneficial holders of Fund Units do not need to take any action.

#### ***Exchange of LP Units***

In order to receive their New Liquor Stores Shares on the completion of the Arrangement, each LP Unitholder must deposit with the Depositary (at one of the addresses specified on the last page of the Letter of Transmittal) a validly completed and duly executed Letter of Transmittal together with the certificates representing such holder's LP Units. **LP Unitholders whose LP Units are registered in the name of a broker, dealer, bank, trust company or other nominee must contact their nominee to deposit their LP Units.**

The use of the mail to transmit certificates representing LP Units and the Letter of Transmittal is at each holder's risk. The Fund recommends that such certificates and documents be delivered by hand to the Depositary and a receipt therefore be obtained or that registered mail be used.

If the Letter of Transmittal is executed by a person other than the registered holder(s) of the LP Units being deposited or if the certificates representing New Liquor Stores Shares issued in exchange for the LP Units are to be issued to a person other than such registered owner(s) or sent to an address other than the address of the registered holder(s) as shown on the register of LP Unitholders maintained by the LP's registrar and transfer agent, the signature on the Letter of Transmittal must be medallion guaranteed by an Eligible Institution (as such term is defined in the Letter of Transmittal). If the Letter of Transmittal is executed by a person other than the registered owner(s) of the LP Units deposited therewith, and in certain other circumstances as set forth in the Letter of Transmittal, then the certificate(s) representing LP Units must be endorsed or be accompanied by an appropriate share transfer power of attorney duly and properly completed by the registered owner(s). The signature(s) on the endorsement panel or share transfer power of attorney must correspond exactly to the name(s) of the registered

owner(s) as registered or as appearing on the certificate(s) and must be medallion guaranteed by an Eligible Institution.

**From and after the Effective Time, certificates formerly representing LP Units exchanged pursuant to the Plan of Arrangement shall represent only the right to receive New Liquor Stores Shares to which the holders are entitled pursuant to the Arrangement.**

**LP Unitholders will not receive New Liquor Stores Shares or any dividends which may be declared thereon after the Effective Date until they submit the certificates for their LP Units to the Depositary along with a duly completed Letter of Transmittal. Each certificate formerly representing LP Units that is not deposited with all other documents as required pursuant to the Plan of Arrangement on or before the day prior to the fifth anniversary of the Effective Date shall cease to represent a right or claim of any kind or nature including the right of the holder to receive New Liquor Stores Shares or any distributions or dividends which may have been declared thereon.**

### **Right to Dissent**

The following description of the right to dissent and appraisal to which registered Fund Securityholders are entitled is not a comprehensive statement of the procedures to be followed by a Dissenting Securityholder who seeks payment of the fair value of such Dissenting Securityholder's Fund Securities and is qualified in its entirety by the reference to the full text of the Interim Order, Plan of Arrangement and the text of Section 190 of the CBCA, which are attached to this Information Circular as Schedules B, **Exhibit A to Schedule C and Schedule E, respectively. A Dissenting Securityholder who intends to exercise the right to dissent and appraisal should carefully consider and comply with the provisions of the CBCA, as modified by the Plan of Arrangement and by the Interim Order. Failure to adhere to the procedures established therein may result in the loss of all rights thereunder.** Accordingly, each Dissenting Securityholder who might desire to exercise the Dissent Right should consult their own legal advisor.

A Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing. Subject to certain tests as described below, pursuant to the Interim Order, Dissenting Securityholders are entitled, in addition to any other right such Dissenting Securityholder may have, to dissent and to be paid by New Liquor Stores the fair value of the Fund Securities held by such Dissenting Securityholder in respect of which such Dissenting Securityholder dissents, determined as of the close of business on the last Business Day before the day on which the Arrangement Resolution was adopted. **A Dissenting Securityholder may dissent only with respect to all of the Fund Securities held by such Dissenting Securityholder or on behalf of any one beneficial owner and registered in the Dissenting Securityholder's name. Only registered Fund Securityholders may dissent. All Fund Units are registered in the name of CDS & Co. and are held through the beneficial holders' brokers and intermediaries. Persons who are beneficial owners of Fund Securities registered in the name of a broker, dealer, bank, trust company or other nominee who wish to dissent should be aware that they may only do so through the registered owner of such Fund Securities. A registered Fund Securityholder, such as a broker, who holds Fund Securities as nominee for beneficial holders, some of whom wish to dissent, must exercise the Dissent Right on behalf of a beneficial owner with respect to all of the Fund Securities held for such beneficial owner. In such case, the demand for dissent should set forth the number of Fund Securities covered by it.**

Dissenting Securityholders must provide a written objection to the Arrangement Resolution to the Fund c/o Burnet, Duckworth & Palmer LLP, Suite 1400, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3N9 Attention: Dan McDonald, Q.C., by 4:00 p.m. (Edmonton time) on the second Business Day prior to the date of the Meeting or any adjournment thereof. The filing of a written objection does not deprive a Dissenting Securityholder of the right to vote; however, the CBCA provides, in effect, that a Dissenting Securityholder who has submitted a written objection to the Arrangement Resolution and who votes in favour of the Arrangement Resolution will no longer be considered a Dissenting Securityholder with respect to the Fund Securities voted in favour of the Arrangement Resolution. The CBCA does not provide, and the Fund will not assume, that a vote against the Arrangement Resolution constitutes a written objection to the Arrangement Resolution. There is no right of partial dissent and, accordingly, a Dissenting Securityholder may only exercise the right to dissent with respect to all of the

Fund Units and LP Units held by it on behalf of any one beneficial owner and registered in the name of the Dissenting Securityholder.

The Fund is required, within 10 days after the adoption of the Arrangement Resolution, to notify each Dissenting Securityholder that the Arrangement Resolution has been adopted, but such notice is not required to be sent to any Dissenting Securityholder who voted for the Arrangement Resolution or who has withdrawn its written objection to the Arrangement Resolution.

A Dissenting Securityholder must, within 20 days after the Dissenting Securityholder receives notice that the Arrangement Resolution has been adopted or, if the Dissenting Securityholder does not receive such notice, within 20 days after the Dissenting Securityholder learns that the Arrangement Resolution has been passed, send to the Fund or the LP, as the case may be, a written notice (a "**Payment Demand**") containing the Dissenting Securityholder's name and address, the number of Fund Units and LP Units in respect of which the Dissenting Securityholder dissented and a demand for payment of the fair value of such securities. Within 30 days after a Payment Demand, the Dissenting Securityholder must send to CIBC Mellon, at the address given above, the certificates representing the Fund Units and/or LP Units, as the case may be, that are the subject of the Payment Demand. A Dissenting Securityholder who fails to send the certificates representing the Fund Units and LP Units that are the subject of the Payment Demand forfeits its right to make a claim under Section 190 of the CBCA. CIBC Mellon will endorse on the certificates received from a Dissenting Securityholder a notice that the holder is a Dissenting Securityholder and will forthwith return the certificates to the Dissenting Securityholder.

On filing a Payment Demand, a Dissenting Securityholder ceases to have any rights as a New Liquor Stores Shareholder or a Fund Unitholder or LP Unitholder, other than the right to be paid the fair value of the Fund Units and/or LP Units, as the case may be, in respect of which the Dissenting Shareholder dissented as determined under Section 190 of the CBCA, except where:

- (a) the Dissenting Securityholder withdraws its Payment Demand before the Fund or the LP, as the case may be, makes an offer (as hereinafter described) to such securityholder;
- (b) the Fund or the LP, as the case may be, fails to make an offer and the Dissenting Securityholder withdraws its Payment Demand; or
- (c) the board of directors of the GP revokes the Arrangement Resolution.

Upon the occurrence of any of the events in paragraphs (a), (b) and (c), a Dissenting Securityholder's rights as a Fund Unitholder and/or the LP Unitholder, as the case may be, will be reinstated.

The Fund and the LP are required, not later than seven days after the later of the Effective Date or the date on which it received the Payment Demand of a Dissenting Securityholder, to send to each Dissenting Securityholder who has sent it a Payment Demand, a written offer to pay ("**Offer to Pay**") for its Fund Units and LP Units, as the case may be, in respect of which the Dissenting Securityholder dissented in an amount considered by the board of directors of the GP to be the fair value thereof, accompanied by a statement showing the manner in which the fair value was determined. Every Offer to Pay with respect to Fund Units and LP Units must be on the same terms. The Fund and the LP must pay for the Fund Units and LP Units, respectively, of a Dissenting Securityholder within 10 days after an Offer to Pay has been accepted by a Dissenting Securityholder, but any such Offer to Pay lapses if it does not receive an acceptance thereof within 30 days after the Offer to Pay has been made. If the Fund or the LP fails to make an Offer to Pay for the Fund Units and LP Units, respectively, that are the subject of the Payment Demand, or if a Dissenting Securityholder fails to accept an Offer to Pay that has been made, the Fund or the LP, as the case may be, may, within 50 days after the Effective Date or within such further period as a court may allow, apply to a court to fix a fair value for the Fund Units and/or LP Units of Dissenting Securityholders. If the Fund or the LP fails to apply to a court, a Dissenting Securityholder may apply to a court for the same purpose within a further period of 20 days or within such further period as a court may allow. A Dissenting Securityholder is not required to give security for costs in such an application.

Upon an application to a court, all Dissenting Securityholders whose Fund Units and LP Units in respect of which they dissent have not received a cash payment from the Fund or the LP, as the case may be, will be joined as parties and bound by the decision of the court, and the Fund or the LP, as applicable, will be required to notify each affected Dissenting Securityholder of the date, place and consequences of the application and of its right to appear and be heard in person or by counsel. Upon any such application to a court, the court may determine whether any other person is a Dissenting Securityholder who should be joined as a party, and the court will then fix a fair value for the Fund Units and/or LP Units of all Dissenting Securityholders. The final order of a court will be rendered against the Fund or the LP, as the case may be, in favour of each Dissenting Securityholder and for the amount of the fair value of the Fund Units and/or LP Units in respect of which Dissent Rights are being exercised as fixed by the court. The court may, in its discretion, allow a reasonable rate of interest on the amount payable to each Dissenting Securityholder from the Effective Date until the date of payment.

The above summary does not purport to provide a comprehensive statement of the procedures to be followed by Dissenting Securityholders who seek payment of the fair value of their Fund Securities. Section 190 of the CBCA, other than as amended by the Arrangement and the Interim Order, requires adherence to the procedures established therein and failure to do so may result in the loss of all rights thereunder. **Accordingly, Dissenting Securityholders who might desire to exercise the right to dissent and appraisal should carefully consider and comply with the provisions of Section 190 of the CBCA, the full text of which is set out in Appendix E to this Information Circular and consult their own legal advisor.**

**Unless otherwise waived, it is a condition to the completion of the Arrangement that holders of not greater than 2.5% of the issued and outstanding Fund Securities shall have exercised Dissent Rights in respect of the Arrangement that have not been withdrawn as of the Effective Date.**

## Securities Law Matters

### *Canada*

The New Liquor Stores Shares to be issued to Fund Securityholders pursuant to the Arrangement will be issued in reliance upon the exemptions from prospectus and registration requirements of applicable Canadian securities laws and, following completion of the Arrangement, the New Liquor Stores Shares will generally be "freely tradeable" (other than as a result of any "control block" restrictions which may arise by virtue of the ownership thereof) under Canadian Securities Laws.

### *Judicial Developments*

The Arrangement will be implemented pursuant to section 192 of the CBCA which provides that, where it is impractical for a corporation to effect a fundamental change in the nature of an arrangement under any other provisions of the CBCA, a corporation may apply to the court for an order approving the arrangement proposed by such corporation. Pursuant to this section of the CBCA, an application will be made by New Liquor Stores and the Fund for approval of the Arrangement. Although there have been a number of judicial decisions considering this section and applications to various arrangements, there have not been, to the knowledge of the Fund, any recent significant decisions which would apply in this instance. **Fund Securityholders should consult their legal advisors with respect to the legal rights available to them in relation to the Arrangement.**

### *United States*

The offer and sale of the New Liquor Stores Shares issuable to Fund Securityholders in exchange for their Fund Securities pursuant to the Arrangement have not been and will not be registered under the 1933 Act. Such securities will be issued in reliance upon the exemption from the registration requirements of the 1933 Act provided by Section 3(a)(10) thereof. Section 3(a)(10) exempts the issuance of securities issued in exchange for one or more bona fide outstanding securities from the general requirement of registration where the terms and conditions of such issuance and exchange are approved by any court of competent jurisdiction, after a hearing upon the fairness of such terms and conditions at which all persons to whom the securities will be issued have the right to appear and receive timely notice thereof. The Court is authorized to conduct a hearing at which the fairness of the

terms and conditions of the Arrangement will be considered. The Court granted the Interim Order on November 16, 2010 and, subject to the approval of the Arrangement by Fund Securityholders, a hearing on the Arrangement will be held on December 15, 2010 by the Court.

Subject to any applicable contractual terms applicable thereto, the New Liquor Stores Shares issuable to Fund Securityholders will be freely tradable under U.S. federal securities laws, except by persons who are "affiliates" of New Liquor Stores after the Arrangement or within 90 days prior to the completion of the Arrangement. Persons who may be deemed to be "affiliates" of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer.

Any resale of such New Liquor Stores Shares by such an affiliate (or, if applicable, former affiliate) may be subject to the registration requirements of the 1933 Act, absent an exemption therefrom. Subject to certain limitations, such affiliates may immediately resell such New Liquor Stores Shares outside the United States without registration under the 1933 Act pursuant to Regulation S. If available, such affiliates (and former affiliates) may also resell such New Liquor Stores Shares pursuant to Rule 144 under the 1933 Act.

The foregoing discussion is only a general overview of certain requirements of United States federal securities laws applicable to the resale of New Liquor Stores Shares to be received upon completion of the Arrangement. All holders of such securities are urged to consult with counsel to ensure that the resale of their securities complies with applicable securities legislation.

**Fund Securityholders are urged to consult their legal advisors to determine the extent of all applicable resale provisions.**

#### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Fund, the following is, as of the date hereof, a fair and adequate summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to Fund Securityholders in respect of the Arrangement and to holders of New Liquor Stores Shares in respect of the acquisition, holding and disposition of New Liquor Stores Shares (together, "**Holders**") who, for purposes of the Tax Act and at all material times, hold their Fund Securities and will hold their New Liquor Stores Shares as capital property and deal at arm's length with and are not affiliated with the Fund, the LP, the GP or New Liquor Stores.

Fund Securities and New Liquor Stores Shares generally will be considered to be capital property to a Holder unless such Holder holds such securities in the course of carrying on a business of buying and selling securities or such Holder has acquired the Fund Securities or New Liquor Stores Shares in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders who are resident of Canada and who might not otherwise be considered to hold their Fund Units or New Liquor Stores Shares as capital property may, in certain circumstances, be entitled to make the irrevocable election provided in Subsection 39(4) of the Tax Act to have the Fund Units and New Liquor Stores Shares and every other "Canadian security" within the meaning of the Tax Act, owned by the particular Holder in the taxation year of the election and in all subsequent taxation years treated as capital property. This election is not available for LP Units. Holders contemplating making such an election should consult their own tax advisors.

This summary is not applicable to a Holder: (i) that is a "financial institution"; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment; or (iv) whose functional currency for purposes of the Tax Act is the currency of a country other than Canada, all as defined in the Tax Act. All such Holders should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act, counsel's understanding, based on publicly available published materials, of the current administrative policies and assessing practices of the CRA in force as of the date hereof and specific proposals (the "**Proposed Amendments**") to amend the Tax Act publicly

announced by or on behalf of the Minister prior to the date hereof. This summary does not take into account, or anticipate any changes in law, whether by legislative, regulatory or judicial action or decision and does not take into account any provincial, territorial or foreign tax consequences which may differ significantly from those discussed herein.

**This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations. This summary is not intended to be, and should not be construed as, legal, business or tax advice, or representations to any particular Holder. Accordingly, Holders should consult with their own tax advisors for advice with respect to the tax consequences to them in their particular circumstances.**

### **Holders Resident in Canada**

This portion of the summary is generally applicable to a Holder that is, at all relevant times and for the purposes of the Tax Act and any applicable income tax treaty, resident or deemed to be resident in Canada (a "**Resident Holder**").

### *Exchange of Fund Securities*

#### *Fund Unitholders*

Pursuant to the Arrangement, Fund Unitholders (other than Fund Unitholders that exercise their Dissent Rights) will transfer each Fund Unit to New Liquor Stores solely in exchange for one New Liquor Stores Share. A Fund Unitholder who exchanges Fund Units for New Liquor Stores Shares will be deemed to have disposed of each such Fund Unit for proceeds of disposition equal to the adjusted cost base of such Fund Unit to the Fund Unitholder immediately before the exchange and therefore the exchange of Fund Units will generally not result in a capital gain (or capital loss) to the Fund Unitholder. The initial cost of the New Liquor Stores Share received by a Fund Unitholder will be equal to the aggregate adjusted cost base to such Fund Unitholder of the Fund Units immediately before the exchange.

#### *LP Unitholder*

Pursuant to the Arrangement, each LP Unitholder (other than an LP Unitholder that exercise their Dissent Rights) will transfer each LP Unit to New Liquor Stores solely in exchange for one New Liquor Stores Share. Provided the LP is a "SIFT partnership" under the SIFT Rules, an LP Unitholder who disposes of LP Units to New Liquor Stores in exchange for New Liquor Stores Shares should be deemed to have disposed of each LP Unit for proceeds of disposition equal to the "cost amount" (as defined in the Tax Act) of such LP Units to the LP Unitholder immediately before the exchange and therefore such exchange generally should not result in a capital gain (or capital loss) to the LP Unitholder. The aggregate of the initial cost of the New Liquor Store Shares received by the LP Unitholder should be equal to the aggregate cost amount of such LP Units to such LP Unitholder immediately before the exchange.

While the foregoing is expected to be the Canadian federal income tax treatment of an LP Unitholder of the disposition of an LP Unit to New Liquor Stores pursuant to the Arrangement, it is possible that the LP does not qualify as a "SIFT partnership" for the purposes of the Tax Act and any exchange of LP Units for New Liquor Store Shares will not automatically occur on a tax-deferred basis. If the LP does not qualify as a "SIFT partnership", an LP Unitholder who does not file a joint tax election under section 85 ("**Section 85 Election**") of the Tax Act (and any applicable provincial or territorial tax election forms that the LP Unitholder determines are relevant to such LP Unitholder) with New Liquor Stores generally will realize a capital gain equal to the amount by which the fair market value of the New Liquor Store Shares received is greater than the aggregate of the adjusted cost base of the LP Units so disposed of and any reasonable costs incurred by the LP Unitholder in connection with the disposition. Accordingly, it is strongly recommended that LP Unitholders disposing of LP Units pursuant to the Arrangement make a Section 85 Election with New Liquor Stores to defer all or part of the capital gain that otherwise would be realized. The taxation of capital gains and capital losses is described below under "*Taxation of Capital Gains and Capital Losses*".

In order to make the Section 85 Election, the LP Unitholder must provide to New Liquor Stores two signed copies of the prescribed form of election (including any applicable provincial or territorial tax election forms that the LP Unitholder determines are relevant to such LP Unitholder) no later than the 120<sup>th</sup> day after the Effective Date, duly completed, including details of the number of LP Units transferred and the applicable elected amount for purposes of the election in accordance with the restrictions set out in subsections 85(1) and (2) of the Tax Act, as applicable. Thereafter, the election forms will be signed by New Liquor Stores and returned to the LP Unitholder within 30 days after the receipt thereof by New Liquor Stores for filing with the CRA (or the applicable provincial taxing authority).

For Canadian federal income tax purposes, the relevant tax election form is Form T2057, entitled "Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation" (or, if the Holder is a partnership, Form T2058, entitled "Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation").

The elected amount set out in the Section 85 Election may not:

(a) be less than the lesser of:

- (i) the LP Unitholder's aggregate adjusted cost base of the LP Units transferred to New Liquor Stores; and,
- (ii) the fair market value of the LP Units transferred by the LP Unitholder at the time such units are transferred to New Liquor Stores;

or

(b) be greater than the fair market value of the LP Units transferred to New Liquor Stores by the LP Unitholder.

For the CRA (and where applicable, any provincial or territorial tax authority) to accept a tax election without a late filing penalty paid by the LP Unitholder, the election must be received by such tax authorities on or before a certain date. Each LP Unitholder should consult with their own legal and tax advisors to determine the applicable filing due date.

None of the Fund Arrangement Parties will be responsible for any taxes, interest or penalties resulting from the failure by an LP Unitholder to properly complete or file the election forms in the form and manner and within the time prescribed by the Tax Act (or any applicable provincial legislation). In its sole discretion, New Liquor Stores may choose to sign and return an election form received by it more than 120 days following the Effective Date, but New Liquor Stores will have no obligation to do so.

Regardless of whether the LP is a "SIFT partnership", if a Section 85 Election is filed in a timely manner, the LP Unitholder should realize a capital gain equal to the amount, if any, by which the elected amount exceeds the aggregate of the adjusted cost base of the LP Units transferred to New Liquor Stores and any reasonable costs of disposition. If the elected amount is equal to or less than the adjusted cost base of such LP Units, no capital gain should be realized.

Whether an LP Unitholder can realize a capital loss on the disposition of an LP Unit will depend on whether the LP is a "SIFT partnership". If the LP is a "SIFT partnership", any capital loss that otherwise would be realized as a result of the disposition (regardless of whether or not a Section 85 Election is made) should be, effectively, suspended until such time as New Liquor Stores Shares are disposed of and certain other requirements set out in the Tax Act are satisfied. The taxation of capital gains or capital losses is described below under "*Taxation of Capital Gains and Capital Losses*".

### ***Dividends on New Liquor Stores Shares***

In the case of a New Liquor Stores Shareholder who is an individual (other than certain trusts), dividends received or deemed to be received on the New Liquor Stores Shares will be included in computing such holder's income and will be subject to the normal gross-up and dividend tax credit rules applicable to dividends paid by taxable Canadian corporations under the Tax Act, including the enhanced gross-up and dividend tax credit applicable to any dividend designated as an "eligible dividend" in accordance with the provisions of the Tax Act. There are potential limitations on the ability of New Liquor Stores to designate dividends as "eligible dividends" depending on the circumstances

Dividends received or deemed to be received on the New Liquor Stores Shares by a corporation generally will be included in the corporation's income for the taxation year in which such dividends are received and generally will be deductible in computing the corporation's taxable income. A corporation that is a "private corporation" (as defined in the Tax Act) or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a refundable tax of 33 $\frac{1}{3}$ % under Part IV of the Tax Act on dividends received (or deemed to be received) on the New Liquor Stores Shares to the extent such dividends are deductible in computing taxable income for the year.

### ***Dispositions of New Liquor Stores Shares***

A disposition or a deemed disposition of New Liquor Stores Shares by a New Liquor Stores Shareholder generally will result in such holder realizing a capital gain (or a capital loss) in the year of the disposition equal to the amount which the proceeds of disposition of the New Liquor Stores Shares are greater (or less) than the aggregate of the holder's adjusted cost base of the New Liquor Stores Shares and any reasonable costs of disposition. The adjusted cost base of a New Liquor Stores Share generally will be the average of the cost of all New Liquor Stores Share held by the holder as capital property. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Taxation of Capital Gains and Capital Losses*".

#### *Taxation of Capital Gains and Capital Losses*

Generally a Resident Holder will be required to include one-half of the amount of any capital gain in income as a taxable capital gain in the year in which it is realized. A Resident Holder will also be required to deduct one-half of the amount of any capital loss realized as an allowable capital loss against taxable capital gains realized in the same taxation year. To the extent that allowable capital losses exceed taxable capital gains of a Resident Holder in a particular taxation year, the Resident Holder may carry back and deduct such losses from taxable capital gains in any of the three preceding taxation years, or carry forward such losses and deduct them from taxable capital gains in any following taxation year, to the extent and under the circumstances specified in the Tax Act.

A Resident Holder that, throughout the relevant taxation year, is a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay a refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains

In the case of a disposition of New Liquor Stores Shares by a Resident Holder that is a corporation, the amount of any capital loss may be reduced by the amount of any dividends received or deemed to be received on such shares to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns New Liquor Stores Shares, directly or indirectly, through a partnership or trust.

### ***Alternative Minimum Tax***

In the case of a Holder that is an individual or in the case of certain trusts, taxable capital gains, if any, may increase such person's liability for minimum tax depending upon their particular circumstances. Holders to whom the alternative minimum tax rules may be relevant should consult their own tax advisors.

### ***Eligibility for Investment***

Subject to the provisions of a particular plan, provided that the New Liquor Stores Shares are listed on a designated stock exchange (which includes the TSX) at the time of acquisition, or New Liquor Stores continues to qualify as a "public corporation" for the purposes of the Tax Act at the time of acquisition, New Liquor Stores Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts. However, the holder of a tax-free savings account that governs a trust which holds New Liquor Stores Shares will be subject to a penalty tax if the holder has a significant interest (within the meaning of the Tax Act) in New Liquor Stores or a corporation, partnership or trust with which New Liquor Stores does not deal at arm's length for the purposes of the Tax Act. **Persons who intend to hold New Liquor Stores Shares in their tax-free savings accounts should consult their own tax advisors regarding their particular circumstances.**

### ***Dissenting Securityholders***

Pursuant to the Arrangement a Dissenting Securityholder will be deemed to have transferred such Dissenting Securityholder's Fund Units to the Fund or such Dissenting Securityholder's LP Units to the LP, as the case may be, for proceeds of disposition equal to the amount payable to such Dissenting Securityholder (except to the extent such amount represents interest). A Dissenting Securityholder will be deemed to have disposed of the holder's Fund Units or LP Units, as the case may be, for proceeds of disposition equal to the amount payable to such Dissenting Securityholder (except to the extent such amounts represent interest). Such Dissenting Securityholder will realize a capital gain (or capital loss) equal to the amount by which such proceeds of disposition exceed (or are less than) the Dissenting Securityholder's adjusted cost base of the Fund Units or LP Units, plus any reasonable costs of disposition, as the case may be. Such capital gain (or capital loss) will be subject to the tax treatment described above under "*Taxation of Capital Gains and Capital Losses*".

**Holders who are considering exercising Dissent Rights are urged to consult their own tax advisors as to the tax consequences of the Arrangement to them.**

### **Non-Resident Holders**

This portion of the summary applies to a Holder who, for purposes of the Tax Act and any relevant tax treaty, is not and is not deemed to be resident in Canada and who does not use or hold, and is not deemed to use or hold, Fund Units or New Liquor Stores Shares in carrying on a business in Canada and is not an insurer who carries on an insurance business or is deemed to carry on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**").

**All Holders who are resident, or are otherwise subject to tax, in jurisdictions other than Canada should consult their own tax advisors with respect to tax consequences of the Arrangement to them, including any associated filing requirements, in such jurisdictions.**

### ***Exchange of Fund Units***

A Non-Resident Holder who exchanges a Fund Unit pursuant to the Arrangement will generally be subject to Canadian taxation on the same basis as a Resident Holder as described above under "*Holdings Resident in Canada*".

Where the Fund Units held by a Non-Resident Holder are taxable Canadian property to the Non-Resident, the New Liquor Stores Shares received pursuant to the Arrangement will be deemed to be taxable Canadian property to the Non-Resident at any time that is within 60 months after the disposition. See "*Taxable Canadian Property*" below.

### ***Dividends on New Liquor Stores Shares***

Dividends paid or deemed to be paid to a Non-Resident on New Liquor Stores Shares will be subject to Canadian withholding tax at the rate of 25% unless the rate is reduced under the provisions of a tax treaty between Canada and the Non-Resident Holder's jurisdiction of residence. Where the Non-Resident Holder is a U.S. resident entitled to benefits under the Canada-United States Income Tax Convention (1980) and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

### ***Disposition of New Liquor Stores Shares***

A Non-Resident Holder generally should not be liable for Canadian federal income tax on a disposition or deemed disposition of New Liquor Stores Shares unless the Non-Resident Holder's New Liquor Stores Shares constitute "taxable Canadian property" to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty or convention between Canada and the country in which the Non-Resident Fund Unitholder is resident. See "*Taxable Canadian Property*" below.

### ***Taxable Canadian Property***

#### *Fund Units*

Provided the Fund is a mutual fund trust for purposes of the Tax Act at the Effective Time, Fund Units will not be considered to be taxable Canadian property to a Non-Resident Holder unless at any time during the 60 month period immediately preceding the Effective Time, both: (i) the Non-Resident Holder, or persons with whom the Non-Resident Holder did not deal at an arm's length or any combination thereof, held 25% or more of the issued units of the Fund; and (ii) more than 50% of the fair market value of the Fund Units was derived directly or indirectly from one or any combination of, *inter alia*, real or immovable property situated in Canada and Canadian resource properties. **Non-Resident Holders whose Fund Units may constitute taxable Canadian property should consult their own tax advisors.**

#### *New Liquor Stores Shares*

Provided the New Liquor Stores Shares are listed on a designated stock exchange for the purpose of the Tax Act (which includes the TSX) and the New Liquor Stores Shares are not otherwise deemed to be taxable Canadian property for purposes of the Tax Act (for instances where the New Liquor Stores Shares are deemed to be taxable Canadian property see "*Non-Resident Holders – Exchange of Fund Units*"), New Liquor Stores Shares will not constitute taxable Canadian property of a Non-Resident unless at any time during the 60 month period immediately preceding the disposition of the New Liquor Stores Shares, both: (i) the Non-Resident Holder, or persons with whom the Non-Resident Holder did not deal at arm's length or any combination thereof, held 25% or more of the issued shares of any class of the capital stock of New Liquor Stores, and (ii) more than 50% of the fair market value of the New Liquor Stores Shares was derived directly or indirectly from one or any combination of, *inter alia*, real or immovable property situated in Canada and Canadian resource properties. **Non-Resident Holders whose New Liquor Stores Shares may constitute taxable Canadian property should consult their own tax advisors.**

### ***Dissenting Securityholders***

Pursuant to the Arrangement, a Non-Resident Dissenting Securityholder will be deemed to have transferred such Dissenting Securityholder's Fund Units to the Fund for proceeds of disposition equal to the amount payable to such Dissenting Securityholder (except to the extent such amount represents interest) and will cease to have any rights as a Fund Unitholder, other than the right to be paid the fair value of their Fund Units. A deemed transfer of Fund Units to the Fund will not give rise to any capital gains subject to tax under the Tax Act provided that the Fund Units are not "taxable Canadian property" of the Non-Resident Dissenting Securityholder for the purposes of the Tax Act. See "*Taxable Canadian Property*" above. A Non-Resident Securityholder that exercises Dissent Rights will not be subject to withholding tax on the payment of any interest. **Non-Resident Holders that**

**are considering exercising Dissent Rights are urged to consult their own tax advisors as to the tax consequences of the Arrangement to them.**

## **INFORMATION CONCERNING THE FUND**

### **General**

Liquor Stores Income Fund is an open-ended limited purpose trust governed by the Fund Declaration of Trust and by the laws of the Province of Alberta. The Fund is administered by the GP, which is managed by the Board. The Fund was established to hold, directly and indirectly, securities of operating subsidiaries and other affiliates and to distribute the income of such entities.

The Fund, through its indirect investment in the LP, is Canada's largest private operator of retail liquor stores (as measured by number of stores). The LP currently operates or has interests in 235 retail liquor stores including 172 stores in Alberta, 35 stores in British Columbia, 20 stores in Alaska, and 8 stores in Kentucky. The LP also supplies liquor in Alberta on a wholesale basis to a number of restaurants, golf courses, nightclubs, and other licensees. For each of the years ended December 31, 2008 and December 31, 2009, respectively, approximately 99% of the LP's sales in Canada and approximately 90% of its sales in the United States were derived from the sale of alcoholic beverages.

The LP primarily operates under the brand names Liquor Depot and Liquor Barn in Alberta and British Columbia; Brown Jug in Alaska; and Liquor Barn "The Ultimate Party Source" and Liquor Barn "Express" in Kentucky.

The LP had approximately 1,950 full and part time employees as of December 31, 2009, comprised of approximately 1,500 employees with respect to its Canadian operations and 450 employees with respect to its U.S. operations. The LP has no unionized employees.

The head office of each of the Fund, the LP and the GP is located at Suite 300, 10508 – 82<sup>nd</sup> Avenue, Edmonton, Alberta T6E 2A4.

For further information regarding the Fund, its subsidiaries and their respective business activities, see the AIF and the other documents incorporated by reference herein.

### **Documents Incorporated by Reference**

**Information in respect of the Fund has been incorporated by reference in this Information Circular from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Fund at Suite 300, 10508 – 82<sup>nd</sup> Avenue, Edmonton, Alberta T6E 2A4, Telephone (780) 917-4179. In addition, copies of the documents incorporated herein by reference may be obtained through the SEDAR website at [www.sedar.com](http://www.sedar.com).

The following documents of the Fund, filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada where the Fund is a reporting issuer, are specifically incorporated by reference into and form an integral part of this Information Circular:

1. the AIF;
2. the Financial Statements;
3. the MD&A; and
4. the AGM Circular.

Any documents of the type required by National Instrument 44-101 *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding confidential reports), comparative interim financial statements and comparative annual financial statements (together with the auditors' report thereon), management's discussion and analysis, business acquisition reports and information circulars filed by the Fund with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this Information Circular and prior to the completion of the Arrangement shall be deemed to be incorporated by reference in this Information Circular.

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

## **Distribution History**

### ***The Fund***

The Fund Unitholders of record on a distribution record date are entitled to receive distributions paid by the Fund in respect of that month. Cash distributions are generally made on or about the 15<sup>th</sup> day of each month to Fund Unitholders of record on the last business day of the preceding month.

In 2010, the Fund has declared regular distributions of \$0.135 per Fund Unit for the months of January through November. For the year ended December 31, 2009, the Fund declared aggregate distributions of \$1.62 per Fund Unit.

### ***The LP***

The LP makes monthly distributions of distributable cash on the LP Units. The distributable cash of the LP 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.

In 2010, the LP has declared regular distributions of \$0.135 per LP Unit for the months of January through November. For the year ended December 31, 2009, the LP declared aggregate distributions of \$1.62 per LP Unit.

The distributions anticipated to be paid to Fund Unitholders and LP Unitholders during the remainder of 2010 will not be affected by the proposed Arrangement and it is expected that they will be paid in the usual manner. Following completion of the Arrangement the Fund anticipates a monthly dividend in the amount of \$0.09 per New Liquor Stores Share (\$1.08 per annum) will be paid to New Liquor Stores Shareholders. See "*Information Concerning New Liquor Stores – Dividend Policy*".

**Future cash dividends of New Liquor Stores are not assured or guaranteed. The amount of future cash dividends on the New Liquor Stores Shares will be subject to the discretion of the New Liquor Stores board and may vary depending on a variety of factors including, among other things, the prevailing economic and competitive environment, New Liquor Stores' results of operations and earnings, financial requirements for New Liquor Stores' operations and the execution of its growth strategy, fluctuations in**

working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, and other factors and conditions existing from time to time, some of which may be beyond the control of New Liquor Stores. See "*Information Concerning New Liquor Stores - Risk Factors*".

### Price Range and Trading Volume of Securities

#### *Fund Units*

The Fund Units are listed and posted for trading on the TSX under the trading symbol LIQ.UN. The following table sets forth trading information for the Fund Units for the periods indicated as reported by the TSX.

| <u>Period</u>     | <u>High (\$)</u> | <u>Low (\$)</u> | <u>Volume</u> |
|-------------------|------------------|-----------------|---------------|
| <b>2010</b>       |                  |                 |               |
| January           | 16.11            | 15.59           | 1,176,986     |
| February          | 17.05            | 15.75           | 907,659       |
| March             | 17.44            | 16.00           | 1,713,617     |
| April             | 17.97            | 17.15           | 783,201       |
| May               | 17.42            | 14.00           | 1,709,401     |
| June              | 15.62            | 14.41           | 855,499       |
| July              | 16.19            | 14.66           | 657,108       |
| August            | 16.20            | 15.03           | 706,101       |
| September         | 15.93            | 15.11           | 751,447       |
| October           | 16.05            | 14.89           | 1,443,904     |
| November (1 – 12) | 15.75            | 14.91           | 567,140       |
| <b>2009</b>       |                  |                 |               |
| November          | 15.84            | 14.01           | 1,784,564     |
| December          | 15.79            | 14.20           | 1,427,126     |

On November 12, 2010, the closing price of the Fund Units on the TSX was \$15.00.

#### *6.75% Convertible Debentures*

The 6.75% Convertible Debentures are listed and posted for trading on the TSX under the trading symbol LIQ.DB. The following table sets forth trading information for the 6.75% Convertible Debentures for the periods indicated as reported by the TSX.

| <u>Period</u>     | <u>High (\$)</u> | <u>Low (\$)</u> | <u>Volume</u> |
|-------------------|------------------|-----------------|---------------|
| <b>2010</b>       |                  |                 |               |
| January           | 105.00           | 104.00          | 5,980         |
| February          | 105.48           | 104.50          | 2,780         |
| March             | 106.00           | 104.50          | 6,600         |
| April             | 106.00           | 102.75          | 4,100         |
| May               | 103.50           | 102.75          | 6,790         |
| June              | 104.00           | 100.00          | 7,650         |
| July              | 106.00           | 102.71          | 2,880         |
| August            | 104.50           | 103.75          | 6,910         |
| September         | 105.12           | 103.75          | 7,160         |
| October           | 105.05           | 104.12          | 2,030         |
| November (1 – 12) | 105.00           | 103.00          | 3,060         |
| <b>2009</b>       |                  |                 |               |
| November          | 105.25           | 103.51          | 6,480         |
| December          | 105.12           | 104.00          | 4,730         |

### **Prior Sales**

Other than an aggregate of 401,278 Fund Units issued on the exchange of LP Units, the Fund has not issued any Fund Units or securities convertible into Fund Units during the 12 month period prior to the date hereof.

### **Consolidated Capitalization**

Other than as disclosed elsewhere herein and in the documents incorporated by reference herein, there has not been any material change in the unit and loan capital of the Fund, on a consolidated basis, since September 30, 2010.

### **Additional Information**

Additional information relating to the Fund is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information in respect of the Fund and its affairs is provided in the Financial Statements and the MD&A, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **INFORMATION CONCERNING NEW LIQUOR STORES**

### **Notice to Reader**

**Unless otherwise noted, the disclosure under this heading has been prepared assuming that the Arrangement has been effected. New Liquor Stores will be the publicly listed corporation resulting from the reorganization of the Fund's income trust structure into a dividend-paying public corporation pursuant to the Arrangement. References in the disclosure under this heading to "New Liquor Stores" as at any date or for any period of time that is prior to the Effective Date refer to New Liquor Stores as it exists prior to the Arrangement.**

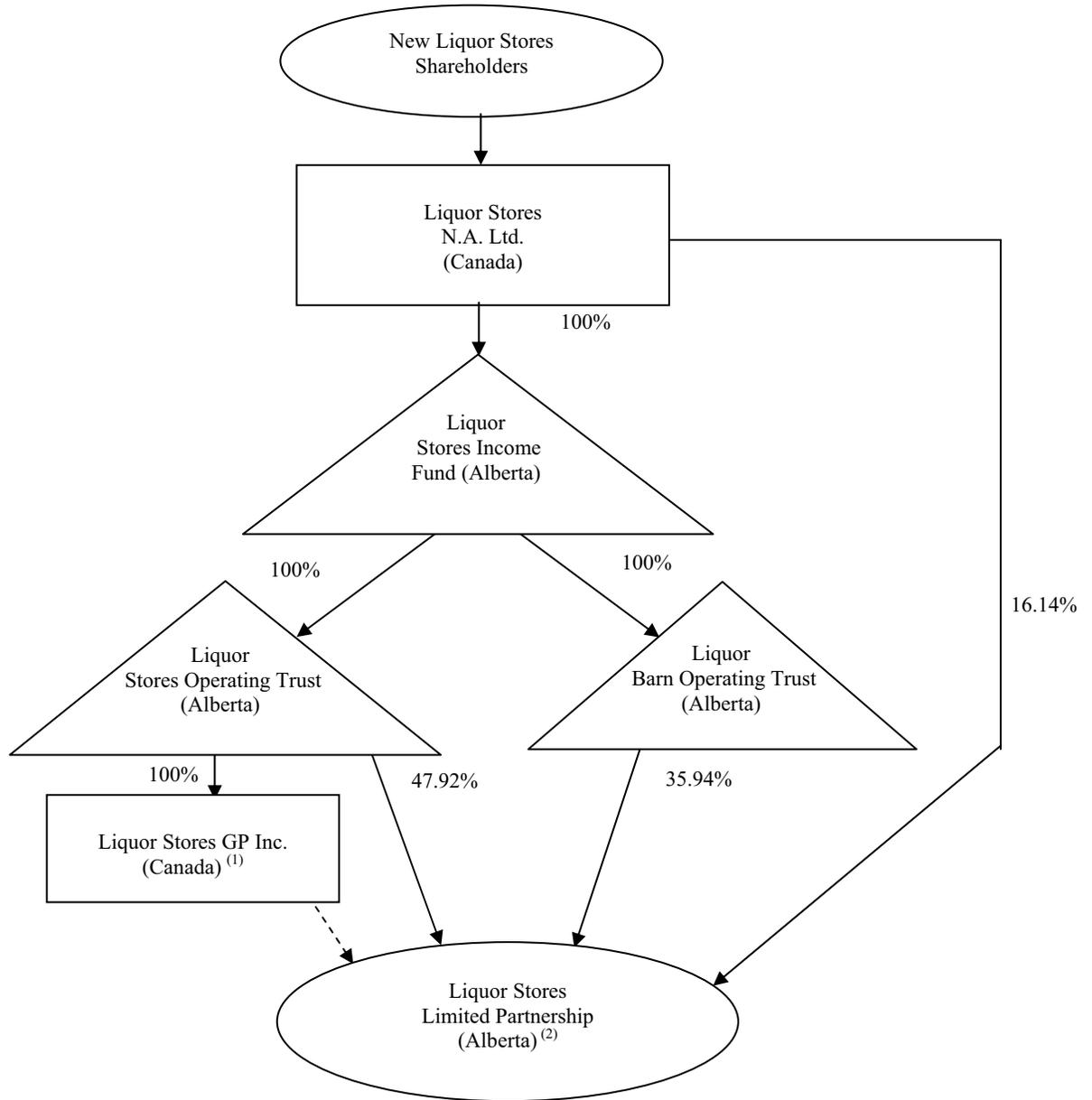
### **General**

New Liquor Stores is a wholly-owned subsidiary of the Fund and was incorporated pursuant to the CBCA on November 8, 2010 for the purposes of participating in the Arrangement, including issuing the New Liquor Stores Shares required for implementing the Arrangement. As of the date hereof, the only business conducted by New Liquor Stores has been the entering into of the Arrangement Agreement. New Liquor Stores' registered and head office is located at Suite 300, 10508 – 82<sup>nd</sup> Avenue, Edmonton, Alberta T6E 2A4.

As a result of the Arrangement, New Liquor Stores will become a reporting issuer in all of the provinces of Canada and will become subject to the informational reporting requirements of Canadian securities laws. The TSX has conditionally approved: (i) the substitutional listing of the New Liquor Stores Shares issuable pursuant to the Arrangement; (ii) the substitutional listing of the 6.75% Convertible Debentures to be assumed by New Liquor Stores in connection with the Arrangement; and (iii) the additional listing of the New Liquor Stores Shares issuable pursuant to the New Liquor Stores Incentive Rights and upon conversion of the 6.75% Convertible Debentures and the 8.00% Convertible Debentures to be assumed by New Liquor Stores, subject to New Liquor Stores fulfilling the requirements of the TSX. Following completion of the Arrangement, the New Liquor Stores Shares and the 6.75% Convertible Debentures will be listed on the TSX under the trading symbols "LIQ" and "LIQ.DB", respectively.

As a result of the steps of the Arrangement, Fund Unitholders and LP Unitholders will receive New Liquor Stores Shares for their Fund Securities on a one-for-one basis. See "*The Arrangement – Effect on the Fund Securityholders*".

The following diagram sets forth the simplified organizational structure of New Liquor Stores immediately following completion of the Arrangement.



Notes:

- (1) The GP holds all of the outstanding GP Units of LP.
- (2) LP, directly and indirectly, currently operates 235 retail liquor stores, including 28 liquor stores in the United States it operates through certain United States subsidiaries.
- (3) Liquor Stores Income Fund and the other subsidiary trusts of New Liquor Stores will be wound-up in due course.

### Development and Description of the Business

Following completion of the Arrangement, New Liquor Stores will carry on the business currently carried on by the Fund and its subsidiaries. For a detailed description of the Fund's business and its historical

development, see "*Information Concerning the Fund*" in this Information Circular and "*Description and General Development of the Business*" in the AIF.

### **Management's Discussion and Analysis**

As at the date of this Information Circular, New Liquor Stores has not conducted any business or operations, other than, as New Liquor Stores, to execute the Arrangement Agreement and to issue 100 New Liquor Stores Shares to the Fund in connection with its organization. If the Arrangement is completed, New Liquor Stores' financial position, risks and outlook will be substantially the same as those outlined in the MD&A, which is incorporated by reference in this Information Circular and has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). Readers are encouraged to review the MD&A. Such information should be read in conjunction with the unaudited *pro forma* consolidated financial information of New Liquor Stores after giving effect to the Arrangement included as Schedule D to this Information Circular.

It is anticipated that New Liquor Stores will account for the Arrangement as a continuity of interests. Since the Arrangement does not contemplate a change of control for accounting purposes, the financial statements of New Liquor Stores will reflect the assets and liabilities of the Fund at the respective carrying amounts.

New Liquor Stores has agreed to indemnify its directors and officers, to the extent permitted under corporate law, against costs and damages incurred by the directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their services. New Liquor Stores' directors and officers are covered by directors' and officers' liability insurance. No amount has been recorded with respect to the indemnification agreements in New Liquor Stores' audited balance sheet. See the audited balance sheet of New Liquor Stores included in Schedule D to this Information Circular.

Readers are encouraged to review the MD&A together with the unaudited *pro forma* consolidated financial information of New Liquor Stores after giving effect to the Arrangement included in Schedule D to this Information Circular.

### **Description of Capital Structure**

The authorized capital of New Liquor Stores consists of an unlimited number of New Liquor Stores Shares and 4,500,000 preferred shares, issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the share capital of New Liquor Stores.

#### ***New Liquor Stores Shares***

Each New Liquor Stores Share entitles the holder to receive notice of, to attend, and to one vote at, all meetings of the shareholders of New Liquor Stores, except meetings of holders of another class of shares. The holders of New Liquor Stores Shares will be, at the discretion of the New Liquor Stores Board and subject to the preferences accorded to any shares of New Liquor Stores ranking senior to the New Liquor Stores Shares from time to time with respect to the payment of dividends, entitled to receive any dividends declared by the New Liquor Stores Board on the New Liquor Stores Shares. The holders of New Liquor Stores Shares will also be entitled, subject to the preferences accorded to holders of any shares of New Liquor Stores ranking senior to the New Liquor Stores Shares from time to time, to share equally, share for share, in any distribution of the assets of New Liquor Stores upon the liquidation, dissolution, bankruptcy or winding-up of New Liquor Stores or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

#### ***Preferred Shares of New Liquor Stores***

Each series of preferred shares of New Liquor Stores shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the New Liquor Stores Board prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of holders of New Liquor Stores Shares. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of New Liquor Stores, whether voluntary or involuntary,

each series of preferred shares are entitled to preference over the New Liquor Stores Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over New Liquor Stores Shares and any other shares ranking junior to the preferred shares as may be determined by the New Liquor Stores Board at the time of creation of such series.

The preferred shares of New Liquor Stores are intended to provide future financing flexibility and are not intended to be used to block any takeover bid for New Liquor Stores. New Liquor Stores represents that it will not, without prior shareholder approval, issue any preferred shares for any anti-takeover purpose.

***Other Provisions Affecting the Rights of New Liquor Stores Shareholders***

Pursuant to the articles of incorporation of New Liquor Stores but subject to applicable laws, New Liquor Stores may take such actions as it, in its sole discretion, determines necessary or advisable if, in the opinion of the New Liquor Stores Board, a person (including a New Liquor Stores Shareholder), or group of persons acting in concert, fails to comply with any requirement of any regulatory authority having jurisdiction over the liquor store licenses of New Liquor Stores and its subsidiaries, including failing to provide the information required in connection with the conduct of background checks, or if the holding of New Liquor Stores Shares by a person, or group of persons acting in concert could result in the revocation or non-renewal of any of the aforementioned liquor store licenses. In such circumstances, and without limitation of any other power or authority of New Liquor Stores, it shall be entitled to take any of the following actions (i) place a stop transfer on all or any of the New Liquor Stores Shares of the person, or group of persons, (ii) suspend or terminate all voting and dividend rights on all or any of the New Liquor Stores Shares of the person, or group of persons, (iii) apply to a 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 New Liquor Stores, 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.

### Pro Forma Consolidated Capitalization

The following table sets forth the consolidated capitalization of each of the Fund and New Liquor Stores as at September 30, 2010 before giving effect to the Arrangement, and of New Liquor Stores after giving effect to the Arrangement on a *pro forma* basis. See also the audited balance sheet and the unaudited *pro forma* balance sheet of New Liquor Stores included in Schedule D to this Information Circular.

| Designation                                       | Fund as at<br>September 30, 2010 before<br>giving effect to the<br>Arrangement | New Liquor Stores as at<br>September 30, 2010 before<br>giving effect to the<br>Arrangement <sup>(1)</sup> | New Liquor Stores as at<br>September 30, 2010 after<br>giving effect to the<br>Arrangement <sup>(1)(2)</sup> |
|---|--|--|--|
|   | (dollar amounts are in thousands)  |  |  |
| Long Term Debt <sup>(3)</sup>                     | \$46,437   | Nil  | \$46,400   |
| Fund Units  | \$315,257<br>(18,900,556 units)  | Nil  | Nil  |
| LP Units  | \$38,906<br>(3,643,167 units)  | Nil  | Nil  |
| 6.75% Convertible Debentures <sup>(4)</sup>       | \$53,638   | Nil  | \$53,638   |
| 8.00% Convertible Debentures <sup>(4)</sup>       | \$519  | Nil  | \$519  |
| New Liquor Stores Shares                          | Nil  | \$0.1<br>(100 shares)  | \$354,163<br>(22,543,723 shares)   |
| Preferred Shares of New Liquor Stores             | Nil  | Nil  | Nil  |
| Fund Incentive Rights <sup>(5)</sup>              | 13,246   | Nil  | Nil  |
| New Liquor Stores Incentive Rights <sup>(5)</sup> | Nil  | Nil  | 13,246   |

Notes:

- (1) Assumes that New Liquor Stores was incorporated and organized as of September 30, 2010.
- (2) Assumes that (i) the same number of Fund Securities and Fund Incentive Rights are outstanding on the Effective Date as were outstanding on September 30, 2010; and (iii) no Dissent Rights are exercised.
- (3) Long term debt includes current portion of long term debt. For a description of the Fund's current credit facilities, see Note 6 to the Fund's unaudited interim consolidated financial statements as at and for the period ended September 30, 2010 and "*Credit Facilities*" in the related management's discussion and analysis of financial condition and results of operations, which are incorporated by reference herein. It is anticipated that the Fund's credit facilities will be amended in connection with the Arrangement to, among other things, take into account the new corporate structure of the Fund.
- (4) The 6.75% Convertible Debentures and the 8.00% Convertible Debentures bear interest at a rate of 6.75% per annum and 8.00% per annum, respectively, payable semi-annually, and mature on December 31, 2012 and December 31, 2011, respectively. The Debentures will be assumed by New Liquor Stores as a result of the Arrangement and as such will be convertible into New Liquor Stores Shares. See "The Arrangement — Effect of the Arrangement — Effect on Holders of Debentures".
- (5) As at the date hereof, an aggregate of 13,246 Fund Units are issuable in accordance with outstanding Fund Incentive Rights. Pursuant to the Arrangement: (i) each of the Fund Incentive Plans will be amended such that, among other things, all references therein to Fund Units shall be changed to New Liquor Stores Shares; and (ii) the outstanding Fund Incentive Rights at the Effective Time will be exchanged for New Liquor Stores Incentive Rights entitling the holders thereof to acquire New Liquor Stores Shares in the same number and on the same terms as they were entitled to acquire Fund Units pursuant to the Fund Incentive Rights.

## **Dividend Policy**

It is the Board's current intention that, following the Arrangement, New Liquor Stores will, subject to applicable laws, establish a dividend policy of paying monthly dividends to the New Liquor Stores Shareholders, with the initial monthly dividend currently expected to be \$0.09 (\$1.08 per annum) per New Liquor Stores Share. If the Arrangement is completed on December 31, 2010, as currently anticipated, the first dividend that New Liquor Stores Shareholders will be eligible to receive following the Arrangement is the dividend expected to be paid on February 15, 2011 to New Liquor Stores Shareholders of record on January 31, 2011. The final distribution to be paid to Fund Unitholders is expected to be paid by New Liquor Stores (as successor to the Fund) on January 14, 2011 to Fund Unitholders of record on December 31, 2010.

The payment of cash dividends by New Liquor Stores is not assured or guaranteed. The amount of cash dividends, if any, to be paid on the New Liquor Stores Shares will be subject to the discretion of the New Liquor Stores Board and may vary depending on a variety of factors, including the prevailing economic and competitive environment, New Liquor Stores' results of operations and earnings, financial requirements for New Liquor Stores' operations and the execution of its growth strategy, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, and other factors and conditions existing from time to time, some of which may be beyond the control of New Liquor Stores. There can be no guarantee that New Liquor Stores will maintain its dividend policy. See "*Risk Factors*".

New Liquor Stores has not declared or paid any dividends since its incorporation and will not declare any dividends prior to completion of the Arrangement.

## **Options and Other Rights to Purchase Securities**

As at the date hereof, an aggregate of 13,246 Fund Units are issuable in accordance with outstanding Fund Incentive Rights. Pursuant to the Arrangement: (i) each of the Fund Incentive Plans will be amended such that, among other things, all references therein to Fund Units shall be changed to New Liquor Stores Shares; and (ii) the outstanding Fund Incentive Rights at the Effective Time will be exchanged for New Liquor Stores Incentive Rights entitling the holders thereof to acquire New Liquor Stores Shares in the same number and on the same terms as they were entitled to acquire Fund Units pursuant to the Fund Incentive Rights. No adjustment will be made to the exercise or issue prices or vesting terms of such Fund Incentive Rights. All other terms and conditions of such awards will be substantially the same as they exist prior to the Effective Time, as adjusted to reflect the Arrangement. No accelerated vesting of Fund Incentive Rights will occur as a result of the Arrangement.

On completion of the Arrangement, New Liquor Stores Shares will also be reserved for issue upon the conversion of the Debentures assumed by New Liquor Stores as a result of the Arrangement. See "*Effect on Holders of Debentures*" under the heading "*The Arrangement*".

## **Prior Sales**

Other than 100 New Liquor Stores Shares issued upon incorporation of New Liquor Stores, New Liquor Stores has not issued any securities during the 12-month period prior to the date of this Information Circular and, as a condition to the completion of the Arrangement, will not issue any securities prior to the Effective Date.

## **Escrowed Securities**

No securities of any class of New Liquor Stores are anticipated to be held in escrow immediately upon completion of the Arrangement.

## **Principal Shareholders**

To the knowledge of the Fund, no person or company will, following the Arrangement, beneficially own, or exercise control or direction over, directly or indirectly, more than 10% of the voting rights attached to the outstanding New Liquor Stores Shares.

## **Directors and Executive Officers**

Following the completion of the Arrangement, the New Liquor Stores Board and senior management of New Liquor Stores will be comprised of the existing directors and senior management of the GP, respectively. The directors of New Liquor Stores shall hold office until the next annual meeting of New Liquor Stores Shareholders or until their respective successors have been duly elected or appointed. See "*Matters to be Acted Upon at the Meeting – Election of Directors of Liquor Stores GP Inc.*" in the AGM Circular and "*Directors and Officers*" in the AIF.

The current directors and executive officers of the GP (being the proposed directors and officers of New Liquor Stores) and their associates, as a group, beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 Fund Securities, representing approximately 13.67% of the issued and outstanding Fund Securities, and are expected to beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 New Liquor Stores Shares representing approximately 13.67% of the issued and outstanding New Liquor Stores Shares on the Effective Date (based upon the number of issued and outstanding Fund Securities as at the date hereof and assuming no Dissent Rights are exercised).

## **Audit Committee and Corporate Governance**

Following completion of the Arrangement, it is anticipated that the New Liquor Stores Board will have three board committees: an Audit Committee, a Governance Committee and a Compensation Committee. Each of such committees will be comprised of the same individuals serving as members of such committees of the Board. New Liquor Stores' corporate governance practices will be structured on a similar basis as those of the Fund. For a description of the Fund's corporate governance practices, see "*Statement of Corporate Governance Practices*" attached as Schedule A to the AGM Circular. Also see "*Audit Committee*" in the AIF.

## **Conflicts of Interest**

There are potential conflicts of interest to which the proposed directors and officers of New Liquor Stores will be subject in connection with the operations of New Liquor Stores. In particular, certain of the proposed directors and officers of New Liquor Stores 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 and officers of New Liquor Stores who have a material interest in any person who is a party to a material contract or proposed material contract with New Liquor Stores will be required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors and officers of New Liquor Stores are required to act honestly and in good faith with a view to the best interests of New Liquor Stores. There are no existing material conflicts of interest between the Fund or its subsidiaries and any director or officer of the GP.

## **Compensation of Directors and Executive Officers**

It is anticipated that the compensation policies of New Liquor Stores, including the compensation of the directors and executive officers of New Liquor Stores, will be structured on substantially the same basis as the current compensation policies of the Fund. For further information regarding the compensation policies of the Fund, including the compensation of the directors and executive officers of the GP, see the AGM Circular.

## **Indebtedness of Directors and Executive Officers**

There exists no indebtedness of the proposed directors and executive officers of New Liquor Stores, nor any of their associates, to New Liquor Stores or any of its subsidiaries (after giving effect to the Arrangement), nor is any indebtedness of any of such persons to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by New Liquor Stores. See "*Indebtedness of Directors and Executive Officers*" in the AGM Circular.

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

To the knowledge of the Fund, no proposed director or executive officer of New Liquor Stores, or a Fund Securityholder holding a sufficient number of Fund Securities to affect materially the control of the Fund:

- (a) is, as at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any company (including the GP) 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 hereof, 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 proposed director or executive officer of New Liquor Stores, or shareholder holding a sufficient number of Fund Securities to affect materially the control of the Fund, has been subject to:

- (c) 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
- (d) 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.

### **Risk Factors**

Risk factors related to the business of the Fund and its subsidiaries will generally continue to apply to New Liquor Stores after the Effective Date and will not be affected by the Arrangement. In the event the Arrangement is completed, the business and operations of, and an investment in, New Liquor Stores will be subject to various risk factors set forth hereunder, under the heading "Risk Factors" in the AIF, as well as the other risk factors set forth elsewhere herein and in the documents incorporated by reference. Prospective New Liquor Stores Shareholders should consider carefully such risk factors.

### ***Possible Failure to Realize Anticipated Benefits of the Arrangement***

Achieving the anticipated benefits of the Arrangement will depend in part on New Liquor Stores' ability to realize the anticipated growth opportunities from reorganizing the Fund into a corporate structure. The realization of the anticipated benefits of the Arrangement will require the dedication of substantial management effort, time and resources. There can be no assurance that management will be successful in refocusing the continuing entity into a growth-oriented entity.

### ***Dividends***

Future dividend payments by New Liquor Stores and the level thereof is uncertain, as New Liquor Stores' dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, the prevailing economic and competitive environment, New Liquor Stores' results of operations and earnings, financial requirements for New Liquor Stores' operations and the execution of its growth strategy, fluctuations in working capital, capital expenditures and debt service requirements, contractual restrictions and financing agreement covenants, and other factors and conditions existing from time to time, some of which may be beyond the control of New Liquor Stores. The market value of the New Liquor Stores Shares may deteriorate if New Liquor Stores is unable to meet its cash dividend targets in the future, and such deterioration may be material.

### **Interest of Management and Others in Material Transactions**

To the knowledge of the Fund, none of the principal holders or proposed directors or officers of New Liquor Stores, or any associate or affiliate of any of the foregoing persons, will have any material interest, direct or indirect, in any transaction or any proposed transaction that is reasonably expected to materially affect New Liquor Stores or any of its affiliates, except as disclosed in this Information Circular, including the documents incorporated herein by reference.

### **Auditors, Transfer Agent and Registrar**

Upon completion of the Arrangement, the auditors and transfer agent and registrar of New Liquor Stores will be the auditors and transfer agent and registrar of the Fund.

### **Legal Proceedings and Regulatory Actions**

There are no legal proceedings or regulatory actions to which New Liquor Stores or the Fund is a party or in respect of which any of their respective assets are the subject matter which are material to New Liquor Stores, and the Fund is not aware of any such proceedings of a material nature that are contemplated.

### **Material Contracts**

Neither New Liquor Stores nor the Fund is a party to any contracts entered into outside the ordinary course of business that will be material to New Liquor Stores or its subsidiaries, other than the Fund's credit facilities and the Arrangement Agreement. It is anticipated that the Fund and New Liquor Stores will enter into a further amended credit facility in connection with the Arrangement that will, among other things, take into account the new corporate structure of the Fund. See Note 10 to the Fund's audited consolidated financial statements as at and for the year's ended December 31, 2009 and 2008 and "*Credit Facilities*" in the related management's discussion and analysis of financial condition and results of operations for a description of the Fund's current credit facilities.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, there were no material interests, direct or indirect, of directors or executive officers of the GP, any securityholder who beneficially owns, directly or indirectly, or exercise control or direction over more than 10% of the outstanding Fund Securities, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed financial year of the Fund or in any proposed transaction which has materially affected or would materially affect the Fund or any of its subsidiaries.

## **VOTING SECURITIES**

As at November 8, 2010, the Record Date of the Meeting, there are 18,915,996 Fund Units and 3,640,973 LP Units issued and outstanding. Pursuant to the terms of the Fund Declaration of Trust and the Interim Order, Fund Unitholders and LP Unitholders of record are entitled to notice of and to attend at the Meeting in person or by proxy, and to one vote per Fund Security held on any ballot thereat.

As at the Record Date, the officers and directors of the GP beneficially owned, or exercised control or direction over, directly or indirectly, in the aggregate, approximately 730,790 Fund Units and 2,353,744 LP Units.

### PRINCIPAL SECURITYHOLDERS

Other than as set forth in the following table, to the best of the knowledge of the directors and senior officers of the GP, there is no person or company that beneficially owns, or exercises control or direction over, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to the Fund Units or the LP Units.

| <u>Name</u>                            | <u>Class and Number of Securities</u> | <u>Percentage of Class</u> | <u>Percentage of Voting Units</u> |
|--|---------------------------------------|----------------------------|-----------------------------------|
| Kipnes Holdings Ltd. <sup>(1)</sup>    | 933,598 LP Units                      | 33.1%                      | 4.1%                              |
| Liquor World Group Inc. <sup>(2)</sup> | 981,398 LP Units                      | 34.8%                      | 4.4%                              |

Notes:

- (1) Mr. Kipnes, Executive Chairman of the GP, owns beneficially, or controls or directs, directly or indirectly, 100% of the outstanding shares of Kipnes Holdings Ltd.
- (2) Mr. Bereznicki, the Board Chairman & Director of Store Acquisitions and Development of the GP, and Mr. Green, a Director of the GP, together with their respective associates and affiliates own beneficially, or control or direct, directly or indirectly, approximately 40.39% and 10.07%, respectively, of the outstanding shares of Liquor World Group Inc.

### EXPERTS

Certain legal matters relating to the Arrangement are to be passed upon by Burnet, Duckworth & Palmer LLP on behalf of the Fund, the LP and New Liquor Stores. As at the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP beneficially owned, directly or indirectly, less than 1% of the outstanding Fund Securities.

PricewaterhouseCoopers LLP, the current auditors of the Fund, have confirmed that they are independent within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

### INTERESTS OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

The directors and officers of the GP and their respective associates, as a group, beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 Fund Securities (comprised of approximately 730,790 Fund Units and 2,353,744 LP Units), representing approximately 13.67% of the outstanding Fund Securities. The directors and officers of the GP are also entitled to receive an aggregate of 11,124 Fund Units pursuant to Fund Incentive Rights.

The Arrangement will not result in any change of control, termination or other payments being made to any directors, officers or employees of the Fund, the GP, the LP or their respective subsidiaries pursuant to employment, change of control or similar agreements.

Based upon the number of Fund Securities outstanding and held as at November 12, 2010, immediately after giving effect to the Arrangement, it is anticipated that the current directors and officers of the GP and their associates, as a group, would beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of approximately 3,084,534 New Liquor Stores Shares, representing approximately 13.67% of the outstanding New Liquor Stores Shares (assuming no Dissent Rights are exercised), and 11,124 New Liquor Stores Incentive Rights, representing approximately 83.4% of the outstanding New Liquor Stores Incentive Rights.

None of the principal holders of Fund Securities or any director or officer of the GP or its subsidiaries, or any associate or affiliate of any of the foregoing persons, has or had any material interest, direct or indirect, in any transaction in the last three years or any proposed transaction that materially affected, or is reasonably expected to materially affect, the Fund or any of its affiliates, except as disclosed in this Information Circular or in the documents incorporated herein by reference.

### ADDITIONAL INFORMATION

Additional information relating to the Fund is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information in respect of the Fund and its affairs is provided in the Financial Statements and the MD&A, copies of which are available upon request from the Corporate Secretary, Liquor Stores Income Fund, Suite 300, 10508 – 82<sup>nd</sup> Avenue, Edmonton, Alberta T6E 2A4..

### GENERAL PROXY MATTERS

#### Solicitation of Proxies

**This Information Circular is furnished in connection with the solicitation of proxies by the management of the GP, as administrator of the Fund and the general partner of the LP, to be used at the Meeting.** Solicitations of proxies will be primarily by mail, but may also be by newspaper publication, in person or by telephone, fax or oral communication by directors, officers, employees or agents of the GP who will be specifically remunerated therefor. All costs of the solicitation for the Meeting will be borne by the Fund.

#### Appointment and Revocation of Proxies

Accompanying this Information Circular is a form of proxy for holders of LP Units and a form of voting direction for holders of Fund Units.

The persons named in the enclosed form of proxy are directors and officers of the GP. **An LP Unitholder desiring to appoint a person (who need not be a Fund Securityholder) to represent such LP Unitholder at a Meeting, other than the persons designated in the accompanying form of proxy may do so either by inserting such person's name in the blank space provided in the form of proxy or by completing another form of proxy and, in either case, mailing the completed proxy to Proxy Dept., CIBC Mellon Trust Company, PO Box 721, Agincourt, Ontario, M1S 0A1 (or by facsimile to 416-368-2502 or toll free: 1-866-781-3111 Canada & U.S. only). The form of proxy must be received by CIBC Mellon at least 48 hours prior to the commencement of the Meeting or any adjournment thereof.** Failure to so deposit a form of proxy shall result in its invalidation.

#### *Voting of Proxies for Non-Registered Fund Securityholders*

Only proxies deposited by registered Fund Securityholders whose names appear on the records of the Fund as the registered holders of Fund Securities can be recognized and acted upon at the Meeting. All of the Fund Units are registered under the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc). Accordingly, in order to be represented at the Meeting, a beneficial Fund Unitholder must complete and sign the applicable instrument of proxy or other voting instruction form provided by its broker or other intermediary and return such instrument of proxy or other voting instruction form in accordance with the instructions provided therein. Failure to do so will result in such holders Fund Units not being eligible to be voted at the Meeting. See "*Advice to Beneficial Holders of Fund Units and LP Units*"

#### *Revocation of Proxies*

A Fund Securityholder who has given a form of proxy or voting direction may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by an instrument in writing executed by such securityholder or by his attorney duly authorized in writing or, if the holder of Fund Securities is a corporation, by an officer or attorney thereof duly authorized, and deposited either at the above mentioned office of CIBC Mellon

Trust Company no less than 48 hours prior to the Meeting or any adjournment thereof or with the chairman of the Meeting on the day of the Meeting or any adjournment thereof.

The Record Date for determination of Fund Securityholders entitled to receive notice of and to vote at the Meeting is November 8, 2010. Only Fund Securityholders whose names have been entered in the applicable register of Fund Units or LP Units, as the case may be, on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. Holders of Fund Securities who acquire Fund Securities after the Record Date will not be entitled to vote such Fund Securities.

### **Signature of Proxy**

The applicable form of proxy or voting direction must be executed by the Fund Securityholder or his or her attorney authorized in writing, or if the Fund Securityholder is a corporation, the form of proxy or voting direction should be signed in its corporate name under its corporate seal by an authorized officer whose title should be indicated. A proxy or voting direction signed by a person acting as attorney or in some other representative capacity should reflect such person's capacity following his or her signature and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has been previously filed with Fund).

### **Voting of Proxies**

The persons named in the accompanying form of proxy will vote the LP Units in respect of which they are appointed in accordance with the direction of the securityholder appointing them. **In the absence of such direction, the LP Units will be voted FOR the approval of the matters outlined in the Notice of Meeting.**

### **Exercise of Discretion of Proxy**

**The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the accompanying Notice of Meeting and this Information Circular and with respect to other matters that may properly come before the Meeting. At the date of this Information Circular, management of the Fund knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.**

### **Procedure and Votes Required**

A quorum at the Meeting shall be two or more individuals present in person either holding personally or representing by proxy not less than 10% of the aggregate number of Fund Securities then outstanding. In the event a quorum is not present within 30 minutes after the time fixed for the holding of the Meeting, the Meeting will be adjourned to such day being not less than 14 days later and to such place and time as may be determined by the chair of the Meeting. No notice of the adjourned Meeting will be required and if at such adjourned Meeting a quorum is not present, the Fund Securityholders then present either personally or by proxy shall form a quorum for all purposes.

Pursuant to the Interim Order:

- (a) the Fund Securityholders will vote in respect of the Arrangement Resolution together as a single class of securities. Each Fund Unit and LP Unit entitled to be voted at the Meeting will entitle the holder to one vote at the Meeting in respect of the Arrangement Resolution and any other matters to be considered at the Meeting. Only Fund Securityholders whose names have been entered on the applicable register of Fund Units or LP Units, as the case may be, on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. Holders of Fund Units and LP Units who acquire their Fund Securities after the Record Date will not be entitled to vote such Fund Securities at the Meeting; and

- (b) the number of votes required to pass the Arrangement Resolution shall be not less than two-thirds of the votes cast by the Fund Securityholders, either in person or by proxy, voting together as a single class, at the Meeting.

**AUDITORS' CONSENTS**

We have read the notice of special meeting of the securityholders of Liquor Stores Income Fund (the "**Fund**") and management information circular of the Fund dated November 17, 2010 with respect to the plan of arrangement involving, *inter alia*, the Fund, Liquor Stores Limited Partnership, Liquor Stores GP Inc., Liquor Stores N.A. Ltd. ("**New Liquor Stores**"), the holders of units of the Fund, and the holders of exchangeable limited partner units and Series 1 exchangeable LP units of the LP. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned document of our report to the unitholders of the Fund on the consolidated balance sheets of the Fund as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive income, changes in unitholders' equity and cash flows for the years then ended. Our report is dated March 2, 2010.

We further consent to the inclusion in the above-mentioned document of our report to the board of directors of New Liquor Stores on the balance sheet of New Liquor Stores as at November 10, 2010. Our report is dated November 12, 2010.

Edmonton, Canada  
November 17, 2010

(Signed) PricewaterhouseCoopers LLP  
Chartered Accountants

## SCHEDULE A

### ARRANGEMENT RESOLUTION

"BE IT RESOLVED THAT:

1. the arrangement ("**Arrangement**") under Section 192 of the *Canada Business Corporations Act* substantially as set forth in the Plan of Arrangement (the "**Plan of Arrangement**") attached as Exhibit A to Schedule C to the management information circular (the "**Information Circular**") of Liquor Stores Income Fund (the "**Fund**") dated November 17, 2010 and all transactions contemplated thereby, be and are hereby authorized and approved;
2. the arrangement agreement ("**Arrangement Agreement**") dated November 12, 2010 among the Fund, Liquor Stores GP Inc. (the "**GP**"), Liquor Stores Limited Partnership (the "**LP**") and Liquor Stores N.A. Ltd. ("**New Liquor Stores**"), a copy of which is attached as Schedule C to the Information Circular, together with such amendments or variations thereto made in accordance with the terms of the Arrangement Agreement as may be approved by the persons referred to in paragraph 5 hereof, such approval to be evidenced conclusively by the execution and delivery of any such amendments or variations, is hereby confirmed, ratified and approved;
3. each of the Fund, the GP and New Liquor Stores be and is hereby authorized to apply for a Final Order of the Court of Queen's Bench of Alberta to approve the Arrangement on the terms set forth in the Arrangement Agreement and the Plan of Arrangement (as the same may be or may have been modified or amended);
4. notwithstanding that this resolution has been duly passed and/or has received the approval of the Court of Queen's Bench of Alberta, the board of directors of the GP may, without further notice to or approval of the holders of trust units of the Fund or the holders of exchangeable limited partner units or Series 1 exchangeable LP units of the LP, subject to the terms of the Arrangement, amend or terminate the Arrangement Agreement or the Plan of Arrangement or revoke this resolution at any time prior to the filing of the Articles of Arrangement giving effect to the Arrangement; and
5. any director or officer of the GP, for and on behalf of the GP, the Fund and the LP, is hereby authorized to execute and deliver Articles of Arrangement and to execute, with or without the corporate seal, and, if, appropriate, deliver all other documents and instruments (including, without limitation, amendments to the declaration of trust of the Fund, the constating documents of any subsidiary entities of the Fund (including the LP and New Liquor Stores) any agreements between or among the Fund and any of its subsidiary entities (including the GP, the LP or New Liquor Stores)) and do all other things as in the opinion of such director or officer may be necessary or advisable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action."



**SCHEDULE B**  
**INTERIM ORDER**

Clerk's Stamp:

COURT FILE NUMBER 1001 - 16964  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY

APPLICANTS **LIQUOR STORES INCOME FUND, LIQUOR STORES LIMITED PARTNERSHIP, LIQUOR STORES GP INC., LIQUOR STORES N.A. LTD., AND THE SECURITYHOLDERS OF LIQUOR STORES INCOME FUND AND LIQUOR STORES LIMITED PARTNERSHIP**

RESPONDENTS None

DOCUMENT **INTERIM ORDER**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS DOCUMENT

Burnet, Duckworth & Palmer LLP  
1400, 350 – 7 Avenue SW  
Calgary, AB T2P 3N9  
Lawyer: Daniel J. McDonald, Q.C.  
Phone Number: (403) 260-5724  
Fax Number: (403) 260-0332  
Email Address: djm@bdplaw.com  
File No. 60475-33

Date on Which Order Was Pronounced: Tuesday, November 16, 2010

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Name of Judge Who Made This Order: Justice E.A. Hughes

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UPON the Application of Liquor Stores Income Fund (the "**Fund**"), Liquor Stores Limited Partnership ("**LP**"), Liquor Stores GP Inc. ("**GP**") and Liquor Stores N.A. Ltd. ("**New Liquor Stores**");

AND UPON reading the Application and the Affidavit of Craig Corbett, Vice President, Legal and General Counsel of each of GP and New Liquor Stores sworn November 12, 2010 and the documents referred to therein (the "**Affidavit**");

AND UPON hearing counsel for the Fund, LP, GP and New Liquor Stores;

AND UPON noting that the Director (the "**Director**") has been served with notice of this application as required by subsection 192(5) of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "**CBCA**") and that the Director does not need to appear or be heard on this application;

FOR THE PURPOSES OF THIS ORDER:

- (a) the capitalized terms not defined in this Order shall have the meanings attributed to them in the draft Management Information Circular of the Fund (the "**Information Circular**") attached as Exhibit A to the Affidavit; and
- (b) all references to "Arrangement" used herein mean the plan of arrangement as described in the Affidavit and in the form attached as Exhibit A to the arrangement agreement dated November 12, 2010 ("**Arrangement Agreement**"), among the Fund, LP, New Liquor Stores and GP attached as Schedule C to the Information Circular.

**IT IS HEREBY ORDERED AND ADJUDGED THAT:**

**General**

1. The proposed course of action is an "arrangement" within the meaning of Section 192 of the *CBCA* and the Applicants may proceed with the Arrangement, as described in the Affidavit.
2. The Fund, LP, GP and New Liquor Stores shall seek approval of the Arrangement by the holders (the "**Fund Securityholders**") of:
  - (a) trust units ("**Fund Units**") of the Fund; and
  - (b) exchangeable limited partner units and Series 1 exchangeable LP units (collectively, "**LP Units**") of LP;

in the matter set forth below.

## Meeting

3. The Fund shall call and conduct a special meeting (the "**Meeting**") of the Fund Securityholders on or about December 14, 2010. At the Meeting, the Fund Securityholders will consider and vote upon a special resolution (the "**Arrangement Resolution**") in respect of the Arrangement and related matters, and such other business as may properly be brought before the Meeting or any adjournment thereof, all as more particularly described in the Information Circular.
4. A quorum at the Meeting shall be two or more individuals present in person either holding or personally representing by proxy not less than 10% per cent of the aggregate number of Fund Securities then outstanding. If a quorum is present at the opening of the Meeting, the Fund Securityholders present or represented may proceed with the business of the Meeting notwithstanding that a quorum is not present throughout the Meeting. In the event a quorum is not present within 30 minutes after the time fixed for the holding of the Meeting, the Meeting will be adjourned to such day being not less than 14 days later and to such place and time as may be determined by the chair of the Meeting. No notice of the adjourned Meeting will be required and if at such adjourned Meeting a quorum is not present, the Fund Securityholders then present either personally or by proxy shall form a quorum for all purposes.
5. The record date for determination of the Fund Securityholders entitled to receive notice of and to vote at the Meeting will be the close of business on November 8, 2010 (the "**Record Date**"). Fund Securityholders of record at the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. No person who became a Fund Securityholder after the Record Date shall be entitled to vote at the Meeting.

## Conduct of the Meeting

6. At the Meeting, the Fund Securityholders will vote in respect of the Arrangement Resolution together as a single class of securities, and shall each be entitled to one vote in respect of the Arrangement Resolution for each Fund Security held.

7. The Chairperson of the Meeting shall be the Chair of the Board of GP or, failing him, any other officer or director of GP, or failing them, any person to be chosen at the Meeting.
8. The only persons entitled to attend and speak at the Meeting shall be the Fund Securityholders or their authorized representatives, the trustee of the Fund, CIBC Mellon Trust Company, the directors and officers of GP, the administrator of the Fund and general partner of LP, the Fund's auditors, the Director and authorized representatives of New Liquor Stores and any other person approved by the trustee of the Fund, the chairperson of the Meeting or by resolution passed by a majority of the votes cast by Fund Securityholders represented at the meeting.
9. The number of votes required to pass the Arrangement Resolution shall be not less than  $66 \frac{2}{3}\%$  of the votes cast by the Fund Securityholders, voting together as a single class, either in person or by proxy, at the Meeting.
10. To be valid, proxies for Fund Securityholders must be deposited with CIBC Mellon Trust Company or its agents for these purposes in the manner described in the Information Circular.
11. The accidental omission to give notice of the Meeting or the non-receipt of the notice shall not invalidate any resolution passed or proceedings taken at the Meeting.
12. In all other respects, the Meeting, and any adjournments thereof, shall be called, held and conducted in accordance with the "Notice of Special Meeting" forming part of the Information Circular and the amended and restated declaration of trust of the Fund, subject to such modifications as may be set out in this Order or any other order of this Court.

### **Dissent Rights**

13. Registered Fund Securityholders are, subject to the provisions of this Order and the Arrangement, accorded the right of dissent under Section 190 of the *CBCA* with respect to the Arrangement Resolution and to be paid the fair value of their Fund Units and/or LP Units (collectively, "**Fund Securities**"), as the case may be, provided that:

- (a) notwithstanding subsection 190(5) of the *CBCA*, the written objection to the Arrangement Resolution referred to in subsection 190(5) of the *CBCA* is required to be sent to the Fund c/o its counsel Burnet, Duckworth & Palmer LLP, 1400, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9, Attention D.J. McDonald, Q.C. by 4:00 p.m. (Edmonton time) on the second Business Day prior to the date of the Meeting, or any adjournment thereof;
  - (b) a Dissenting Securityholder shall not have voted his or her Fund Securities at the Meeting, either by proxy or in person, in favour of the Arrangement Resolution;
  - (c) a Dissenting Securityholder may dissent only with respect to all of the Fund Securities held by such Fund Securityholder or on behalf of any one beneficial owner and registered in the Dissenting Securityholder's name; and
  - (d) Dissenting Securityholders exercising such right of dissent must otherwise comply with the requirements of Section 190 of the *CBCA*, as modified by this Order.
14. The fair value of the Fund Securities shall be determined as of the close of business on the last Business Day before the day on which the Arrangement is approved by the Fund Securityholders.
15. Subject to further order of this Honourable Court, the rights available to the Fund Securityholders under the *CBCA* and the Arrangement to dissent from the Arrangement Resolution shall constitute full and sufficient rights of dissent for the Fund Securityholders with respect to the Arrangement Resolution.
16. Notice to the Fund Securityholders of their right of dissent with respect to the Arrangement Resolution and to receive, subject to the provisions of the *CBCA* and the Arrangement, the fair value of their Fund Securities shall be given by including information with respect to this right in the Information Circular to be sent to the Fund Securityholders in accordance with paragraph 17 of this Order.

## **Notice**

17. An Information Circular, substantially in the form attached as Exhibit A to the Affidavit, with amendments thereto as counsel for the Fund and New Liquor Stores may determine necessary or desirable (provided such amendments are not inconsistent with the terms of this Order), shall be mailed by prepaid ordinary mail, courier or delivery in person, at least 21 days prior to the date of the Meeting to Fund Securityholders at the addresses for such Fund Securityholders recorded in the records of the Fund and LP at the close of business on the Record Date, and to the trustee of the Fund, directors and officers of GP, and auditors of the Fund. In calculating the 21 day period, the date of mailing shall be included and the date of the Meeting shall be excluded.
18. An Information Circular as described above shall be provided to the Director by prepaid ordinary mail or courier at least 21 days prior to the Meeting.
19. Delivery of the Information Circular in the manner directed by this Order shall be deemed to be good and sufficient service upon the Fund Securityholders, the trustee of the Fund, CIBC Mellon Trust Company, the directors and officers of GP, and auditors of the Fund. and the Director of:
  - (a) the Originating Application;
  - (b) this Order;
  - (c) the Notice of Special Meeting; and
  - (d) the Notice of Application;

all in substantially the forms set forth in the Information Circular, together with instrument of proxy and such other material as the Fund, LP, GP and New Liquor Stores may consider fit.

## **Amendments**

20. The Fund, LP, GP and New Liquor Stores are authorized, subject to the terms of the Arrangement Agreement, to make such amendments, revisions and/or supplements to

the Arrangement as they may determine and the Arrangement, as so amended, revised and/or supplemented, shall be the Arrangement to be submitted to the Fund Securityholders at the Meeting and shall be the subject of the Arrangement Resolution.

### **Final Application**

21. Subject to further Order of this Honourable Court and provided that the Fund Securityholders, voting together as a single class, have approved the Arrangement and the Board of Directors of GP have not revoked that approval, the Fund, LP, GP and New Liquor Stores may proceed with an application for approval of the Arrangement and the Final Order on December 15, 2010 at 1:00 p.m. or so soon thereafter as counsel may be heard at the Calgary Courts Centre, Calgary, Alberta. Subject to the Final Order and to the issuance of the Certificate, (i) the Fund Securityholders, (ii) the Fund Arrangement Parties (as defined in the Arrangement), and (iii) the holders of Fund Incentive Rights will be bound by the Arrangement in accordance with its terms.
22. Any Fund Securityholder or any other interested party (collectively, "**Interested Party**") desiring to appear and make submissions at the application for the Final Order is required to file with this Honourable Court and serve, upon the Fund, on or before 4:00 p.m. (Edmonton time) on December 8, 2010, a Notice of Intention to Appear including the Interested Party's address for service indicating whether such Interested Party intends to support or oppose the application or make submissions at the application, together with a summary of the position such Interested Party intends to advocate before this Honourable Court, and any evidence or materials which the Interested Party intends to present to the Honourable Court. Service of this notice on the Fund shall be effected by service upon the solicitors for the Fund, Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: D.J. McDonald, Q.C.
23. In the event that the application for the Final Order is adjourned, only those parties appearing before this Honourable Court for the application for the Final Order, and those Interested Parties serving a Notice of Intention to Appear in accordance with paragraph 22 of this Order, shall have notice of the adjourned date.

**Leave to Vary Interim Order**

24. Each of the Fund, LP, GP and New Liquor Stores is entitled at any time to seek leave to vary this Interim Order upon such terms and the giving of such notice as this Honourable Court may direct.

(signed) "E.A. Hughes"

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**Justice of the Court of Queen's Bench of Alberta**



**SCHEDULE C**  
**ARRANGEMENT AGREEMENT**

## ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT is made as of the 12<sup>th</sup> day of November, 2010.

### AMONG:

**LIQUOR STORES INCOME FUND**, a trust organized under the laws of the Province of Alberta (the "**Fund**")

- and -

**LIQUOR STORES LIMITED PARTNERSHIP**, a limited partnership formed under the laws of the Province of Alberta ("**LP**")

- and -

**LIQUOR STORES N.A. LTD.**, a body corporate incorporated under the federal laws of Canada ("**New Liquor Stores**")

- and -

**LIQUOR STORES GP INC.**, a body corporate incorporated under the federal laws of Canada ("**GP**")

### WHEREAS:

- (a) the parties hereto wish to propose an arrangement with the holders of Fund Securities;
- (b) the parties hereto intend to carry out the transactions contemplated herein by way of an arrangement under the CBCA; and
- (c) the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for the other matters relating to such arrangement.

**NOW THEREFORE**, in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties hereto hereby covenant and agree as follows:

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

All capitalized terms which are used in this Agreement and not otherwise defined herein shall have the meanings given to such terms in the Plan of Arrangement attached hereto as Exhibit A, as amended or supplemented from time to time in accordance with the terms thereof. In addition, the following terms used in this Agreement have the following meanings:

"**Agreement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to this arrangement agreement (including the exhibits hereto) as supplemented, modified or amended, and not to any particular article, section, schedule or other portion hereof;

"**Debentures**" means, collectively, the 6.75% convertible unsecured subordinated debentures of the Fund and the 8.00% convertible unsecured subordinated debentures of the Fund;

**"Fund Entities"** means, together, the Fund, LP, New Liquor Stores and GP;

**"Information Circular"** means the information circular and proxy statement to be prepared by the Fund and forwarded as part of the proxy solicitation materials to Fund Securityholders in respect of the Meeting;

**"Meeting"** means the special meeting of Fund Securityholders to be held to consider the Arrangement and related matters, and any adjournment thereof;

**"Person"** means an individual, partnership, association, body corporate, corporation, trust, unincorporated organization, government, regulatory authority, or other entity;

**"Plan of Arrangement"** means the plan of arrangement attached hereto as Exhibit A, as amended or supplemented from time to time in accordance with the terms thereof; and

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

## **1.2 Currency**

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

## **1.3 Interpretation Not Affected by Headings**

The division of this Agreement into articles, sections and schedules and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

## **1.4 Article References**

Unless reference is specifically made to some other document or instrument, all references herein to articles, sections and schedules are to articles, sections and schedules of this Agreement.

## **1.5 Extended Meanings**

Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, bodies corporate, corporations, trusts, unincorporated organizations, governments, regulatory authorities, and other entities.

## **1.6 Date for any Action**

In the event that any date on which any action required to be taken hereunder by any of the parties hereto is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place except that the Effective Date can fall on a date that is not a Business Day.

## **1.7 Entire Agreement**

This Agreement, together with Exhibit A attached hereto, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties with respect to the subject matter hereof.

## **1.8 Governing Law**

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

### **1.9 Exhibit**

Exhibit A annexed to this Agreement, being the Plan of Arrangement, is incorporated by reference into this Agreement and forms a part hereof.

### **1.10 Statutory References**

A reference to a statute includes all regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation which amends, supplements or supersedes any such statute or any such regulation.

## **ARTICLE 2 THE ARRANGEMENT**

### **2.1 Arrangement**

As soon as reasonably practicable, the Fund Entities shall apply to the Court pursuant to Section 192 of the CBCA for an order approving the Arrangement and in connection with such application shall:

- (a) forthwith file, proceed with and diligently prosecute an application for an Interim Order under Section 192(4) of the CBCA, providing for, among other things, the calling and holding of the Meeting for the purpose of considering and, if deemed advisable, approving the Fund Arrangement Resolution;
- (b) subject to obtaining all necessary approvals of the Fund Securityholders as contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take steps necessary to submit the Arrangement to the Court and apply for the Final Order;
- (c) structure the Arrangement such that the issuance of the New Liquor Stores Shares to be issued to Fund Securityholders pursuant to the Arrangement qualify for the exemption from registration provided by Section 3(a)(10) of the *U.S. Securities Act of 1933*, as amended; and
- (d) subject to fulfillment of the conditions set forth herein, deliver to the Director Articles of Arrangement and such other documents as may be required to give effect to the Arrangement, whereupon the transactions comprising the Arrangement shall occur and shall be deemed to have occurred in the order and at the times set out therein without any act or formality.

### **2.2 New Liquor Stores**

The Fund has caused New Liquor Stores to be incorporated under the CBCA. Prior to the Effective Time, the Fund shall not permit New Liquor Stores to: (i) issue any securities or enter into any agreements to issue or grant options, warrants or rights to purchase any of its securities except for the issuance of a nominal number of common shares on incorporation; or (ii) carry on any business, enter into any transaction or effect any corporate act whatsoever, other than as contemplated herein or as reasonably necessary to carry out the transactions contemplated by the Arrangement.

### **2.3 Effective Date**

The Arrangement shall become effective at the Effective Time on the Effective Date.

## **ARTICLE 3 COVENANTS**

### **3.1 Covenants of the Fund Entities**

Each of the parties covenants and agrees that it will:

- (a) take all reasonable actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) in the case of the Fund, solicit proxies to be voted at the Meeting in favour of the Fund Arrangement Resolution and prepare the Information Circular and proxy solicitation materials and any amendments or supplements thereto as required by, and in compliance with, the Interim Order, and applicable corporate and securities laws, and file and distribute the same to Fund Securityholders in a timely and expeditious manner in all jurisdictions where the same are required to be filed and distributed;
- (d) in the case of the Fund, convene the Meeting as ordered by the Interim Order and conduct such Meeting in accordance with the Interim Order and as otherwise required by law;
- (e) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;
- (f) subject to the approval of the Fund Arrangement Resolution by the Fund Securityholders, as required by the Interim Order, submit the Arrangement to the Court and apply for the Final Order;
- (g) forthwith carry out the terms of the Final Order to the extent applicable to it;
- (h) upon issuance of the Final Order and subject to the conditions precedent in Article 4, forthwith proceed to file the Articles of Arrangement, the Final Order and all related documents with the Director pursuant to subsection 192(6) of the CBCA;
- (i) not, except in the ordinary course of business, as previously publicly announced prior to the date hereof or as contemplated in connection with the Plan of Arrangement, merge into or with, or consolidate with, any other Person or, perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated by this Agreement;
- (j) until the Effective Date, except as specifically provided for hereunder and in the Arrangement, not alter or amend its constituting or governing documents, articles or by-laws as the same exist at the date of this Agreement in a manner which might interfere with or be inconsistent with the transactions contemplated by this Agreement;
- (k) in the case of the Fund, cause New Liquor Stores to take all action necessary to give effect to the transaction contemplated by this Agreement and the Arrangement;
- (l) reserve and authorize for issuance the New Liquor Stores Shares issuable pursuant to the Arrangement;
- (m) prior to the Effective Date, make application to substitutionally list the New Liquor Stores Shares issuable pursuant to the Arrangement and the 6.75% convertible unsecured subordinated debentures of the Fund to be assumed by New Liquor Stores pursuant to the Arrangement on the TSX together with the New Liquor Stores Shares that will be issuable on the conversion of the Debentures and pursuant to the equity incentive plans to be adopted or assumed by New Liquor Stores in replacement of the Fund Incentive Plans; and
- (n) at or prior to the Effective Time, enter into supplemental indentures in accordance with the applicable indentures governing the Debentures pursuant to which New Liquor Stores will assume the covenants and obligations of the Fund in respect of the Debentures, which supplemental indentures will entitle the holders of the Debentures after the Effective Time to acquire New Liquor Stores Shares on conversion of the Debentures.

### **3.2 Amendments to the Declarations of Trust**

The parties hereto agree that pursuant to the Arrangement, the Fund Declaration of Trust and the LP Agreement shall be amended in a manner satisfactory to the Fund Entities, acting reasonably, as necessary to facilitate the Arrangement.

## **ARTICLE 4 CONDITIONS PRECEDENT**

### **4.1 Mutual Conditions Precedent**

The respective obligations of the Fund Entities to complete the transactions contemplated by this Agreement shall be subject to the fulfilment or satisfaction, on or before the Effective Date, of each of the following conditions, any of which may be waived collectively by them without prejudice to their right to rely on any other condition:

- (a) the Interim Order shall have been granted in form and substance satisfactory to the Fund Entities, acting reasonably, not later than December 1, 2010 or such later date as the parties hereto may agree and shall not have been set aside or modified in a manner unacceptable to such parties on appeal or otherwise;
- (b) the Fund Arrangement Resolution shall have been approved by the requisite number of votes cast by the Fund Securityholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (c) the Final Order shall have been granted in form and substance satisfactory to the Fund Entities, acting reasonably, not later than December 31, 2010 or such later date as the parties hereto may agree;
- (d) the Articles of Arrangement and all necessary related documents, in form and substance satisfactory to the Fund Entities, acting reasonably, shall have been accepted for filing by the Director together with the Final Order in accordance with subsection 192(6) of the CBCA;
- (e) no material action or proceeding shall be pending or threatened by any Person and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
  - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein; or
  - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein;
- (f) all necessary or advisable material third party and regulatory consents, approvals and authorizations with respect to the transactions contemplated hereby shall have been completed or obtained including, without limitation, consents and approvals from the Fund's principal lenders and suppliers;
- (g) there shall not, as of the Effective Date, be holders of Fund Securities that hold, in aggregate, in excess of 2.5% of all outstanding Fund Securities, that have validly exercised and not withdrawn their rights of dissent under the CBCA and the Interim Order;
- (h) the TSX shall have conditionally approved the listing or the substitutional listing of the New Liquor Stores Shares (including the New Liquor Stores Shares issuable on the conversion of the Debentures and pursuant to the equity incentive plans to be adopted or assumed by New Liquor Stores in replacement of the Fund Incentive Plans) to be issued pursuant to the Arrangement and of the 6.75% convertible unsecured subordinated debentures of the Fund to be assumed by New Liquor Stores pursuant to the Arrangement; and

- (i) the board of directors of GP shall not have determined in its sole and absolute discretion that to proceed with the Arrangement would not be in the best interests of the Fund Unitholders.

#### **4.2 Notice and Effect of Failure to Comply with Conditions**

If any of the conditions precedents set forth in sections 4.1 hereof shall not be complied with or waived by the party or parties for whose benefit such conditions are provided on or before the date required for the performance thereof, then a party for whose benefit the condition precedent is provided may, in addition to any other remedies they may have at law or equity, rescind and terminate this Agreement provided that prior to the filing of the Articles of Arrangement for the purpose of giving effect to the Arrangement, the party intending to rely thereon has delivered a written notice to the other parties, specifying in reasonable detail all breaches of covenants or other matters which the party delivering such notice is asserting as the basis for the non fulfillment of the applicable conditions precedent and the party in breach shall have failed to cure such breach within three Business Days of receipt of such written notice thereof (except that no cure period shall be provided for a breach which by its nature cannot be cured). More than one such notice may be delivered by a party.

#### **4.3 Satisfaction of Conditions**

The conditions set out in this Article 4 are conclusively deemed to have been satisfied, waived or released when, with the agreement of the parties, Articles of Arrangement are filed under the CBCA to give effect to the Arrangement.

### **ARTICLE 5 NOTICES**

#### **5.1 Notices**

All notices which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally or delivered by facsimile or electronic transmission.

### **ARTICLE 6 AMENDMENT AND TERMINATION**

#### **6.1 Amendments**

This Agreement may, at any time and from time to time before or after the Meeting, be amended in any respect whatsoever by written agreement of the parties hereto without further notice to or authorization on the part of their respective securityholders; provided that any such amendment that changes the consideration to be received by the Fund Securityholders pursuant to the Arrangement is brought to the attention of the Court before approval of the Final Order and is subject to such requirements as may be ordered by the Court.

#### **6.2 Termination**

This Agreement shall be terminated in each of the following circumstances:

- (a) the mutual agreement of the parties;
- (b) the Arrangement shall not have become effective on or before December 31, 2010 or such later date as may be agreed to by the parties hereto; and
- (c) termination of this Agreement under Article 4 hereof.

**ARTICLE 7  
GENERAL**

**7.1 Binding Effect**

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

**7.2 No Assignment**

No party may assign its rights or obligations under this Agreement. Notwithstanding the foregoing, any party shall be entitled to assign all of its respective right, title and interest under this Agreement to any collateral agent for and on behalf of the senior lenders to such party and/or any of its subsidiaries, solely as security for the obligations of such party in connection with the indebtedness owing to such senior lenders, but such assignment shall not relieve such party from any of its obligations under this Agreement. Subject to the foregoing, no third party shall have any rights hereunder unless expressly stated to the contrary.

**7.3 Exclusivity**

None of the covenants of the Fund or GP contained herein shall prevent the board of directors of GP from responding as required by law to any submission or proposal regarding any acquisition or disposition of assets or any proposal to amalgamate, merge or effect an arrangement or any acquisition proposal generally or make any disclosure to the Fund's securityholders with respect thereto which in the judgment of the board of directors of GP is required under applicable law.

**7.4 Expenses**

New Liquor Stores shall pay all expenses in connection with the preparation and execution of this Agreement and the completion of the transactions contemplated hereby or incidental hereto in the event of the successful implementation of the Arrangement pursuant to the terms of this Agreement.

**7.5 Equitable Remedies**

All representations, warranties and covenants herein or to be given hereunder as to enforceability in accordance with the terms of any covenant, agreement or document shall be qualified as to applicable bankruptcy and other laws affecting the enforcement of creditors' rights generally and to the effect that specific performance, being an equitable remedy, may only be ordered at the discretion of the Court.

**7.6 Severability**

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

- (a) the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and
- (b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

**7.7 Further Assurances**

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

**7.8 Time of Essence**

Time shall be of the essence.

**7.9 Liability of the Fund**

The parties hereto acknowledge that, except to the extent that GP is entering into this Agreement in its own right or on behalf of LP, GP is entering into this Agreement on behalf of the Fund and the obligations of the Fund hereunder shall not be personally binding upon the trustee of the Fund, GP, the directors or officers of GP or any holder of Fund Units and that any recourse against the Fund, the trustee of the Fund, GP, the directors or officers of GP or any holder of Fund Units in any manner in respect of any indebtedness, obligation or liability of the Fund arising hereunder or arising in connection herewith or from the matters to which this Agreement relates, if any, including without limitation claims based on contract, on negligence, tortious behaviour or otherwise, shall be limited to, and satisfied only out of, the assets of the Fund in accordance with the Fund Declaration of Trust as amended from time to time.

**7.10 Counterparts**

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

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto effective as of the date first above written.

**LIQUOR STORES INCOME FUND**, by its administrator, Liquor Stores GP Inc.

**LIQUOR STORES LIMITED PARTNERSHIP**, by its general partner, Liquor Stores GP Inc.

Per: (signed) "Rick Crook"  
Rick Crook  
President and Chief Executive Officer

Per: (signed) "Rick Crook"  
Rick Crook  
President and Chief Executive Officer

Per: (signed) "Patrick de Grace"  
Patrick de Grace  
Vice President Finance and Chief Financial Officer

Per: (signed) "Patrick de Grace"  
Patrick de Grace  
Vice President Finance and Chief Financial Officer

**LIQUOR STORES N.A. LTD.**

**LIQUOR STORES GP INC.**

Per: (signed) "Rick Crook"  
Rick Crook  
President and Chief Executive Officer

Per: (signed) "Rick Crook"  
Rick Crook  
President and Chief Executive Officer

Per: (signed) "Patrick de Grace"  
Patrick de Grace  
Vice President Finance and Chief Financial Officer

Per: (signed) "Patrick de Grace"  
Patrick de Grace  
Vice President Finance and Chief Financial Officer

## Exhibit A

### Plan of Arrangement under Section 192 of the *Canada Business Corporations Act*

#### ARTICLE 1 INTERPRETATION

1.1 In this Plan of Arrangement, the following terms have the following meanings:

- (a) "**Arrangement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to the arrangement pursuant to Section 192 of the CBCA set forth in this Plan of Arrangement as supplemented, modified or amended, and not to any particular article, section or other portion hereof;
- (b) "**Arrangement Agreement**" means the arrangement agreement dated effective November 12, 2010 among the Fund, the GP, the LP and New Liquor Stores, with respect to the Arrangement and all amendments thereto and restatements thereof;
- (c) "**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required by the CBCA to be sent to the Director after the Final Order has been made;
- (d) "**Board of Directors**" means the board of directors of the GP as it may be comprised from time to time;
- (e) "**Business Day**" means a day other than a Saturday, Sunday or a day when banks in the City of Edmonton, Alberta are not generally open for business;
- (f) "**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44;
- (g) "**Certificate**" means the certificate of arrangement which may be issued by the Director pursuant to subsection 192(7) of the CBCA in respect of the Articles of Arrangement and giving effect to the Arrangement;
- (h) "**Court**" means the Court of Queen's Bench of Alberta;
- (i) "**Depositary**" means CIBC Mellon Trust Company, or such other person as may be designated by the Fund or, following the Effective Time, New Liquor Stores, for the purpose of receiving the deposit of certificates formerly representing Fund Securities;
- (j) "**Director**" means the Director appointed pursuant to section 260 of the CBCA;
- (k) "**Dissenting Securityholders**" means registered holders of Fund Securities who validly exercise the rights of dissent with respect to the Arrangement provided to them under the Interim Order and whose dissent rights remain valid immediately before the Effective Time;
- (l) "**Effective Date**" means the date shown in the Certificate;
- (m) "**Effective Time**" means 11:59 p.m. (Edmonton time) on the Effective Date or such other time on the Effective Date as may be specified in writing by the Fund, the GP, in its

capacity as administrator of the Fund and general partner of the LP, or New Liquor Stores;

- (n) "**Final Order**" means the order of the Court approving the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (o) "**Fund**" means Liquor Stores Income Fund, a trust organized under the laws of the Province of Alberta and governed by the Fund Declaration of Trust;
- (p) "**Fund Arrangement Parties**" means the Fund, the GP, the LP and New Liquor Stores;
- (q) "**Fund Arrangement Resolution**" means the special resolution in respect of the Arrangement passed by the Fund Securityholders at the Fund Meeting;
- (r) "**Fund Declaration of Trust**" means the amended and restated declaration of trust of the Fund, as the same may be further amended or amended and restated from time to time;
- (s) "**Fund Incentive Plans**" means, collectively, the Fund Option Plan and the Fund LTIP;
- (t) "**Fund Incentive Rights**" means, collectively, Fund Options and the Fund LTIP Rights;
- (u) "**Fund LTIP**" means the Long Term Incentive Plan of the Fund, as amended from time to time;
- (v) "**Fund LTIP Rights**" means rights of participants to receive Fund Units outstanding under the Fund LTIP;
- (w) "**Fund Meeting**" means the special meeting of Fund Securityholders held to consider the Fund Arrangement Resolution and related matters in accordance with the terms of the Interim Order, and any adjournment(s) thereof;
- (x) "**Fund Option Plan**" means the Unit Option Plan of the Fund, as amended from time to time;
- (y) "**Fund Options**" means options to acquire Fund Units outstanding under the Fund Option Plan;
- (z) "**Fund Securities**" means, collectively, the Fund Units and the LP Units;
- (aa) "**Fund Securityholders**" means, collectively, the Fund Unitholders and the LP Unitholders;
- (bb) "**Fund Unitholders**" means the holders from time to time of Fund Units;
- (cc) "**Fund Units**" means the Units of the Fund, as defined in the Fund Declaration of Trust;
- (dd) "**GP**" means Liquor Stores GP Inc., a corporation incorporated under the CBCA and the administrator of the Fund and the general partner of the LP;
- (ee) "**Interim Order**" means the interim order of the Court containing declarations and directions with respect to the notice to be given in respect of, and the conduct of, the Fund

Meeting and otherwise with respect to the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

- (ff) "**Letter of Transmittal**" means the letter of transmittal to be sent to the Fund Securityholders, pursuant to which such holders will be required to deliver certificates representing Fund Securities in order to receive the New Liquor Stores Shares issuable to them pursuant to the Arrangement;
- (gg) "**LP**" means Liquor Stores Limited Partnership, a limited partnership formed under the laws of Alberta;
- (hh) "**LP Agreement**" means the amended and restated limited partnership agreement of the LP, as the same may be further amended or amended and restated from time to time;
- (ii) "**LP Unitholders**" means the holders from time to time of LP Units;
- (jj) "**LP Units**" means, collectively, exchangeable limited partner units and Series 1 exchangeable LP units of the LP;
- (kk) "**New Liquor Stores**" means Liquor Stores N.A. Ltd., a corporation incorporated under the CBCA and, prior to the completion of the Arrangement, a wholly-owned subsidiary of the Fund;
- (ll) "**New Liquor Stores Incentive Rights**" means, collectively, New Liquor Stores Options and the New Liquor Stores LTIP Rights;
- (mm) "**New Liquor Stores LTIP Rights**" means rights to acquire New Liquor Stores Shares to be granted to holders of Fund LTIP Rights under the Arrangement;
- (nn) "**New Liquor Stores Options**" means options to acquire New Liquor Stores Shares to be granted to holders of Fund Options under the Arrangement;
- (oo) "**New Liquor Stores Share Fair Market Value**" means the weighted average trading price of a Fund Unit on the Toronto Stock Exchange for the 10 trading days preceding the Effective Date;
- (pp) "**New Liquor Stores Shares**" means the common shares in the capital of New Liquor Stores;
- (qq) "**Ordinary LP Units**" means the Ordinary LP Units of the LP, as defined in the LP Agreement;
- (rr) "**Special Voting Units**" means the Special Voting Units of the Fund, as defined in the Fund Declaration of Trust;
- (ss) "**Tax Act**" means the Income Tax Act, R.S.C. 1985, c. 1 (5th Supp.); and
- (tt) "**Tax Exempt Entity**" means an LP Unitholder that is exempt from tax under Part I of the Tax Act.

**1.1** The division of this Plan of Arrangement into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement.

**1.2** Unless reference is specifically made to some other document or instrument, all references herein to articles and sections are to articles and sections of this Plan of Arrangement.

**1.3** Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, corporations, bodies corporate, trusts, unincorporated organizations, governments, regulatory authorities, and other entities.

**1.4** In the event that the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

**1.5** References in this Plan of Arrangement to any statute or sections thereof shall include such statute as amended or substituted and any regulations promulgated thereunder from time to time in effect.

## **ARTICLE 2 ARRANGEMENT AGREEMENT**

**2.1** This Plan of Arrangement is made pursuant to the Arrangement Agreement.

**2.2** The parties to this Plan of Arrangement intend that for United States federal income tax purposes the transactions contemplated hereby qualify as a "reorganization" within the meaning of subsection 368(a) of the United States *Internal Revenue Code of 1986*, as amended, and that this Plan of Arrangement constitutes a "plan of reorganization" for such purposes.

**2.3** This Plan of Arrangement, upon the filing of the Articles of Arrangement and the issue of the Certificate, if any, shall become effective as of, and be binding as of and after, the Effective Time on: (i) the Fund Securityholders; (ii) the Fund Arrangement Parties; and (iii) the holders of Fund Incentive Rights.

**2.4** The Articles of Arrangement and Certificate shall be filed and issued, respectively, with respect to the Arrangement in its entirety. The Certificate shall be conclusive evidence that the Arrangement has become effective and that, subject to the provisions of Section 3.1, each of the provisions of Article 3 has become effective in the sequence and at the times set out therein.

**2.5** Other than as expressly provided for herein, no portion of this Plan of Arrangement shall take effect with respect to any party or person until the Effective Time. Furthermore, each of the events listed in Article 3 shall be, without affecting the timing set out in Article 3, mutually conditional, such that no event described in Article 3 may occur without all steps occurring, and those events shall effect the integrated transaction which constitutes the Arrangement.

**ARTICLE 3  
ARRANGEMENT**

**3.1** Commencing at the Effective Time, each of the events set out below shall occur and shall be deemed to occur in the following order, each occurring immediately after the completion of the previous step, without any further act or formality except as otherwise provided herein:

**Amendment of Fund Declaration of Trust**

- (a) the Fund Declaration of Trust shall be amended to the extent necessary to facilitate the Arrangement and the implementation of the steps and transactions contemplated herein;

**Amendment of the LP Agreement**

- (b) the LP Agreement shall be amended to the extent necessary to facilitate the Arrangement and the implementation of the steps and transactions contemplated herein;

**Fund Distribution**

- (c) the Fund shall declare a distribution to the Fund Unitholders of an amount equal to any remaining taxable income not declared payable or paid to Fund Unitholders prior to the Effective Time;

**Dissenting Securityholders**

- (d) the Fund Units held by Dissenting Securityholders shall be deemed to have been transferred to the Fund (free and clear of any and all liens, claims and encumbrances) and shall be immediately cancelled and cease to be outstanding, and such Dissenting Securityholders shall cease to be Fund Unitholders or to have any rights as Fund Unitholders, other than the right to be paid the fair value of their Fund Units in accordance with Article 4;
- (e) the LP Units held by Dissenting Securityholders shall be deemed to have been transferred to the LP (free and clear of any and all liens, claims and encumbrances) and shall be immediately cancelled and cease to be outstanding, and such Dissenting Securityholders shall cease to be LP Unitholders or to have any rights as LP Unitholders, other than the right to be paid the fair value of their LP Units in accordance with Article 4;

**Removal of New Liquor Stores Share Transfer and Issue Restrictions**

- (f) the articles of New Liquor Stores shall be amended to eliminate the restrictions on share transfers and the limitations on share issuances and shareholders by deleting Item 4 and paragraphs a and b of Item 7 thereof in their entirety;

**Exchange of Fund Units**

- (g) all of the issued and outstanding Fund Units (for greater certainty, other than those Fund Units (if any) previously transferred to the Fund by Dissenting Securityholders and immediately cancelled by the Fund pursuant to subsection 3.1(d)) shall be transferred by Fund Unitholders to, and acquired by, New Liquor Stores (free and clear of any and all liens, claims and encumbrances);

- (h) in exchange for each one (1.0) Fund Unit acquired by New Liquor Stores pursuant to subsection 3.1(g), New Liquor Stores shall issue one (1.0) New Liquor Stores Share to the Fund Unitholder who transferred such Fund Unit to New Liquor Stores;

**Exchange of LP Units**

- (i) all of the issued and outstanding LP Units (for greater certainty, other than those LP Units (if any) previously transferred to the LP by Dissenting Securityholders and immediately cancelled by the LP pursuant to subsection 3.1(e)) shall be transferred by LP Unitholders to, and acquired by, New Liquor Stores (free and clear of any and all liens, claims and encumbrances);
- (j) in exchange for each one (1.0) LP Unit acquired by New Liquor Stores pursuant to subsection 3.1(i), New Liquor Stores shall transfer one (1.0) New Liquor Stores Share to the LP Unitholder who transferred such LP Unit to New Liquor Stores;

**Exchange of Rights Under Fund Incentive Plans**

- (k) each of the issued and outstanding Fund Options shall be exchanged for an New Liquor Stores Option to acquire the same number of New Liquor Stores Shares as the number of Fund Units subject to the Fund Option, at the same price and on the same terms as provided in the Fund Option;
- (l) each of the issued and outstanding Fund LTIP Rights shall be exchanged for a New Liquor Stores LTIP Right to receive the same number of New Liquor Stores Shares as the number of Fund Units subject to the Fund LTIP Right on the same terms as provided in the Fund LTIP Rights;

**Repurchase of Initial New Liquor Stores Shares**

- (m) New Liquor Stores shall repurchase the 100 New Liquor Stores Shares held by the Fund at a price per share equal to the New Liquor Stores Share Fair Market Value and such New Liquor Stores Shares shall be cancelled;

**Transfer of the LP Units**

- (n) New Liquor Stores shall sell, transfer, assign and convey to the LP the LP Units acquired by New Liquor Stores pursuant to subsection 3.1(i), and as consideration therefor, the LP shall issue to New Liquor Stores that number of Ordinary LP Units having a fair market value that is equal to the fair market value of the LP Units so sold, transferred, assigned and conveyed; and

**Cancellation of the LP Units**

- (o) the LP Units acquired by the LP pursuant to subsection 3.1(n), and the Special Voting Units issued by the Fund in connection with the issuance of such LP Units, shall be cancelled and shall cease to be outstanding.

**3.2** The Fund Arrangement Parties shall make the appropriate entries in their securities registers to reflect the matters referred to, and the transactions provided for, in Section 3.1.

**3.3** The Fund Incentive Plans and all agreements, elections, allocation notices and other documents representing or evidencing Fund Options and Fund LTIP Rights, as the case may be, shall be deemed amended at the Effective Time to the extent necessary to facilitate the exchanges contemplated by subsections 3.1(k) and 3.1(l) without further action by the Fund, the GP, New Liquor Stores or the holders thereof and such agreements, elections, allocation notices and other documents shall thereafter represent or evidence the right to receive the New Liquor Stores Shares in accordance with the terms of the New Liquor Stores Options and the New Liquor Stores LTIP Rights to which the holder is entitled pursuant to the exchanges contemplated by subsections 3.1(k) or 3.1(l), as the case may be.

**3.4** The sole consideration to be received by the Fund Securityholders for the transfer of the Fund Securities to New Liquor Stores as provided by subsections 3.1(g) and 3.1(i), as the case may be, shall be the New Liquor Stores Shares issued in connection with such transfer as contemplated by subsections 3.1(h) and 3.1(j), as the case may be.

**3.5** An LP Unitholder who is not a Tax Exempt Entity and who (i) is a resident of Canada for purposes of the Tax Act and (ii) has exchanged LP Units for New Liquor Stores Shares under subsection 3.1(i) hereof, shall be entitled to make an income tax election, pursuant to subsection 85(1) or 85(2) of the Tax Act, as applicable (and the analogous provisions of provincial income tax law), with respect to the transfer by the LP Unitholder of such holder's LP Units to New Liquor Stores by providing two (2) signed copies of the necessary election forms to New Liquor Stores within 120 days following the Effective Date, duly completed with the details of the number of LP Units transferred, the adjusted cost base of the LP Units disposed of and the applicable agreed amounts for the purposes of such elections in accordance with the restrictions set out in subsections 85(1) and (2) of the Tax Act, as applicable. Thereafter, the election forms will be signed by New Liquor Stores and returned to such former holders of LP Units within 30 days after the receipt thereof by New Liquor Stores for filing with the Canada Revenue Agency (or the applicable provincial taxing authority). New Liquor Stores's sole obligation in respect hereof shall be signing the election forms which are received by New Liquor Stores within 120 days of the Effective Date and returning such elections forms to the former holder of LP Units as provided for in this Section 3.5 and New Liquor Stores will not be responsible for the proper completion of any election form nor will New Liquor Stores be responsible for any taxes, interest or penalties resulting from the failure by a former holder of LP Units to properly complete or file the election forms in the form and manner and within the time prescribed by the Tax Act (or any applicable provincial legislation). In its sole discretion, New Liquor Stores may choose to sign and return an election form received by it more than 120 days following the Effective Date, but New Liquor Stores will have no obligation to do so.

#### **ARTICLE 4 DISSENTING SECURITYHOLDERS**

**4.1** Registered Fund Unitholders and LP Unitholders may exercise rights of dissent with respect to the Fund Units and LP Units held by such Fund Securityholders pursuant to and in the manner set forth in section 190 of the CBCA, as modified by the Interim Order and this Section 4.1, in connection with the Arrangement. Registered Fund Unit holders and LP Unitholders who duly exercise such rights of dissent and who:

- (a) are ultimately entitled to be paid fair value for their Fund Units and/or LP Units, as the case may be, shall be deemed not to have exchanged their Fund Units or LP Units, as the case may be, for New Liquor Stores Shares pursuant to the Arrangement, and such Fund Units or LP Units, as the case may be, shall be cancelled in accordance with the Arrangement and will not be exchanged for New Liquor Stores Shares in accordance with the Arrangement; or

- (b) are ultimately not entitled, for any reason, to be paid fair value for their Fund Units and/or LP Units, as the case may be, shall be deemed to have participated in the Arrangement on the same basis as Fund Unitholders or LP Unitholders, as the case may be, who have not exercised dissent rights pursuant to this Section 4.1, and shall receive New Liquor Stores Shares in exchange for their Fund Units or LP Units, as the case may be, on the basis determined in accordance with subsection 3.1(h) or subsection 3.1(j), as the case may be;

but in no case shall the Fund, the LP or New Liquor Stores or any other person be required to recognize such holders as Fund Unitholders or LP Unitholders after the Effective Time, and the names of such Fund Securityholders shall be deleted from the applicable registers of Fund Securities effective as at the Effective Time. The fair value for the Fund Units and LP Units shall be determined as of the close of business on the Business Day before the day on which the Arrangement is approved by Fund Securityholders at the Fund Meeting.

## **ARTICLE 5 OUTSTANDING CERTIFICATES AND FRACTIONAL SECURITIES**

**5.1** From and after the Effective Time, certificates formerly representing Fund Securities that were exchanged pursuant to subsection 3.1(g) or subsection 3.1(i), as the case may be, shall represent only the right to receive the certificates representing New Liquor Stores Shares which the former holder of such Fund Securities is, subject to Section 5.5, entitled to receive pursuant to Article 3 of this Plan of Arrangement, subject to compliance with the requirements set forth in this Article 5, or as to those certificates formerly representing Fund Units and/or LP Units held by Dissenting Securityholders (other than those Dissenting Securityholders deemed to have participated in the Arrangement pursuant to Section 4.1), to receive the fair value of the Fund Units and/or LP Units formerly represented by such certificates.

**5.2** The Fund shall forward or cause to be forwarded to each Fund Securityholder (being in the case of the Fund Unitholders, CDS & Co. as the sole registered holder of Fund Units) at the address of such holder as it appears on the applicable register of Fund Securities on the Effective Date, a Letter of Transmittal and instructions for obtaining delivery of the New Liquor Stores Shares to be issued to such holder pursuant to this Arrangement. A Fund Securityholder may take delivery of such New Liquor Stores Shares by delivering the certificates representing such holder's Fund Securities to the Depositary at any of the offices indicated in the Letter of Transmittal, accompanied by a duly completed Letter of Transmittal and such other documents as the Depositary may reasonably require. The certificates representing the New Liquor Stores Shares issued to such holder shall be registered in such names and, delivered to such addresses as such holder may direct in such Letter of Transmittal, or if requested by the former Fund Securityholder in the Letter of Transmittal, made available at the Depositary for pick-up by the former Fund Securityholder, as soon as practicable after receipt by the Depositary of the required documents.

**5.3** If any certificate which immediately prior to the Effective Time represented an interest in outstanding Fund Securities that were exchanged pursuant to Section 3.1 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to have been lost, stolen or destroyed, the Depositary shall issue and deliver in exchange for such lost, stolen or destroyed certificate the consideration to which the holder is entitled pursuant to the Arrangement (and any dividends or distributions with respect thereto) as determined in accordance with the Arrangement. The person who is entitled to receive such consideration shall, as a condition precedent to the receipt thereof, give a bond to New Liquor Stores and, if the lost, stolen or destroyed certificate represented an LP Unit, the LP and their respective transfer agents, which bond is in form and substance satisfactory to New Liquor Stores and, if applicable, the LP and their respective transfer agents, in their sole and

absolute discretion, or shall otherwise indemnify New Liquor Stores, the LP and their respective transfer agents to their satisfaction, in their sole and absolute discretion, against any claim that may be made against any of them with respect to the certificate alleged to have been lost, stolen or destroyed.

**5.4** All distributions made or dividends paid with respect to any New Liquor Stores Shares allotted and issued to former holders of Fund Securities pursuant to the Arrangement but for which a certificate has not been issued shall be paid or delivered to the Depositary to be held by the Depositary in trust for the registered holder thereof. The Depositary shall pay and deliver to any such registered holder, as soon as reasonably practicable after application therefor is made by the registered holder to the Depositary in such form as the Depositary may reasonably require, such distributions or dividends to which such holder is entitled, without interest.

**5.5** Fund Securityholders shall not be entitled to any interest, distribution, premium or other payment on or with respect to the former Fund Securities other than the certificates representing the New Liquor Stores Shares which they are entitled to receive pursuant to this Arrangement.

**5.6** Any certificate formerly representing Fund Securities that is not deposited with all other documents as required by this Plan of Arrangement on or before the day prior to the fifth anniversary of the Effective Date shall cease to represent a right or claim of any kind or nature including the right of the holder of such Fund Securities to receive New Liquor Stores Shares and any distributions made or dividends paid thereon. In such case, such New Liquor Stores Shares shall be returned to New Liquor Stores for cancellation, and any dividends or distributions in respect of New Liquor Stores Shares shall be returned to New Liquor Stores.

**5.7** No fractional New Liquor Stores Shares shall be issued under the Arrangement. In lieu of any fractional New Liquor Stores Shares, each registered holder of Fund Securities otherwise entitled to a fractional interest in New Liquor Stores Shares shall receive the nearest whole number of New Liquor Stores Shares (with fractions equal to exactly 0.5 being rounded up).

**5.8** The Fund, the LP, New Liquor Stores and the Depositary shall be entitled to deduct and withhold from any distribution, dividend or other consideration payable to any former Fund Securityholder, such amounts as the Fund, the LP, New Liquor Stores or the Depositary are required to deduct and withhold with respect to such payment under the any provision of applicable federal, provincial, state, local or foreign laws relating to taxes, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the securities in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required to be deducted or withheld from any payment to a holder exceeds the cash component, if any, of the consideration otherwise payable to the holder, the Fund, the LP, New Liquor Stores and the Depositary are hereby authorized to sell or otherwise dispose of such portion of the New Liquor Stores Shares otherwise issuable to the holder as is necessary to provide sufficient funds to the Fund, the LP, New Liquor Stores or the Depositary, as the case may be, to enable it to comply with such deduction or withholding requirement and the Fund, the LP, New Liquor Stores or the Depositary shall notify the holder thereof and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority.

## **ARTICLE 6 AMENDMENTS**

**6.1** The Fund, the GP, the LP and New Liquor Stores may by mutual agreement amend this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment must be: (i) set out in writing; and (ii) filed with the Court.

**6.2** Any amendment, modification or supplement to this Plan of Arrangement may be made prior to the Effective Time by the Fund, the GP, the LP and New Liquor Stores (or, following the Effective Time, by New Liquor Stores) without the approval of the Court or the Fund Securityholders, provided that it concerns a matter which, in the reasonable opinion of the Fund, the GP, the LP and New Liquor Stores (or, following the Effective Time, New Liquor Stores), is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement or is not adverse to the financial or economic interests of any former holder of Fund Units or LP Units.

**6.3** Subject to Section 6.2, any amendment to this Plan of Arrangement may be proposed by the Fund, the GP, the LP or New Liquor Stores at any time prior to or at the Fund Meeting (provided that the other parties to the Arrangement Agreement shall have consented thereto) with or without any prior notice or communication to Fund Securityholders and if so proposed and accepted by the Fund Securityholders voting at the Fund Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

**6.4** Subject to Section 6.2 the Fund, the GP, the LP and New Liquor Stores may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time after the Fund Meeting and prior to the Effective Time with the approval of the Court and, if and as required by the Court, after communication to the Fund Securityholders.

## **ARTICLE 7 FURTHER ASSURANCES**

**7.1** Notwithstanding that the transactions and events set out herein shall occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to further document or evidence any of the transactions or events set out herein.

**7.2** If, prior to the Effective Date, any term or provision of this Plan of Arrangement is held by the Court to be invalid, void or unenforceable, the Court, at the request of any parties, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of this Plan of Arrangement shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

**7.3** The Fund, the GP, the LP and New Liquor Stores may agree not to implement this Plan of Arrangement, notwithstanding the passing of the Fund Arrangement Resolution by the Fund Securityholders and the receipt of the Final Order.

**SCHEDULE D**  
**FINANCIAL STATEMENTS**

November 12, 2010

## **Auditors' Report**

### **To the Directors of Liquor Stores N.A. Ltd.**

We have audited the balance sheet of **Liquor Stores N.A. Ltd.** as at November 10, 2010. This balance sheet is the responsibility of the company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether this balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the company as at November 10, 2010 and in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

### **Chartered Accountants**

# Liquor Stores N. A. Ltd.

## Balance Sheet

As at November 10, 2010

| (Canadian Dollars)                | 2010       |
|-----------------------------------|------------|
|                                   | \$         |
| <b>Assets</b>                     |            |
| <b>Current</b>                    |            |
| Cash                              | 100        |
| <b>Total Assets</b>               | <b>100</b> |
| <hr/>                             |            |
| <b>Shareholders' equity</b>       |            |
| Share Capital (note 2)            | 100        |
| <b>Total Shareholders' Equity</b> | <b>100</b> |

*The accompanying notes are an integral part of this financial statement.*

Approved by the Board:

(Signed) Richard Crook, Director

(Signed) Patrick de Grace, Director

# Liquor Stores N. A. Ltd.

## NOTES TO THE BALANCE SHEET

As at November 10, 2010

### 1. Incorporation and Basis of Presentation

Liquor Stores N. A. Ltd. (the "Company") was incorporated on November 8, 2010 under the provisions of the *Business Corporations Act* (Canada). The Company is a wholly-owned subsidiary of Liquor Stores Income Fund (the "Fund"). Other than the issuance of the common shares, the Company has not carried on any business or conducted any operations and will be inactive until the transactions (note 3) are completed. Accordingly, statements of earnings and retained earnings, comprehensive income and cash flows have not been prepared. This financial statement has been prepared in accordance with Canadian generally accepted accounting principles.

### 2. Share Capital

Authorized:

An unlimited number of voting common shares  
4,500,000 preferred shares, issuable in series

Issued:

Common shares:

|                                 |     |       |
|---------------------------------|-----|-------|
| Issued on Incorporation         | 100 | \$100 |
| Balance as at November 10, 2010 | 100 | \$100 |

### 3. Proposed Plan of Arrangement

Through a series of transactions involving, among others, Liquor Stores Income Fund (the "Fund"), Liquor Stores Limited Partnership (the "LP"), Liquor Stores GP Inc., Liquor Stores N. A. Ltd., and certain other Fund subsidiaries, the holders of trust units of the Fund, and the holders of exchangeable limited partnership units and Series 1 exchangeable units of the LP, the Fund anticipates converting into a publicly-listed company (the "Arrangement"). Pursuant to the proposed Arrangement, holders of the Fund's trust units, and the holders of exchangeable limited partner units and Series 1 exchangeable units of the LP will receive one common share of the new Liquor Stores N. A. Ltd. for each trust unit, exchangeable limited partner unit and Series 1 exchangeable unit held, as applicable. The proposed Arrangement is subject to satisfying various conditions including regulatory, judicial and securityholder approvals and is currently scheduled to be completed on or about December 31, 2010. Following the Arrangement, Liquor Stores N. A. Ltd. will directly and indirectly own all the assets and assume all of the liabilities of the Fund and its subsidiaries, and the LP (which will be indirectly wholly-owned by Liquor Stores N. A. Ltd.) will continue to carry on the business of owning and operating retail liquor stores.

## **APPENDIX A**

### **Pro forma Financial Information of Liquor Stores N. A. Ltd.**

(unaudited)

September 30, 2010 and December 31, 2009

**Liquor Stores N.A. Ltd.**  
**Pro forma consolidated balance sheet**  
**September 30, 2010**  
(Unaudited)

| (Stated in thousands of Canadian dollars)               | <b>Liquor Stores<br/>Income Fund (the<br/>"Fund")</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Notes</b> | <b>Pro Forma</b> |
|---|---|----------------------------------|--------------|------------------|
|   | \$  | \$                               |              | \$               |
| <b>Assets</b>   |   |                                  |              |                  |
| <b>Current assets</b>                                   |   |                                  |              |                  |
| Cash and cash equivalents                               | 2,215   |                                  |              | 2,215            |
| Accounts receivable                                     | 985   |                                  |              | 985              |
| Inventory (at cost)                                     | 116,222   |                                  |              | 116,222          |
| Prepaid expenses and deposits                           | 1,473   |                                  |              | 1,473            |
|   | 120,895   |                                  |              | 120,895          |
| <b>Property and equipment</b>                           | 42,975  |                                  |              | 42,975           |
| <b>Intangible assets</b>                                | 46,731  |                                  |              | 46,731           |
| <b>Goodwill</b>   | 282,901   |                                  |              | 282,901          |
|   | 493,502   |                                  |              | 493,502          |
| <b>Liabilities</b>                                      |   |                                  |              |                  |
| <b>Current liabilities</b>                              |   |                                  |              |                  |
| Bank indebtedness                                       | 41,310  |                                  |              | 41,310           |
| Accounts payable and accrued liabilities                | 23,185  | 400                              | 2(c)         | 23,585           |
| Income tax payable                                      |   | 10,220                           |              | 10,220           |
| Distributions payable to unitholders                    | 2,552   | 492                              | 2(a)         | 3,044            |
| Distributions payable to non-controlling interest       | 492   | (492)                            | 2(a)         | -                |
|   | 67,539  | 10,620                           |              | 78,159           |
| <b>Long-term debt</b>                                   | 100,594   |                                  |              | 100,594          |
| <b>Future income tax liability</b>                      | 10,904  | 1,520                            | 2(c)         | 12,424           |
|   | 179,037   | 12,140                           |              | 191,177          |
| <b>Unitholders' Equity</b>                              |   |                                  |              |                  |
| Shareholders  |   | 354,163                          | 2(a)(b)      | 354,163          |
| Fund Units Unitholders                                  | 315,257   | (315,257)                        | 2(a)         | -                |
| Cumulative undistributed earnings (excess distribution) | (42,146)  | (12,140)                         | 2(c)         | (54,286)         |
| Equity component of convertible debentures              | 4,970   |                                  |              | 4,970            |
| Contributed surplus                                     | 266   |                                  |              | 266              |
| Accumulated other comprehensive income                  | (2,971)   |                                  |              | (2,971)          |
| Non-controlling interest                                | 39,089  | (38,906)                         | 2(a)         | 183              |
|   | 314,465   | (12,140)                         |              | 302,325          |
|   | 493,502   |                                  |              | 493,502          |

*The accompanying notes are an integral part of these consolidated financial statements*

**Liquor Stores N. A. Ltd.**

**Pro forma consolidated statements of income and comprehensive income**

**For the nine months ended September 30, 2010**

(Unaudited)

| (Stated in thousands of Canadian dollars)                            | Liquor Stores<br>Income Fund (the<br>"Fund") | Pro Forma<br>Adjustments | Notes   | Pro Forma  |
|--|--|--------------------------|---------|------------|
| <b>Consolidated Statements of Earnings</b>                           |  |                          |         |            |
|  | \$   | \$                       |         | \$         |
| Sales  | 416,144                                      |                          |         | 416,144    |
| Cost of sales  | 313,133                                      |                          |         | 313,133    |
| <b>Gross margin</b>  | 103,011                                      |                          |         | 103,011    |
| Operating and administrative expense                                 | 75,379                                       |                          |         | 75,379     |
| <b>Operating earnings before amortization, interest and other</b>    | 27,632                                       |                          |         | 27,632     |
| <b>Amortization</b>  |  |                          |         |            |
| Property and equipment   | 6,317  |                          |         | 6,317      |
| Intangible assets  | 1,616  |                          |         | 1,616      |
|  | 7,933  |                          |         | 7,933      |
|  | 19,699                                       |                          |         | 19,699     |
| <b>Interest expense and other</b>                                    |  |                          |         |            |
| Bank indebtedness  | 1,712  |                          |         | 1,712      |
| Long-term debt   | 1,398  |                          |         | 1,398      |
| Convertible debentures   | 4,025  |                          |         | 4,025      |
| Loss (gain) on foreign exchange                                      | (707)  |                          |         | (707)      |
|  | 6,428  |                          |         | 6,428      |
| <b>Earnings before income tax</b>                                    | 13,271                                       |                          |         | 13,271     |
| <b>Income tax expense</b>  |  |                          |         |            |
| Current tax expense  |  | 1,995                    | 2(b)    | 1,995      |
| Future income tax (recovery) expense                                 | 1,421  | 529                      | 2(b)    | 1,950      |
|  | 1,421  | 2,524                    |         | 3,945      |
| <b>Net earnings for the period</b>                                   | 11,850                                       | (2,524)                  |         | 9,326      |
| <b>Weighted average units shares outstanding</b>                     |  |                          |         |            |
| Basic  | 18,470,448                                   | 4,073,275                | 2(a)    | 22,543,723 |
| Diluted  | 18,535,116                                   |                          |         | 22,553,333 |
| <b>Earnings per share</b>  |  |                          |         |            |
| Basic  | 0.50   |                          |         | 0.41       |
| Diluted  | 0.50   |                          |         | 0.41       |
| <b>Consolidated Statements of Comprehensive Income</b>               |  |                          |         |            |
| <b>Net earnings for the period</b>                                   | 11,850                                       | (2,524)                  | 2(a)(b) | 9,326      |
| <b>Other comprehensive (loss) gain</b>                               |  |                          |         |            |
| Net (loss) gain on translation of self-sustaining foreign operations | (1,139)                                      |                          |         | (1,139)    |
| <b>Comprehensive income for the period</b>                           | 10,711                                       | (2,524)                  |         | 8,187      |

*The accompanying notes are an integral part of these consolidated financial statements*

**Liquor Stores N. A. Ltd.**

**Pro forma consolidated statements of income and comprehensive income**

**For the year ended December 31, 2009**

(Unaudited)

| (Stated in thousands of Canadian dollars)                            | Liquor Stores<br>Income Fund (the<br>"Fund") | Pro Forma<br>Adjustments | Notes   | Pro Forma  |
|--|--|--------------------------|---------|------------|
| <b>Consolidated Statements of Earnings</b>                           |  |                          |         |            |
|  | \$   | \$                       |         | \$         |
| Sales  | 541,049                                      |                          |         | 541,049    |
| Cost of sales  | 404,550                                      |                          |         | 404,550    |
| <b>Gross margin</b>  | 136,499                                      |                          |         | 136,499    |
| Operating and administrative expense                                 | 91,253                                       |                          |         | 91,253     |
| <b>Operating earnings before amortization, interest and other</b>    | 45,246                                       |                          |         | 45,246     |
| <b>Amortization</b>  |  |                          |         |            |
| Property and equipment   | 6,271  |                          |         | 6,271      |
| Intangible assets  | 2,891  |                          |         | 2,891      |
|  | 9,162  |                          |         | 9,162      |
|  | 36,084                                       |                          |         | 36,084     |
| <b>Interest expense and other</b>                                    |  |                          |         |            |
| Bank indebtedness  | 1,508  |                          |         | 1,508      |
| Long-term debt   | 1,113  |                          |         | 1,113      |
| Convertible debentures   | 5,252  |                          |         | 5,252      |
| Loss (gain) on foreign exchange                                      | 746  |                          |         | 746        |
| Gain on sale of investment   | (179)  |                          |         | (179)      |
|  | 8,440  |                          |         | 8,440      |
| <b>Earnings before income tax and non-controlling interest</b>       | 27,644                                       |                          |         | 27,644     |
| <b>Income tax expense</b>  |  |                          |         |            |
| Current tax expense  |  | 8,225                    | 2(b)    | 8,225      |
| Future income tax (recovery) expense                                 | (1,404)                                      | 1,802                    | 2(b)    | 398        |
|  | (1,404)                                      | 10,027                   |         | 8,623      |
| <b>Earnings before non-controlling interest</b>                      | 29,048                                       | (10,027)                 | 2(a)    | 19,021     |
| <b>Non-controlling interest</b>                                      | 5,319  | (4,895)                  | 2(a)    | 424        |
| <b>Net earnings for the year</b>                                     | 23,729                                       | (5,132)                  |         | 18,597     |
| <b>Weighted average units shares outstanding</b>                     |  |                          |         |            |
| Basic  | 18,445,630                                   | 4,066,237                | 2(a)    | 22,511,867 |
| Diluted  | 22,532,134                                   |                          |         | 22,532,134 |
| <b>Earnings per share</b>  |  |                          |         |            |
| Basic  | 1.29   |                          |         | 0.83       |
| Diluted  | 1.27   |                          |         | 0.83       |
| <b>Consolidated Statements of Comprehensive Income</b>               |  |                          |         |            |
| <b>Net earnings for the year</b>                                     | 23,729                                       | (5,132)                  | 2(a)(b) | 18,597     |
| <b>Other comprehensive (loss) gain</b>                               |  |                          |         |            |
| Net (loss) gain on translation of self-sustaining foreign operations | (3,429)                                      |                          |         | (3,429)    |
| <b>Comprehensive income for the year</b>                             | 20,300                                       | (5,132)                  |         | 15,168     |

*The accompanying notes are an integral part of these consolidated financial statements*

**Liquor Stores N. A. Ltd.**  
**Notes to the pro forma consolidated financial information**  
(unaudited)

**1. Basis of presentation**

On November 9, 2010, the Board of Directors of Liquor Stores GP Inc., administrator of Liquor Stores Income Fund (the “Fund”) approved a proposed Arrangement under the *Business Corporations Act* (Canada) (the “Arrangement”) providing for the reorganization of the Fund’s income trust structure into a public corporation, to be named “Liquor Stores N. A. Ltd. (the “Company”).

If the Arrangement is approved by the Fund’s unitholders (being, collectively, the holders of the Fund’s trust units, and the holders of Series 1 exchangeable units and exchangeable limited partnership units (the “Unitholders”)), the Unitholders will become the shareholders of the Company. Each Unitholder will receive, for each Unit held, one common share of the Company.

Following the Arrangement, the Company will hold all assets and liabilities previously held, directly and indirectly by the Fund. Also following the Arrangement, Liquor Stores Limited Partnership, which will be indirectly wholly-owned by the Company, will continue to carry on the business of owning and operating retail liquor stores.

Since the Arrangement does not contemplate a change of control for accounting purposes, the financial statements of the Company will be the continuation of the Fund’s financial statements. As a result of the Arrangement, the consolidated financial statements of the Company will reflect the assets and liabilities of the Fund at their respective carrying amounts on a continuity of interests basis.

These unaudited pro forma consolidated financial information should be read in conjunction with the Information Circular, which contains the Arrangement, and with the audited consolidated financial statements of the Fund for the year ended December 31, 2009 and the unaudited consolidated financial statements of the Fund for the three and nine month periods ended September 30, 2010, which are incorporated by reference to the Information Circular.

The pro forma consolidated financial information is unaudited and may not be indicative of the financial position that actually would have occurred if the events reflected herein had been in effect on the dates indicated or of the result that may be obtained in the future. Actual future results may differ materially from those assumed or described. Completion of the transactions contemplated by the Arrangement is subject to certain conditions, including regulatory and Unitholder approval. As a result, there is no assurance that the transaction described will be completed.

**Liquor Stores N. A. Ltd.**  
**Notes to the pro forma consolidated financial information**  
(unaudited)

**2. Pro forma adjustments and assumptions**

The unaudited pro forma consolidated balance sheet as at September 30, 2010 assumes that the Arrangement became effective September 30, 2010. The unaudited pro forma consolidated statements of income and comprehensive income for the year ended December 31, 2009 and the nine months ended September 30, 2010 assumes that the Arrangement became effective immediately prior to January 1, 2009.

- a) An adjustment has been recorded to reflect the exchange of all outstanding Fund units and of all exchangeable partnership units for common shares of the Company on the basis of one common share for each Fund unit or exchangeable partnership unit.
- b) Adjustments to the provision for income taxes have been recorded to reflect the impact of the completion of the Arrangement. The adjustments reflect an increase in the current and future income tax resulting from the new corporate structure.
- c) Cash and related future income taxes have been adjusted in the *pro forma* consolidated balance sheet to reflect \$400,000 of costs associated with the Arrangement.

## SCHEDULE E

### SECTION 190 OF THE *CANADA BUSINESS CORPORATIONS ACT*

- 190(1) **Right to dissent** - Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to
- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
  - (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
  - (c) amalgamate otherwise than under section 184;
  - (d) be continued under section 188;
  - (e) sell, lease or exchange all or substantially all its property under subsection 189(3); or
  - (f) carry out a going-private transaction or a squeeze-out transaction.
- (2) **Further right** - A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (2.1) **If one class of shares** - The right to dissent described in subsection (2) applies even if there is only one class of shares.
- (3) **Payment for shares** - In addition to any other right the shareholder may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.
- (4) **No partial dissent** - A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) **Objection** - A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.
- (6) **Notice of resolution** - The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.
- (7) **Demand for payment** - A dissenting shareholder shall, within twenty days after receiving a notice under subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing

- (a) the shareholder's name and address;
  - (b) the number and class of shares in respect of which the shareholder dissents; and
  - (c) a demand for payment of the fair value of such shares.
- (8) **Share certificate** - A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.
- (9) **Forfeiture** - A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.
- (10) **Endorsing certificate** - A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.
- (11) **Suspension of rights** - On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than to be paid the fair value of their shares as determined under this section except where
- (a) the shareholder withdraws that notice before the corporation makes an offer under subsection (12),
  - (b) the corporation fails to make an offer in accordance with subsection (12) and the shareholder withdraws the notice, or
  - (c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),
- in which case the shareholder's rights are reinstated as of the date the notice was sent.
- (12) **Offer to pay** - A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice
- (a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or
  - (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.
- (13) **Same terms** - Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.
- (14) **Payment** - Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.
- (15) **Corporation may apply to court** - Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

- (16) **Shareholder application to court** - If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.
- (17) **Venue** - An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.
- (18) **No security for costs** - A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).
- (19) **Parties** - On an application to a court under subsection (15) or (16),
- (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
  - (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel.
- (20) **Powers of court** - On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.
- (21) **Appraisers** - A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.
- (22) **Final order** - The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.
- (23) **Interest** - A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.
- (24) **Notice that subsection (26) applies** - If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.
- (25) **Effect where subsection (26) applies** - If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may
- (a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or
  - (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.
- (26) **Limitation** - A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that
- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
  - (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

