

LIQUOR STORES INCOME FUND



**ANNUAL INFORMATION FORM
For the year ended December 31, 2004**

March 30, 2005

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DEFINED TERMS

Please refer to the "Glossary of Terms" in **Schedule "A"** for a list of defined terms used in this annual information form.

FORWARD LOOKING STATEMENTS

This annual information form contains forward-looking statements. All statements other than statements of historical fact contained in this annual information form are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Fund or the Company. Prospective investors can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this annual information form. Although Management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include: risks relating to government regulation; competition; the Company's ability to locate and secure acceptable store sites and to adapt to changing market conditions; risks relating to future acquisitions and development of new stores; failure to successfully integrate acquisitions; dependence on key personnel; supply interruption; reliance on information and control systems; absence of an operating history as a public company; dependence on capital markets to fund the Company's growth strategy beyond its available credit facilities; dependence of the Fund on the Company; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; restrictions on the potential growth of the Company as a consequence of the payment by the Company of a substantial amount of its operating cash flow; income tax related risks; and the Vendors' right to approve certain material transactions.

The information contained in this annual information form, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Fund and the Company.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this annual information form are made as of the date of this annual information form and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

NON-GAAP MEASURES

References in this annual information form to:

- **"EBITDA"** are to historical earnings before provision for interest, income taxes and amortization;
- **"Normalized EBITDA"** are to EBITDA adjusted for certain items that Management believes facilitate the comparison of historical periods. Normalized EBITDA adjusts for the following items, which will not recur: (i) management fees and bonuses; (ii) accruals for non-controlling

parties' share of income; (iii) equity income; (iv) charitable donations; (v) adjustments to the carrying value of goodwill; and (vi) reorganization costs. All of such adjustments are based upon historical information or contractual commitments; and

- "**distributable cash**" are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund described in this annual information form.

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

CORPORATE STRUCTURE

Name, Address and Formation

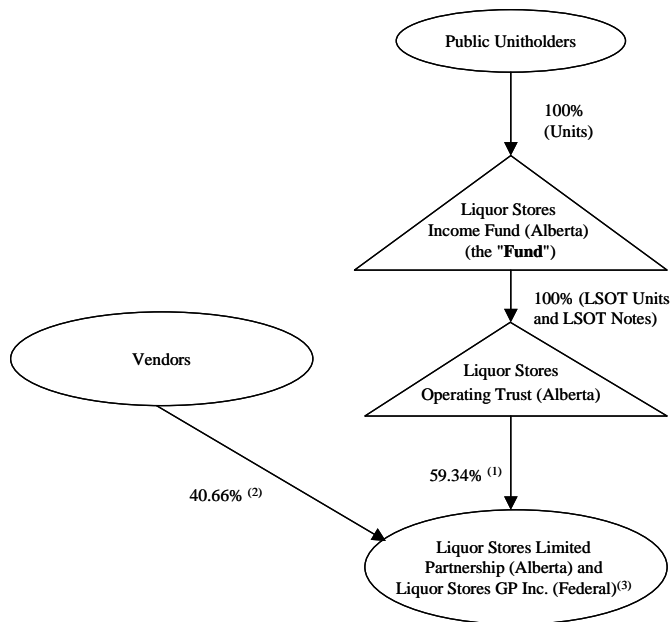
Liquor Stores Income Fund
Suite 1120, 10235 – 101 Street
Edmonton, Alberta
T5J 3G1

The Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta by the Declaration of Trust. There have not been any material amendments to the Declaration of Trust since the Fund became a reporting issuer on September 20, 2004.

Unitholders have the benefit of the *Income Trusts Liability Act* (Alberta) (the "ITLA"), which came into force on July 1, 2004. The ITLA protects unitholders of Alberta income trusts such as the Fund from legal uncertainties regarding potential liability by providing a statutory limitation on unitholders' liability. Specifically, the ITLA provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the ITLA came into force.

Intercorporate Relationships

The following chart illustrates the structure of the Fund as at the date hereof, which gives effect to the Fund's March 2, 2005 issue of 1,830,000 Units.



Notes:

- (1) Ordinary LP Units and GP Common Shares, representing 59.34% of the LP Units and GP Common Shares.
- (2) Exchangeable LP Units, Subordinated LP Units and GP Common Shares representing, collectively, 40.66% of the LP Units and GP Common Shares.
- (3) The GP holds all of the outstanding GP Units.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

On September 28, 2004, the Fund completed its initial public offering of Units. The Fund issued 4,300,000 Units at \$10 per Unit for gross proceeds of \$43,000,000. The Fund used the proceeds of the offering to indirectly acquire a 50.6% interest in Liquor Stores LP. Liquor Stores LP subsequently used these proceeds and borrowings under its Credit Facility to acquire 50 retail liquor stores and related assets (collectively, the "**Purchased Assets**") from Liquor Depot and Liquor World for total consideration consisting of \$55,445,706 in cash (subject to adjustment), 2,075,000 Exchangeable LP Units, 2,125,000 Subordinated LP Units and 4,200,000 GP Common Shares and the assumption of the accounts payable and certain current liabilities related to the Purchased Assets (collectively, the "**Acquisition**"). The remaining 49.4% interest in Liquor Stores LP was held by Liquor Depot and Liquor World. With the completion of the Acquisition, the Fund became Alberta's largest liquor store retailer by number of stores.

The Units commenced trading on the TSX at the opening on September 28, 2004 under the symbol "LIQ.UN".

On March 2, 2005, the Fund closed a private placement of 1,830,000 Units at a price of \$16.40 per Unit for gross proceeds of approximately \$30 million. A portion of the net proceeds of the private placement was used by the Fund to indirectly acquire 13 new liquor stores and related assets located in Alberta during February and March of 2005. The Fund acquired all 10 of the stores operated by the Last Call Group and three independently owned and operated stores. The total cost to the Fund of the 13 additional stores was approximately \$14 million, including inventory. The Last Call Group was the fifth largest independent chain of liquor stores in Alberta prior to its acquisition by the Fund. A portion of the net proceeds of the private placement is being used by the Fund to develop two additional stores in British Columbia that are expected to open in the spring of 2005. The Fund is actively pursuing other acquisition and development opportunities.

The Fund has announced its intention to increase its annual distribution by \$0.075 per Unit from \$1.00 to \$1.075 (\$0.08958 per month), commencing with the distribution to be paid to Unitholders of record on May 31, 2005.

As at the date hereof, the Fund is not aware of any material changes in the Fund's business that the Fund expects will occur during the current financial year.

Significant Acquisitions

Assets of Liquor Depot and Liquor World

The Fund completed the Acquisition on September 28, 2004. Information in respect of the Acquisition is contained in the Fund's Business Acquisition Report dated November 10, 2004 and filed on SEDAR at www.sedar.com on the same date. The Business Acquisition Report is incorporated herein by reference and forms part of this annual information form.

Other

As at the date hereof the Fund has not completed any further significant acquisitions for which a Business Acquisition Report has not yet been filed.

DESCRIPTION OF THE BUSINESS

Overview

The Company is the largest liquor store retailer in Alberta by number of stores and the second largest by revenue. The Company currently operates 63 stores, 51 of which are located in or near the urban centres of Calgary and Edmonton.

Prior to the Acquisition, Liquor Depot and Liquor World had been in business since privatization of the Alberta retail liquor distribution system in 1993. Liquor Depot, founded by Company Chief Executive Officer Irving Kipnes, opened its first store in December 1993 and Liquor World, founded by Company Chairman Henry Bereznicki, opened its first store in January 1994. Prior to the Fund's initial public offering, Liquor Depot and Liquor World were the largest and fourth largest liquor store retailers in Alberta by number of stores operated with 28 and 21 stores, respectively.

Operating Philosophy

Management intends to continue to pursue the following operating strategies, through which the Company has become one of the leading liquor store retailers in Alberta, and the largest by number of stores.

Convenience — Management believes that convenience is the primary consideration for liquor store customers and that location is therefore a significant factor in the success of a liquor store. The Company capitalizes on the commercial real estate development and leasing expertise and relationships of Management in successfully selecting and securing high profile, high traffic locations with ample parking for its customers. The Company endeavours to locate its stores in areas where access to customers is maximized such as near grocery stores or on main arteries in or near residential areas. Of the Company's 63 stores, 43 are located in or near shopping centres with major grocery store or other anchor tenants such as Safeway, London Drugs, IGA/Sobeys and Save-On Foods.

Urban Focus — The Company focuses its operations in larger urban centres such as the Calgary and Edmonton metropolitan areas where opportunities exist for larger per store revenues and where Management believes that more substantial population increases are likely to occur. Of the Company's 63 stores, 37 are located in or near the City of Edmonton and 14 are located in or near the City of Calgary.

Superior Store Operations — The Company designs its stores to optimize traffic flow and present its product in an upscale environment. Management believes that the Company spends substantially more on design, furniture, fixtures and equipment than its competitors, which provides an attractive look and also reduces ongoing maintenance and refurbishment costs. The Company's stores feature wooden cases and tasteful shelving as the primary display mechanism and include refrigerated beer coolers. Product selection is individually tailored to each location and varies between 1,000 and 4,000 wine, spirit, cooler and beer items, providing a substantially larger product selection and inventory than the industry average. The Company employs knowledgeable, friendly and helpful staff to assist customers. Management estimates that for 2003, the Company's average sales per store was approximately twice that of the industry average. In addition, the Company's proportion of wine sales per store is approximately 25% higher than average resulting in the Company selling more than double the wine per store than the industry average.

Product Pricing — As customer purchases are made predominantly on a convenience basis, the Company prices its products competitively but does not position itself as a "discounter".

Targeted Advertising — The Company uses advertising to generate brand and location awareness for its stores within their local markets.

Business Strengths

Management believes that the following strengths make the Company's operating and financial performance sustainable and its business well-suited for an income fund.

Premier Operator — The Company is one of the premier liquor store operators in the Province of Alberta with over 4.2 million customer transactions annually. By focusing on securing and developing convenient store locations and providing customers with a superior product selection, knowledgeable sales staff and a comfortable shopping environment, and by applying sophisticated management and operational systems to its business, the Company has grown over the past 10 years to be the largest liquor store chain in Alberta by number of stores and the second largest by revenue. This growth has been achieved through both new store development and successful acquisitions.

Favourable Regulatory Environment — The Company operates primarily in the Province of Alberta, which has over 10 years experience with a fully privatized retail liquor distribution system. Management has played a leading role in representing the interests of the industry to government and in the development of the current system. The Alberta regulatory regime is designed to foster the growth and development of a retail liquor store industry comprised predominantly of independently owned and operated stores rather than large format retailers that rely on volume based price advantages and destination shoppers. These objectives are achieved through the following three important policy initiatives enshrined in the applicable legislation, which are designed to provide and maintain a "level playing field" for all industry participants:

- liquor must be sold separately from other goods (i.e., liquor store operations must be carried out as a separate business, distinct from any other business carried on by the liquor store owner and liquor may only be sold from separate and distinct premises that do not include the sale of non-liquor related goods);
- wholesale prices are uniform to all licensees (i.e., wholesale prices are the same for all retailers regardless of the quantities purchased); and
- warehouse transportation charges are uniform to all licensees (i.e., shipping costs are the same for all retailers regardless of the distance of the liquor store from the warehouse).

Stable and Growing Industry — The retail liquor business in Alberta is characterized by stable and growing demand. Total wholesale liquor sales in Alberta have grown at a compound rate of 5.6% during the seven years ended March 31, 2004, providing the base for stable and improving performance. The industry is also benefiting from demographic and other trends including a growing adult population in Alberta and a shift in consumer preferences to higher margin products such as wines and coolers.

Consistent Financial Performance — From 1996 to 2003, the Company has demonstrated stable and growing financial performance with a 13.6% compound annual growth rate in sales and a 19.4% compound annual growth rate in Normalized EBITDA over this period. For the period from September 28, 2004 to December 31, 2004, the Company had sales of approximately \$35.5 million and EBITDA of approximately \$3.5 million.

Economies of Scale — The Company benefits from a number of operating efficiencies that contribute to its success and allow it to maximize operating margins and growth. These operating efficiencies were

enhanced by the combination of Liquor Depot and Liquor World. Among other things, the combination allowed the Company to reduce overall management and labour costs and, through increased use of LTOs, the cost of merchandise. The Company's leading market position and larger scale operations relative to most other participants in the industry provide it with other competitive advantages including greater access to capital and the ability to spread its corporate and advertising costs over a larger store base. Management believes that the Company's financial strength and competitive position in the industry has been further enhanced by the creation of the Fund.

Highly Experienced and Proven Management Team — The Company has an experienced and entrepreneurial management team that has been the leader in the industry since privatization. The founders of the Company, Messrs. Bereznicki and Kipnes, continue to actively lead the Company in their positions as Chairman and President and Chief Executive Officer, respectively. Each of the founders has been involved in the retail liquor business since privatization in 1993 and together have a combined 20 years experience in the retail liquor business and a combined 60 years experience in commercial real estate development and leasing. The Company's Chief Operating Officer, Mr. Crook, had 12 years experience in the liquor industry before joining the Company in 2000.

Alberta Growth Opportunities — Being the largest operator by number of stores in the fragmented Alberta liquor store industry presents the Company with a significant opportunity to acquire additional stores from both single store and other chain operators. As of January 2005, 996 liquor stores were licensed to operate in Alberta providing ample opportunity for consolidation. The Company has a history of successfully completing and integrating accretive acquisitions, having purchased 36 stores over the past 12 years ended March 14, 2005, more than any other industry participant. Management believes the Company is well positioned to continue to successfully complete accretive acquisitions of existing stores and that the creation of the Fund has significantly enhanced its ability to compete for acquisitions. The Company will also continue to leverage Management's real estate development and leasing experience and relationships with shopping centre developers and owners to compete for new store development locations. In 2005 the Company added a full time management employee dedicated to expanding operations in Alberta.

New Markets — With its breadth of operations and experience in Alberta, the Company is well positioned to take advantage of opportunities in British Columbia where recent regulatory initiatives have expanded the role of privately owned liquor stores. The Company opened its first store in British Columbia in Victoria in June 2004, is currently developing two additional stores in Kamloops and Richmond that are expected to open in the spring of 2005, and is negotiating on a number of additional locations. The Company monitors regulatory initiatives in other jurisdictions and will evaluate opportunities if and when they become available. The Company has one full time management employee dedicated to expanding operations in British Columbia. Management believes that the province offers significant opportunities for expansion.

Growth Strategy

The Company is well positioned to take advantage of consolidation opportunities in the industry and to continue to grow revenue and cash flow in a cost-effective manner. The Company intends to build on its market position by adding new stores through acquisitions and new store development in both Alberta and British Columbia.

The Company is continuously evaluating acquisition and new store opportunities. The Company evaluates potential acquisitions on a case-by-case basis and generally seeks stores that meet minimum revenue and site criteria. Of the Company's 63 stores, 36 have resulted from successfully completed and

integrated acquisitions and Management believes that there continue to be significant acquisition opportunities in the Alberta liquor retailing industry.

Additionally, the Company will continue to benefit from its expertise in new store site selection, construction and finance, and its relationships with shopping centre owners and developers. Through their experience in the shopping centre industry, the Company's founders have relationships with a number of the major real estate brokerage and development companies in Alberta and British Columbia, and the Company expects to continue to derive new store locations sourced from the real estate development expertise of its founders. To supplement its own activities, the Company engages an exclusive tenant representative broker on an ongoing basis to source new store development locations for the Company.

The Company currently has agreements in place to develop several new stores in the Province of Alberta in new shopping centre developments.

The Company monitors regulatory initiatives in other jurisdictions and evaluates opportunities if and when they become available. The Company has been following regulatory developments and evaluating opportunities in British Columbia. In June 2004 the Company opened its first British Columbia store in Victoria.

Competition and Strategic Positioning

The Alberta retail liquor store business is competitive and fragmented. The Company has over 10 years of experience successfully operating in this competitive environment. On completion of the Acquisition, the Company became the largest liquor store chain in Alberta by number of stores and intends to use its market size to its advantage. The convenience nature of consumer liquor purchases results in location being a key success factor. The Company's stores, located primarily in shopping centres with grocery store or other anchor tenants, and Management's real estate expertise in selecting busy locations provides the Fund with a competitive advantage. The Fund plans to benefit from the highly fragmented market by taking advantage of consolidation opportunities as they become available. A number of large format liquor stores owned by grocery chains also compete in the Alberta market. Their impact is muted by laws that: (i) require all liquor stores to be operated as separate businesses and require that grocery stores have separate premises for the sale of liquor; and (ii) control wholesale prices, setting one price for all retailers regardless of volumes purchased.

Advertising

The Company conducts advertising programs with mail and flyer advertising in local newspapers and mail drops to maintain local consumer awareness of specific stores and their location. Most of the advertising is associated with special occasions such as Easter, Victoria Day, Canada Day, Labour Day, Thanksgiving and Christmas.

The Company also offers its customers a propriety preferred customer program through the use of a "Club Card" at no extra cost. With the Club Card, customers are able to take advantage of in-store price discounts and the Company's special flyers and other advertising. Management believes that the Club Card, which operates similar to the club cards offered by major grocery and other retail chains, offers the best means of developing and maintaining customer loyalty.

Store Locations

The Company focuses its operations in the urban centres of Calgary and Edmonton where Management believes it can best utilize its real estate expertise, where opportunities exist for larger per store revenues and where Management believes more substantial population growth is likely to occur. Of the Company's 63 stores, 37 are located in Edmonton and area and 14 are located in Calgary and area.

The Company's business model is based on highly visible and accessible store locations, anchored by major retailers and close to residential areas. The Company endeavours to locate its stores in high traffic locations with ample parking to allow customers to easily visit the store when shopping for other products, particularly groceries. In most cases, the Company has negotiated the exclusive right for retail sales of beer, wines and spirits for off premises consumption in the shopping centres where its stores are located. See also "Description of the Business – Store Leases". See www.liquorstoresgp.ca for a complete list of store locations.

Effective Sales Staff

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

Inventory and Pricing Strategy

The Company's stores generally carry between 1,000 and 4,000 products. Management estimates that the Company's sales mix for 2004 was 42% beer and coolers, 33% spirits, and 24% wine. The Company provides a large selection in all product categories, especially wine, coolers, import beers, liqueurs and scotch, and offers value products in every category possible. Product selection is customized at each store to adapt to local demand and large fine wine selections are maintained at several of the Company's stores, with separate areas and specially trained and knowledgeable staff. The Company's larger scale of operations enables it to carry a wider variety and larger inventory of products than most of its competitors.

The Company also supplies products on a wholesale basis to a number of restaurants, golf courses, nightclubs, and other licensees.

As customer purchases are made predominantly on a convenience basis, the Company prices its products competitively but does not seek to position itself as a "discounter".

The Company's credit facilities are used to finance inventory, which typically turns over an average of six times per year. See "Material Contracts - Credit Facility".

Supply System

Subject to limited exceptions, the Company has access to all products available in Alberta from suppliers through the central warehouse operated by CLS as well as a supply of domestic beer from Brewers Distributors and other domestic beer manufacturers who deliver directly to the stores. The CLS warehouse handles approximately 11,000 to 12,000 products at any given time.

A product price catalogue is made available every two weeks in which products are available to all retailers at the same price. A minimum 25 case order is required to purchase from the CLS warehouse. Wholesale price changes are allowed every two weeks and at certain times, manufacturers will offer price discounts through "limited time offers" ("LTOs") that are available to all retailers in any quantity. LTOs most often apply to well known, high volume brands, and take place generally every two to four months. Although volume discounts are not permitted, savings can be achieved by purchasing larger volumes at the discounted LTO prices and managing inventories to maintain stock until the next LTO (a practice referred to as "bridge buying").

The beer manufacturers, including Labatt, Molson, Big Rock Breweries and Sleeman Breweries Ltd., operate their own warehouses in Calgary and/or Edmonton and deliver to retailers on a weekly or twice weekly basis, depending on volumes ordered. Most other imported beer is distributed through the CLS warehouse.

A "postage stamp" rate (i.e. every retailer pays the same price for delivery regardless of the quantity ordered or the location of the retailer) applies to all products distributed from the CLS warehouse. Similarly, the beer manufacturers deliver with freight charges included in the price per unit so every retailer pays the same landed price for beer.

Store Leases

All of the Company's stores are located in Alberta except for one store located in British Columbia. Two additional stores are under construction in British Columbia. The Company leases all of its store premises and its head office and warehouse premises. The Company's store leases typically have a 5 to 10 year initial term with options to renew up to 20 years. The average remaining term of the store leases is approximately 15 years (assuming the exercise by the Company of all renewal options). The leases are held by various landlords and the Company believes that it has a good relationship with its landlords. The total minimum rent payments under the Company's leases in calendar 2004 was approximately \$3 million. The leases are net leases requiring the Company to pay, in addition to minimum rent, a share of taxes, insurance and maintenance and operating costs. The Company believes that no specific lease or location is material to the Company.

Maintenance and Capital Expenditures

The Company's expenditures on facilities fall into three categories: repairs and maintenance; replacements and renovations; and growth (new stores). Repairs and maintenance expenditures are budgeted in operations and expensed in the year incurred. Replacement and renovation expenditures are made to update and refurbish stores and are capitalized. Growth expenditures, which include the costs of building new stores and acquiring and renovating existing stores are also capitalized. Repairs, maintenance, replacement and renovation expenditures will be funded from operations and growth expenditures will be funded from equity financing or the Company's Credit Facility.

Management Information Systems

The Company uses the same point of sale system in all of its stores, which is widely utilized in the industry and which provides accurate and reliable inventory, stock value and cash control. The Company employs a full time loss prevention manager and has a strong accounting and inventory management system that have helped in consistently limiting its "shrinkage" to less than 0.3% of sales, including breakage and method of payment losses. Cash is reconciled on a daily basis and inventory is cycle counted weekly and reconciled monthly. The Company experiences minimal bad debts.

Employees

The Company had approximately 400 employees as of December 31, 2004, of whom 86 were salaried employees and the remainder were hourly employees. The Company has no unionized employees.

RETAINED INTEREST AND EXCHANGE RIGHTS

Retained Interest

As of March 30, 2005 the Vendors own 2,075,000 Exchangeable LP Units and 2,125,000 Subordinated LP Units representing, in the aggregate, 40.66% of the LP Units. The Vendors also own 4,200,000 GP Common Shares representing, in the aggregate, 40.66% of the GP Common Shares.

Exchange Rights

The Exchangeable LP Units are indirectly exchangeable for Units on the basis of one Unit for each Exchangeable LP Unit. The exchange procedure may be initiated by the holder of an Exchangeable LP Unit at any time and from time to time by delivering to the GP a unit certificate in respect of that portion of its Exchangeable LP Units to be exchanged, duly endorsed in blank for transfer, as well as a certificate representing a proportionate number of GP Common Shares. The GP will give notice of the proposed exchange to LSOT, which will acquire Units from the Fund in consideration for the issuance of LSOT Units and LSOT Notes in the number required to complete the exchange. LSOT will deliver to the GP a certificate for the requisite number of Units duly endorsed in blank for transfer. The GP will effect the exchange procedure by causing to be issued in the name of LSOT a unit certificate for that number of Ordinary LP Units (and a proportionate number of GP Common Shares) to be issued on the exchange, entering LSOT in the register of limited partners of Liquor Stores LP and in the register of shareholders of the GP in respect of such additional Ordinary LP Units and GP Common Shares, causing the Exchangeable LP Units and GP Common Shares so tendered for exchange to be cancelled, and delivering to the previous holder of the Exchangeable LP Units a certificate for that number of Units of the Fund to be received on the exchange.

Voting Rights

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

Dilution Rights and Economic Equivalence

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

equivalent thereof (as determined by the Trustees) is issued or distributed simultaneously to the holders of Exchangeable LP Units and Subordinated LP Units.

Reclassification of Units

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

If at any time while any Subordinated LP Unit is outstanding there is any reclassification of the Units outstanding, any change of the Units into other units or securities or any other capital reorganization of the Fund as a result of any consolidation, amalgamation, arrangement, merger or other form of business combination of the Fund with or into any other entity resulting in a reclassification of the outstanding Units, then notwithstanding the terms and conditions of the Subordinated LP Units and any other provision of the Declaration of Trust or the Limited Partnership Agreement, the outstanding Subordinated LP Units will automatically convert into Exchangeable LP Units at the then current conversion ratio in effect under the Limited Partnership Agreement, and the holders of such Subordinated LP Units will, immediately subsequent to such conversion, be entitled to receive, in lieu of the number of Units which they would otherwise have been entitled to receive upon the exercise of their Exchange Rights, the kind and number or amount of securities that they would have been entitled to receive as a result of such event if, on the effective date thereof, they had been the registered holder of the number of Units which they would have received had they exercised the Exchange Rights immediately before the effective date of any such transaction.

In addition, if at any time while any Subordinated LP Unit is outstanding there is any reclassification of the Exchangeable LP Units outstanding, any change of the Exchangeable LP Units into other units or securities (other than into Units) or any other capital reorganization of Liquor Stores LP or any consolidation, amalgamation, arrangement, merger or other form of business combination of Liquor Stores LP with or into any other entity resulting in a reclassification of the outstanding Exchangeable LP Units, then the holders of Subordinated LP Units will be entitled to receive, in lieu of the number of Exchangeable LP Units which they would otherwise have been entitled, the kind and number or amount of securities that they would have been entitled to receive as a result of such event if, on the effective date thereof, they had been the registered holder of the number of Exchangeable LP Units that they would have received had they converted their Subordinated LP Units for Exchangeable LP Units immediately before the effective date of any such transaction.

Registration Rights

The Vendor Group has been granted "demand" and "piggy back" registration rights by the Fund that will enable them to require the Fund to file a prospectus and otherwise assist with a public offering of Units subject to certain limitations, with the Fund's expenses to be borne by the Vendor Group (or on a pro rata basis if both the Vendor Group and the Fund are offering Units) pursuant to the terms and conditions of

the Exchange Agreement. In the event of a "piggy back" offering, the Fund's financing requirements are to take priority.

Subordination

Distributions on the Subordinated LP Units are subordinated in favour of Ordinary LP Units and Exchangeable LP Units. Distributions are only paid by the Company on the Subordinated LP Units at the end of a fiscal quarter to the extent that: (i) the Company has paid average monthly distributions of at least \$0.0833 per Ordinary LP Unit and Exchangeable LP Unit to holders of Ordinary LP Units and Exchangeable LP Units during that quarter; and (ii) any deficiency in such distributions to holders of Ordinary LP Units and Exchangeable LP Units during the preceding 12 months has been satisfied, as described below. If these targets are not satisfied, any deficiency is borne by holders of the Subordinated LP Units, distributions on which are reduced to the extent necessary to support the continued payment of distributions on the Ordinary LP Units and Exchangeable LP Units and any applicable deficiency in such distributions.

Distributions on the Ordinary LP Units and Exchangeable LP Units are cumulative, such that the amount of any deficiency will accumulate for a period of 12 months. Payments of deficiencies in distributions on the Ordinary LP Units and the Exchangeable LP Units are made in priority to distributions on the Subordinated LP Units. Any accumulated deficiency on Ordinary LP Units and Exchangeable LP Units not satisfied by a distribution by the Company within 12 months of the date it arose will cease to be payable (i.e., distributions on the Subordinated LP Units are not reduced to fund accumulated deficiency to the extent that some or all of such accumulated deficiency arose more than 12 months before the date on which such payment is to be made). As the holder of the Ordinary LP Units, LSOT will be entitled to enforce payment of any accumulated deficiency during the term of the subordination provisions.

The Subordinated LP Units will automatically convert into Exchangeable LP Units on a one-for-one basis at (and the subordination provisions will only apply until) the end of any fiscal year ending on or after December 31, 2007 if, for that fiscal year, the Company has earned EBITDA (derived from audited financial statements) of at least \$9.836 million (the "**EBITDA Target**") and the Company has paid distributions of at least \$1.00 per LP Unit (the "**Distribution Target**") for such fiscal year.

For the purposes of the subordination provisions, EBITDA is calculated and adjusted in a manner consistent with the definition of EBITDA set forth in this annual information form. See "Non-GAAP Measures".

The Limited Partnership Agreement provides that if a take-over bid by a person acting at arm's length to the Vendors owning Subordinated LP Units (or any associate or affiliate thereof or person acting jointly or in concert with such Vendors) is made for the Units, then, provided that 20% or more of the Units on a fully diluted basis (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the take-over bid, the subordination of the Subordinated LP Units will automatically terminate and be of no further force or effect and the Subordinated LP Units will automatically convert into Exchangeable LP Units on a one-for-one basis. The subordination of the Subordinated LP Units will also automatically terminate and be of no further force or effect and the Subordinated LP Units will automatically convert into Exchangeable LP Units on a one-for-one basis on the completion of an Acquisition Transaction.

Notwithstanding the subordination of distributions payable to holders of the Subordinated LP Units, holders of these LP Units have the right, through Special Voting Units held by them, to a number of votes at any meeting of Voting Unitholders equal to the number of Units which may be obtained upon the exchange of such Subordinated LP Units without giving effect to such subordination.

LIQUOR STORES INCOME FUND

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

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

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

Activities of the Fund

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

- (a) acquiring, investing in, holding, transferring, disposing of or otherwise dealing with the debt and equity securities of any of the Liquor Stores Entities, and other corporations, partnerships, trusts or other Persons involved, directly or indirectly, in the retail liquor business and businesses related, ancillary or incidental thereto, and such other investments as the Trustees may determine;
- (b) acquiring, investing in, holding, transferring, disposing of or otherwise dealing with securities issued by, or loans made to any of the Liquor Stores Entities, or any other business entity or other Person in which a Liquor Stores Entity has or is concurrently acquiring an interest;
- (c) investing in securities of other issuers that meet the Fund's investment criteria;
- (d) disposing of all or any part of the property of the Fund;
- (e) holding cash in interest bearing accounts with Canadian financial institutions or investing such monies in Permitted Investments;
- (f) issuing Units, Special Voting Units and other securities of the Fund including, without limitation, rights, warrants, convertible securities or options to acquire Units or Special Voting Units or other securities of the Fund;
- (g) issuing debt securities (including debt securities convertible into, or exchangeable for, Units, Special Voting Units or other securities of the Fund) or otherwise borrowing, mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of the Fund's assets as security for any of its obligations, liabilities or indebtedness;
- (h) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of any Person including, without limitation, any Liquor Stores Entity or the performance of any obligation of any Person including, without limitation, any Liquor Stores Entity, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the Fund's

assets as security for such guarantee and subordinating its rights under the LSOT Notes to other indebtedness and obligations;

- (i) purchasing, repurchasing or redeeming securities issued by the Fund;
- (j) satisfying the obligations, liabilities or indebtedness of the Fund;
- (k) performing its obligations under the Administration Agreement, the Securityholders Agreement and the Exchange Agreement; and
- (l) undertaking such other activities, or taking such actions (including investing in securities), related to or in connection with the foregoing or as contemplated by the Declaration of Trust or as may be approved by the Trustees from time to time;

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

Units and Special Voting Units

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "**Units**" and "**Special Voting Units**", respectively. An unlimited number of Units and Special Voting Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Units are not subject to future calls or assessments and entitle the holder thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under "Redemption Right" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

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

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

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

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

Regulatory Compliance

The AGLC and BCLCLB have discretion in the granting or revocation of a license to operate a liquor store and in connection therewith may review the past conduct of persons associated with the liquor store including shareholders, management and employees. As well, the GLA prohibits certain persons from having an interest in a liquor store. Accordingly, the acquisition by any person or group of persons acting jointly or in concert of a significant percentage of the outstanding Units could result in such person or group of persons being subject to background checks under the GLA and could result in the review, revocation or non-renewal of the Company's licenses in the event of an adverse determination. The Company has never had a license revoked or not be renewed and the AGLC has advised the Company that it has never refused to issue a license to a liquor store licensee reapplying for a license.

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

Issuance of Units

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

Trustees

The Fund will have a minimum of three Trustees and a maximum of nine Trustees, the majority of whom must be residents of Canada (within the meaning of the Tax Act). The Trustees are to supervise the activities and manage the affairs of the Fund.

The Trustees, who are also directors of the GP, are R. John Butler, Jim Dinning and Glen H. Heximer, C.A. The Trustees are all "unrelated" within the meaning of the policies of the TSX.

Trustees will be appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Trustees, being a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees (other than as provided below) or from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose, the Trustees must forthwith call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are not Trustees then in office, any Voting Unitholder may call the meeting. The Trustees may, prior to the first annual meeting of Voting Unitholders or between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees so appointed may not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

A Trustee may resign upon written notice to the Fund and may be removed by a resolution passed by a majority of the Voting Unitholders. A vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the remaining Trustees.

The Declaration of Trust provides that, subject to its terms and conditions, the Trustees will have full, absolute and exclusive power, control and authority over the assets of the Fund and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the assets of the Fund, and may, in respect of the assets of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. Subject to such terms and conditions, the Trustees are responsible for, among other things: (i) supervising the activities and managing the investments and the affairs of the Fund; (ii) maintaining records and providing reports to Voting Unitholders; (iii) effecting payments of distributable cash from the Fund to Unitholders; (iv) acting for, voting on behalf of and representing the Fund as a holder of LSOT Units and a holder of LSOT Notes and other securities; (v) voting in favour of the Fund's nominees to serve as trustees of LSOT; and (vi) causing LSOT to vote in favour of the Fund's nominees as directors of the GP.

The Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of the Fund and in connection therewith must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each Trustee and officer of the Fund, as well as former Trustees and officers, and their respective heirs and legal representatives, will be entitled to indemnification from the assets of the Fund in respect of the exercise of that person's powers, and the discharge of that person's duties, provided that the person acted honestly and in good faith with a view to the best interest of the Fund and, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the person had reasonable grounds for believing that his or her conduct was lawful.

Cash Distributions

The Fund intends to make monthly cash distributions of its distributable cash to Unitholders to the extent determined prudent by the Trustees. The amount of cash available for distribution will be equal to the interest and principal repayments on the LSOT Notes and the distributions (if any) on or in respect of the LSOT Units owned by the Fund and all other amounts, if any, from any other investments from time to time held by the Fund received in such period, less amounts that are paid, payable, incurred or provided for in such period in connection with: (a) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (b) satisfaction of debt service or other obligations of the Fund on account of both principal and interest; and (c) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs, expenses, obligations or liabilities including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs, expenses, obligations or liabilities have not otherwise been taken into account in the calculation of the available distributable cash of the Fund).

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

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

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

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

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

Redemption Right

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

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

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

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

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

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable

regulatory approvals, be redeemed by way of a distribution in specie. In such circumstances, LSOT Units and Series 1 LSOT Notes of a value equal to the Redemption Price will be redeemed by LSOT in consideration of the issuance to the Fund of Series 2 LSOT Notes. The Series 2 LSOT Notes will then be distributed in satisfaction of the Redemption Price. The Fund will be entitled to all interest paid on the LSOT Notes and the distributions paid on the LSOT Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities of LSOT on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of LSOT Units and Series 1 LSOT Notes in exchange for Series 2 LSOT Notes, or as a result of the distribution of Series 2 LSOT Notes to the Unitholder on the redemption of such Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 LSOT Notes that may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Series 2 LSOT Notes and they may be subject to resale restrictions under applicable securities laws. Series 2 LSOT Notes so distributed may not be qualified investments for trusts governed by Exempt Plans depending upon the circumstances at the time.

Repurchase of Units

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

Meetings of Voting Unitholders

The Declaration of Trust provides that meetings of Voting Unitholders will be required to be called and held annually, for the purpose of: (i) the election of Trustees, (ii) the appointment of auditors of the Fund for the ensuing year, (iii) generally, any other matter that requires a resolution of Voting Unitholders, and (iv) transacting such other business as the Trustees may determine or as may be properly brought before the meeting. The Declaration of Trust provides that the Voting Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to:

- (a) the election or removal of Trustees;
- (b) any amalgamation, arrangement, other merger or capital reorganization of the Fund with any other entity, except in conjunction with an internal reorganization or the acquisition by the Fund or a Liquor Stores Entity of the securities or assets of another entity;
- (c) the appointment or removal of nominees of the Fund chosen by the Voting Unitholders to serve as trustees of LSOT, except filling casual vacancies;
- (d) the appointment or removal of the auditors of the Fund;
- (e) the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- (f) the approval of amendments to the Declaration of Trust (as described under "Liquor Stores Income Fund — Amendments to the Declaration of Trust");
- (g) the sale of all or substantially all of the assets of the Fund;

- (h) the exercise of certain voting rights attached to the securities of LSOT or the Company held directly or indirectly by the Fund, subject to the provisions of any securityholders agreement including, without limitation, the Securityholders Agreement;
- (i) the election of nominees of the Fund to act as directors of the GP or the removal thereof, except filling casual vacancies;
- (j) the dissolution of the Fund prior to the end of its term; and
- (k) such other business as the Trustees may determine or as may properly be brought before the meeting, including, without limitation, any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval, including, if so required, the ratification of any Unitholder rights plan, distribution reinvestment plan, Unit purchase plan, Unit option plan or other compensation plan.

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

Resolutions (i) electing or removing Trustees, (ii) electing or removing nominees of the Fund to serve as trustees of LSOT or as directors of the GP, (iii) appointing or removing the auditors of the Fund, (iv) with respect to the exercise of certain voting rights attached to the securities of LSOT or the Company held, directly or indirectly, by the Fund, (v) where applicable, ratifying any Unitholder rights plan, distribution reinvestment plan, Unit purchase plan, Unit option plan or other compensation plan requiring Voting Unitholder approval under securities law, stock exchange rules or other laws or regulations, and (vi) where applicable, matters required by securities law, stock exchange rules or other laws or regulations be submitted to Voting Unitholders, must be passed by a simple majority of the votes cast by Voting Unitholders. The balance of the foregoing matters must be passed by a resolution of the Voting Unitholders passed by not less than 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 2/3% of the Voting Units entitled to vote on such resolution.

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

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxyholder need not be a Voting Unitholder. Two persons present in person and either holding personally or representing by proxy in the aggregate at least 10% of the votes attached to all outstanding Voting Units will constitute a quorum for the transaction of business at all such meetings. At any meeting at which a quorum is not present within one-half hour after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the Voting Unitholders, will be terminated (not adjourned), but in any other case, the meeting will stand adjourned to a day not less than 14 days later and to a place and time as chosen by the chair of the meeting, and if at such adjourned meeting a quorum is not present, the Voting Unitholders present either in person or by proxy will be deemed to constitute a quorum.

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

Limitation on Non-Resident Ownership

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

Amendments to the Declaration of Trust

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

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

Notwithstanding the previous sentence, the Trustees may not amend the Declaration of Trust in a manner which would result in (i) the Fund failing to qualify as a mutual fund trust under the Tax Act, or (ii) the Units being treated as "foreign property" for the purposes of the Tax Act.

Term of the Fund

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

The Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Voting Unitholders may surrender their Voting Units for cancellation and the date at which the register of Voting Units will be closed. After the date the register is closed, the Trustees will proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose will, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the LSOT Units, LSOT Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees will distribute the remaining part of the proceeds of the sale of the LSOT Units, LSOT Notes and other assets comprising the Fund together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of LSOT Units, LSOT Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining LSOT Units, LSOT Notes or other assets in specie directly to the Unitholders in accordance with their pro rata interests subject to obtaining all required regulatory approvals.

Take-over Bids

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

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

Information and Reports

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

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

Book-Entry Only System

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

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

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

Financial Year End

The fiscal year end of the Fund is December 31.

Conflicts of Interest

The Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Declaration of Trust provides that if a Trustee or an officer of the Fund is a party to a material contract or transaction or proposed material contract or transaction with the Fund or any of its affiliates, or is a director or officer of, or has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund, such Trustee or officer of the Fund or any of its affiliates, as the case may be, shall disclose in writing to the Trustees or request to have entered in the minutes of meetings of the Trustees the nature and extent of such interest. Except in certain specified circumstances, a Trustee who is a party to or so interested in such a material contract or transaction will be precluded from voting on such a material contract or transaction but the presence of such Trustee at the relevant meeting shall be counted towards any quorum requirement. These provisions in the Declaration of Trust are intended to be equivalent to the provisions of the CBCA applicable to directors and officers of a corporation.

LIQUOR STORES OPERATING TRUST

The LSOT Declaration of Trust contains provisions substantially similar to those of the Declaration of Trust. The following is a summary, which does not purport to be complete, of certain provisions of the LSOT Declaration of Trust insofar as they differ from those of the Declaration of Trust. Reference is made to the LSOT Declaration of Trust for the full text of its provisions.

General

LSOT is an unincorporated trust established under the laws of the Province of Alberta pursuant to the LSOT Declaration of Trust. The activities of LSOT are restricted to the conduct, directly or indirectly, of the business of, and the ownership, operation and lease of assets and property in connection with, the operation of the retail liquor store business, including all activities ancillary or incidental thereto, and such other businesses and activities as the trustees of LSOT may determine, and having investments and other direct or indirect rights in companies or other entities involved, directly or indirectly, in the retail liquor store business, including all activities ancillary or incidental thereto, and such other businesses and activities as the trustees of LSOT may determine. The fiscal year end of LSOT is December 31.

Trustees of LSOT

LSOT must have a minimum of three trustees and a maximum of nine trustees. A majority of the trustees of LSOT must be residents of Canada within the meaning of the Tax Act. The trustees of LSOT supervise the activities and manage the affairs of LSOT. The trustees of LSOT are the persons who serve as the Trustees (R. John Butler, Jim Dinning and Glen H. Heximer). No person other than the Fund, as the holder of all of the outstanding LSOT Units, has the right to appoint any trustees of LSOT.

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

No additional remuneration is paid to the Trustees for also serving as trustees of LSOT.

Cash Distributions

LSOT intends to make monthly cash distributions of its distributable cash to the extent determined prudent by the trustees of LSOT. The amount of cash to be distributed monthly per LSOT Unit to the LSOT Unitholders will be equal to a pro rata share of distributions on or in respect of Ordinary LP Units owned by LSOT and all other amounts, if any, from any other investments from time to time held by LSOT received in such period, less amounts which are paid, payable, incurred or provided for in such period in connection with:

- (a) administrative expenses and other obligations of LSOT;
- (b) any interest expense (including interest payable in respect of the LSOT Notes) incurred by LSOT;
- (c) principal repayments in respect of the LSOT Notes considered advisable by the trustees of LSOT and any other debt obligations of LSOT;
- (d) any cash redemptions or repurchases of the LSOT Units or the LSOT Notes; and

- (e) any amount that the trustees of LSOT may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of LSOT, that have been or are reasonably expected to be incurred in the activities and operations of LSOT (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of LSOT).

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

The distribution declared by the trustees of LSOT in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of LSOT for such year as is necessary to ensure that LSOT will not be liable for ordinary income taxes under the Tax Act in such year.

Any income of LSOT that is unavailable for cash distribution will, to the extent necessary to ensure that LSOT does not have any income tax liability under Part I of the Tax Act, be distributed to the LSOT Unitholders in the form of additional LSOT Units. The value of each LSOT Unit so issued will be equal to the redemption price thereof. The LSOT Declaration of Trust provides that immediately after any pro rata distribution of LSOT Units in satisfaction of any non-cash distribution, the number of outstanding LSOT Units will be consolidated such that each holder of LSOT Units will hold after consolidation the same number of LSOT Units as the holder held before the non-cash distribution.

Unit Certificates

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

The LSOT Notes

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

Two series of LSOT Notes are authorized for issuance under the Note Indenture. Currently, only Series 1 LSOT Notes are issued and outstanding, all of which are held by the Fund. Series 2 LSOT Notes are reserved by LSOT to be issued exclusively as full or partial payment of the redemption price of Series 1 LSOT Notes. LSOT Notes are issuable in Canadian currency. As at the date hereof, LSOT has issued \$65,710,800 principal amount of Series 1 LSOT Notes to the Fund.

Interest and Maturity

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

Payment upon Maturity

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

Redemption

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

Subordination

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

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

Default

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

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

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

LIQUOR STORES LIMITED PARTNERSHIP

General

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

General Partner

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

LP Units

Liquor Stores LP is entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as may be determined by the GP. As at the date hereof, Liquor Stores LP has issued 6,130,000 Ordinary LP Units (which are held by LSOT), 2,075,000 Exchangeable LP Units (which are held by the Vendors) and 2,125,000 Subordinated LP Units (which are held by the Vendors). Liquor Stores LP has also issued GP Units (which are held by the GP). The Ordinary LP Units represent a 59.34% interest in Liquor Stores LP and the Exchangeable LP Units and the Subordinated LP Units collectively represent a 40.66% interest in Liquor Stores LP.

The Ordinary LP Units, the Exchangeable LP Units and the Subordinated LP Units entitle the holder thereof to one vote for each whole unit held at all meetings of holders of the Units and have economic rights that are equivalent in all material respects, except that (i) Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Units at the option of the holder at any time, (ii) distributions on the Subordinated LP Units are subject to the subordination arrangements described below, and (iii) the Subordinated LP Units automatically convert into Exchangeable LP Units upon the satisfaction of certain conditions and in certain circumstances. Additionally, Exchangeable LP Units and Subordinated LP Units are accompanied by Special Voting Units that entitle the holder to receive notice of, attend and to vote at all meetings of Voting Unitholders. See "Retained Interest and Exchange Rights — Exchange Rights" and "Retained Interest and Exchange Rights — Subordination".

Distributions on the LP Units are made in the following priority:

- (a) holders of Ordinary LP Units and Exchangeable LP Units are entitled to receive monthly cash distributions such that each holder of Ordinary LP Units and the Exchangeable LP Units will receive a distribution of \$0.0833 per unit for such month or, if there is insufficient distributable cash to make distributions in such amount, such lesser amount as is available, on a proportionate basis,

- (b) at the end of each fiscal quarter of Liquor Stores LP, including the fiscal quarter ending on the fiscal year end, distributable cash will be distributed in the following order of priority:
- (i) first, in payment of the monthly cash distribution to the holders of Ordinary LP Units and Exchangeable LP Units as described above, for the month then ended;
 - (ii) second, proportionately to the holders of Ordinary LP Units and Exchangeable LP Units, to the extent that monthly per unit distributions in respect of the 12 month period then ended were not made or were made in amounts less than \$0.0833 per unit, the amount of any deficiency;
 - (iii) third, to holders of Subordinated LP Units in a per unit amount of \$0.25 or, if there is insufficient available cash to make distributions in such amount, such lesser amount as is distributable, on a proportionate basis;
 - (iv) fourth, proportionately to the holders of Subordinated LP Units, to the extent that per unit distributions in respect of any fiscal quarter(s) during the 12 month period then ended were not made or were made in amounts less than \$0.25 per Subordinated LP Unit, the amount of such deficiency; and
 - (v) fifth, to the extent of any excess, proportionately to the holders of Ordinary LP Units, Exchangeable LP Units and Subordinated LP Units.

Distributions

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

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

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

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

Allocation of Net Income and Losses

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

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

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

The fiscal year end of Liquor Stores LP is December 31.

Reimbursement of the GP

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

Limited Liability

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

Transfer of Partnership Units

LP Units are not transferable except in compliance with the Securityholders Agreement to the Fund or to members of the Vendor Group. Further, LP Units may not be transferred to a person who is not resident in Canada for purposes of the Tax Act. An LP Unit is not transferable in part, and no transfer of a LP Unit will be accepted by the GP unless a transfer form, duly completed and signed by the registered holder of the LP Unit, has been remitted to the registrar and transfer agent of the GP. In addition, a transferee of a LP Unit must provide to the GP such other instruments and documents as the GP may require in appropriate form completed and executed in a manner acceptable to the GP and must pay the administration fee, if any, required by the GP. A transferee of a LP Unit will not become a partner or be admitted to Liquor Stores LP and will not be subject to the obligations and entitled to the rights of a partner under the Limited Partnership Agreement until the foregoing conditions are satisfied and such transferee is recorded on Liquor Stores LP's register of partners.

Amendments to the Limited Partnership Agreement

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

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

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

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

LIQUOR STORES GP INC.

General

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

Capital of the GP

The authorized share capital of the GP consists of an unlimited number of GP Common Shares. As at the date hereof, the Fund indirectly through LSOT, and the Vendors directly, own 59.34% and 40.66%, respectively, of the outstanding GP Common Shares. LSOT acquired its GP Common Shares from the GP for nominal consideration. Each GP Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of the GP and to one vote per share at such meetings (other than meetings of another class of shares of the GP). The GP Common Shares entitle the holders thereof to receive in any year dividends as and when declared by the board of directors on the GP Common Shares. In the event of a liquidation of the GP, holders of the GP Common Shares, after payment of or other

proper provision for all of the liabilities of the GP, will be entitled to share rateably in all remaining assets of the GP. The articles and by-laws of the GP contain standard restrictions, which restrict all shareholders from transferring their GP Common Shares without the consent of the directors or shareholders of the GP or as permitted by the Securityholders Agreement. The Securityholders Agreement provides that the GP Common Shares may not be transferred to any Person unless a corresponding percentage of the LP Units held by the transferor is also transferred to the same Person.

Functions and Powers of the GP

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

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

Restrictions on Authority of the GP

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

Withdrawal or Removal of the GP

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

RISK FACTORS

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

These risks and uncertainties are not the only ones facing the Fund and the Company. Additional risks and uncertainties not currently known to the Fund or the Company, or that the Fund or the Company

currently consider immaterial, may also impair the operations of the Fund or the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

Risks Relating to the Company and its Business

Government Regulation

The Company operates in the highly regulated retail liquor industry principally in the Province of Alberta and also in the Province of British Columbia. Decisions by the AGLC or the British Columbia Liquor Distribution Board (the "**LDB**") or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of the Company both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of the AGLC or the LDB will not adversely affect the operations or distributable cash of the Company.

All of the Company's Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. In its ten years of operation, the Company has never had a store license revoked or not reissued. Management is not aware of any other retail liquor store licensee having a license revoked and the AGLC has advised the Company that it has never refused to issue a license to a liquor store licensee reapplying for a license.

The AGLC and the BCLCLB have discretion in the granting or revocation of a license to operate a liquor store and in connection therewith review the past conduct of persons associated with the liquor store including shareholders, management and employees. As well, the applicable legislation prohibits certain persons from having an interest in a liquor store. Accordingly, the acquisition by any person or group of persons acting jointly or in concert of a significant percentage of the outstanding Units could result in such person or group of persons being subject to background checks under the GLA and, in the event of an adverse determination, the review, revocation or non-renewal of the Company's liquor store licenses. The Fund may take certain remedies against a Unitholder whose ownership of Units may in the opinion of the Trustees jeopardize the Company's licenses. See "Liquor Stores Income Fund — Regulatory Compliance".

Competition

The retail liquor industry in the Province of Alberta is competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location and convenience and to a lesser degree price and service. The Company competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. Certain of these competitors have greater financial resources than the Company. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Any change in this regulatory regime could materially adversely affect the Company's business and the results of its operations.

Ability to Locate and Secure Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of the Company's liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located

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

Acquisition and Development Risks

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

In addition, future acquisitions could result in the incurrence of additional debt, costs, and contingent liabilities. The Fund may also incur costs for and divert management attention to potential acquisitions that are never consummated. For acquisitions that are consummated, expected synergies may not materialize. The Fund's failure to effectively address any of these issues could adversely affect its results of operations, financial condition and ability to service debt.

Although the Company has historically performed a due diligence investigation of the businesses or assets that it acquires, and the Fund anticipates continuing to do so for future acquisitions, there may be liabilities of the acquired business or assets that the Fund fails or is unable to uncover during its due diligence investigation and for which the Fund, as a successor owner, may be responsible. When feasible, the Fund may seek to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor or other reasons.

The Fund expects that new store development will also continue to be a significant part of the Fund's growth strategy. The development of new stores is subject to many of the same risks as acquisitions including limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on the Fund's resources. In addition, the development of new stores requires an outlay of capital based on Management's projections of future store performance, which may prove to be incorrect.

Key Personnel

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

Supply Interruption

Liquor store operators in Alberta are dependent on the CLS warehouse and Brewers Distributor Ltd. for the substantial majority of their products. Any significant disruption in the operations of these companies, for example as a result of an organized work stoppage, and resulting interruption in supply would have a material adverse effect on liquor store operations including the operations of the Company. To Management's knowledge, CLS currently has no unionized employees associated with its warehouse operations.

Importance of Information and Control Systems

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

Absence of Operating History as a Public Company

Although Management has substantial experience in the retail liquor industry, it has limited experience operating the Company as a public entity. To operate effectively, the Company must continue to implement changes in certain aspects of its business, improve and expand its information system and develop, manage and train management level and other employees to comply with on-going public company requirements. Failure to take such actions, or delay in the implementation thereof, could adversely affect the Company's financial condition and results of operations.

Dependence on Capital Markets to Fund Growth Strategy

The Fund presently has excess capital which Management believes will, together with the Fund's Credit Facility, provide it with sufficient funds to complete additional acquisitions and/or new store development.

However, the ability of the Fund to make acquisitions beyond the amount of the Fund's current excess capital and Acquisition Loan (included in the Credit Facility or any replacement or other credit facility) depends on the Fund being able to raise additional financing in the future through equity and/or debt capital markets. If the Fund is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to complete additional acquisitions, which could have an adverse effect on the future growth prospects of the Fund.

Risks Relating to the Structure of the Fund

Dependence on LSOT and the Company

Cash distributions to Unitholders will be entirely dependent on the ability of LSOT to pay its interest obligations under the LSOT Notes, and to make distributions on the LSOT Units. Payments by LSOT will depend, in turn, on the ability of the Company to satisfy its debt service obligations under the Credit Facility and Liquor Stores LP's ability to pay distributions on the Ordinary LP Units.

Distributions to Unitholders will be entirely dependent on the ability of the Company to pay its operating expenses and to pay distributions. The sole source of cash flow of the Company is the operation of the Company. In the conduct of its business, the Company pays expenses and incurs debt and other

obligations to third parties. These expenses, debts and obligations could impact the Company's ability to produce positive operating results.

The Company is entirely dependent upon the operations and assets of its liquor stores to pay distributions to LSOT, and the Company's ability to do so is subject to the risks encountered by the Company in the operation of its business, including the risks relating to the retail liquor store industry referred to above, and the results of operations and financial condition of the Company.

Unpredictability and Volatility of Unit Price

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

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

Nature of Units

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

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

Cash Distributions

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

business. Adding to these reserves in any year would reduce the amount of cash available for distribution by the Fund in that year. There can be no assurance as to the levels of cash distributions to be paid by the Fund, if any. The market value of the Units may deteriorate if the Fund is unable to meet its cash distribution targets in the future, and such deterioration may be material.

Cash-on-Cash Yield

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

Structural Subordination of the Units

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

Leverage and Restrictive Covenants

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

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

Restrictions on Potential Growth

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

Tax Related Risks

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

If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the Units will cease to be qualified investments for Exempt Plans. The Fund will endeavour to ensure that the Units continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments in such plans and there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. If the Fund ceases to be a mutual fund trust for the purposes of the Tax Act, the Units will be foreign property for Deferred Income Plans and other persons subject to Part XI of the Tax Act. Pursuant to the 2005 Federal Budget on February 23, 2005, the Minister of Finance (Canada) announced that the limit in respect of foreign property that may be held by a taxpayer subject to Part XI of the Tax Act will be eliminated for 2005 and subsequent calendar years. There can be no assurance that such proposal will be enacted. Finally, if the Fund ceases to qualify as mutual fund trust for purposes of the Tax Act, the Fund may be required to pay tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund will affect the amount of cash available for distribution by the Fund and may have adverse consequences for Unitholders.

On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act that, if adopted, may cause the Fund to lose its status as a mutual fund trust in certain circumstances. Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada unless all or substantially all of its property is property other than "taxable Canadian property" as defined in the Tax Act. These draft amendments to the Tax Act provide that a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-residents of Canada or non-Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of Units of the Fund were held by non-residents of Canada and non-Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion to implement certain measures proposed in September 16, 2004 draft amendments. However, such Notice did not include the above-mentioned proposal concerning mutual funds maintained primarily for the

benefit of non-residents of Canada. In addition, the Minister of Finance (Canada) announced on December 6, 2004 and in the 2005 Federal Budget that further discussions will be pursued with the private sector in this respect.

Trusts governed by registered pension plans, pension corporations and other "designated taxpayers" (but not trusts governed by Exempt Plans) may be subject to penalty taxes in respect of the holding of Units under the Proposed Amendments to the Tax Act announced in March 2004. However, in May 2004, the Minister of Finance (Canada) announced that the implementation of these proposals is suspended pending further consultation with interested parties, following which further legislative proposals will be announced. This was reiterated by the Minister of Finance (Canada) in September 2004 and in the 2005 Federal Budget.

Dilution and Future Sales of Units

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

Future Sales of Units by the Vendors

As at the date hereof, the Vendors hold, collectively, approximately 40.66% of the outstanding Units (assuming the exchange for Units of all of the Exchangeable LP Units and Subordinated LP Units). If any of the Vendors sells a substantial number of its Units in the public market, the market price of the Units could fall. The perception among the public that such sales may occur could also cause such effect.

Control of Liquor Stores LP

For so long as the Vendors own, directly or indirectly, not less than 20% of the Units (on a diluted basis), the Vendors will have certain limited veto rights with respect to certain matters relating to Liquor Stores LP and LSOT, which will allow the Vendors to restrict certain transactions that may be proposed by the Fund or its subsidiaries. These veto rights are not transferable except to members of the Vendor Group. In particular, the Securityholders Agreement will provide that none of the Fund, LSOT, the GP or Liquor Stores LP may take the following actions without the prior approval of the Vendor Group so long as the Vendor Group holds or controls at least 20% of the Units (on a diluted basis) (other than in connection with an internal reorganization): enter into any merger, amalgamation, consolidation or other business combination or joint venture (other than any such transaction where the holders of the outstanding voting securities of the Fund, LSOT, the GP or Liquor Stores LP, as the case may be, immediately prior to such transaction hold at least a majority of the outstanding voting securities of the surviving corporation or other entity immediately after such transaction and no person or group of persons acting jointly or in concert (other than persons who were the holders of voting securities of the Fund, LSOT, the GP or Liquor Stores LP immediately prior to such transaction) holds 20% or more of the outstanding voting securities of the surviving corporation or other entity); issue voting securities representing 20% or more of the outstanding voting securities to any person or group of persons acting jointly or in concert in one or more related transactions (other than a distribution of securities to the public by way of a prospectus); sell, assign, convey or otherwise dispose of 20% or more of the securities of any subsidiary entity; sell, assign, convey or otherwise dispose of a material portion of the assets of the Fund on a consolidated basis, out of the ordinary course of business; adopt any plan or proposal to liquidate, dissolve or reorganize or seek relief under bankruptcy or insolvency laws; change the size of its board of directors or trustees, if any; or take or permit to be taken any action that would prevent the business of the Company from continuing on

an ongoing basis. See "Material Contracts — Securityholders Agreement — Securityholder Approval for Certain Matters".

In addition, the Vendors have consent rights respecting amendments to certain material agreements entered into by Liquor Stores LP and certain of its affiliates. See "Material Contracts — Securityholders Agreement".

The Vendors also have the right to appoint up to three members of the seven person board of directors of the GP and as at the date hereof hold, collectively, 40.66% of the outstanding GP Common Shares and 40.66% of the outstanding LP Units. The directors of the GP are required to act honestly and in good faith with a view to the best interests of the GP and the GP is required to act honestly and in good faith and in the best interests of Liquor Stores LP.

The interests of the Vendors may conflict with those of other Unitholders.

Conflicts of Interest

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

Unitholder Limited Liability

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

Unitholders will also have the benefit of the ITLA, which came into force on July 1, 2004. The ITLA protects unitholders of Alberta income trusts such as the Fund from legal uncertainties regarding potential liability by providing a statutory limitation on unitholders' liability. Specifically, the ITLA provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the ITLA came into force.

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

Distribution of Securities on Redemption or Termination of the Fund

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

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units and Special Voting Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of Unitholders. Additional Units will be issued by the Fund upon the exchange of the Exchangeable LP Units.

Restrictions on Certain Unitholders and Liquidity of Units

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

DISTRIBUTIONS

Distribution Record

The following table sets out the distributions paid by the Fund on the Units during 2004.

<u>Year</u>	<u>Total Distributions</u>	<u>Taxable Portion</u>		<u>Non-Taxable Portion</u>	
		<u>Other Income</u>	<u>Dividend</u>	<u>Return of Capital</u>	<u>Capital Dividend</u>
2004	\$1,114,987 ⁽¹⁾	\$780,491	\$Nil	\$334,496	\$Nil

Note:

- (1) The initial distribution for the period from September 28 to October 31, inclusive, was \$0.0916 per Unit. Thereafter, the distribution was \$0.0833 per Unit per month.

Distribution Policy

The Fund intends to make monthly distributions of its available cash to Unitholders to the extent determined prudent by the Trustees. Monthly distributions are to be paid to Unitholders of record on the last business day of each calendar month or such other date as may be determined from time to time by the Trustees and are to be paid generally on the 15th day of the following month. The Fund has announced its intention to increase its annual distribution by \$0.075 per Unit from \$1.00 to \$1.075 (\$0.08958 per month), commencing with the distribution to be paid to Unitholders of record on May 31,

2005. See "Liquor Stores Income Fund — Cash Distributions" and "General Development of the Business – Three Year History".

The distributable cash of LSOT will be derived primarily from distributions on or in respect of Ordinary LP Units owned by LSOT. LSOT intends to make monthly distributions to holders of Units of its distributable cash after satisfaction of its interest obligations, if any, including interest on the LSOT Notes, less any administrative expenses and other obligations of LSOT, including principal repayments in respect of the LSOT Notes. See "Liquor Stores Operating Trust — Cash Distributions".

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

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

The Credit Facility may in certain circumstances restrict the ability of Liquor Stores LP to pay distributions to the holders of LP Units if the payment would result in default under the Credit Facility. See "Material Contracts – Credit Facility".

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

See "Liquor Stores Income Fund" for a description of the rights, privileges and restrictions attached to the Units and the Special Voting Units. See "Retained Interest and Exchange Rights" for a description of the rights, privileges and restrictions attached to the Exchange Rights.

See "Liquor Stores Operating Trust" for a description of the rights, privileges and restrictions attached to the securities of LSOT.

See "Liquor Stores Limited Partnership" and "Retained Interest and Exchange Rights" for a description of the rights, privileges and restrictions attached to the securities of Liquor Stores LP.

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

Constraints

See "Liquor Stores Income Fund – Limitation on Non-Resident Ownership" for a description of the constraints imposed on the ownership of the Units to ensure that the Units have a required level of

Canadian ownership and the mechanism by which the level of Canadian ownership of the Units is monitored and maintained.

Ratings

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

Securities Held in Escrow

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

MARKET FOR SECURITIES

Trading Price and Volume

The Units are listed and posted for trading on the TSX under the trading symbol "LIQ.UN". The following table sets forth the closing price range and trading volume of the Units as recorded by the TSX for each month in which the Units traded in 2004.

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
September (28 to 30)	12.67	11.75	3,234,297
October	13.99	12.25	1,821,862
November	15.17	13.50	764,523
December	14.80	14.00	234,891
For the year			<u>6,055,573</u>

Note:

(1) The Units were listed and posted for trading on the TSX on September 28, 2004.

Prior Sales

In addition to the Units, the Fund has 4,200,000 Special Voting Units and 4,200,000 Exchange Rights outstanding. See "Description of Capital Structure – General Description of Capital Structure". The issued and outstanding Special Voting Units and Exchange Rights were issued for nominal consideration in connection with the Acquisition.

TRUSTEES, DIRECTORS AND OFFICERS

Trustees of the Fund

The Trustees of the Fund are R. John Butler, Q.C., Jim Dinning, and Glen H. Heximer, C.A., who also serve as the trustees of LSOT and as directors of the GP. Jim Dinning is the Chairman of the Trustees. See "Liquor Stores Income Fund — Trustees" and "Liquor Stores Operating Trust — Trustees of LSOT".

Directors and Officers of the GP

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

Name and Municipality of Residence	Position with GP	Date Appointed as a Director	Principal Occupation
Henry Bereznicki Edmonton, Alberta	Chairman and Director of Store Acquisitions and Development	August 10, 2004	Chairman and Director of Store Acquisitions and Development of the GP and President, Western Region, Sterling Centrecorp Inc. (real estate investment and services company)
Irving Kipnes Edmonton, Alberta	Director, President and Chief Executive Officer	August 10, 2004	President and Chief Executive Officer of the GP and President and Managing Director of the Delcon Development Group of Companies (real estate development)
R. John Butler, Q.C. ⁽¹⁾⁽²⁾⁽³⁾ Edmonton, Alberta	Director	August 10, 2004	Counsel, Bryan & Company (law firm)
Jim Dinning ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director	August 10, 2004	Chairman, Western Financial Group (financial services company)
Glen H. Heximer, C.A. ⁽¹⁾⁽²⁾⁽³⁾ St. Albert, Alberta	Director	August 10, 2004	Consultant and Business Advisor
Robert S. Green Toronto, Ontario	Director	August 10, 2004	President and Chief Operating officer, Sterling Centrecorp Inc. (real estate investment and services company)
David B. Margolus, Q.C. Edmonton, Alberta	Director	August 10, 2004	Senior Partner, Witten LLP (law firm)
Richard J. Crook Edmonton, Alberta	Executive Vice President and Chief Operating Officer	N/A	Chief Operating Officer of the Company
Tom Orysiuk, C.A. Edmonton, Alberta	Vice President Finance and Chief Financial Officer	N/A	Vice President Finance and Chief Financial Officer of the Company

Notes:

- (1) Trustee of the Fund and LSOT (Jim Dinning, Chair).
- (2) Fund Audit Committee member (Glen H. Heximer, C.A., Chair).
- (3) GP Compensation and Governance Committee member (R. John Butler, Chair).

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

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

Irving Kipnes, Director and Chief Executive Officer. Mr. Kipnes founded Liquor Depot in 1993 and has served as its Managing Director and Chief Executive Officer throughout its 11 year history. Mr. Kipnes is also the President and Managing Director of Delcon Development Group, a group of private companies actively involved in the development of shopping centres and real estate subdivisions, which he founded in 1962. From 1982 to 1987, Mr. Kipnes was the largest shareholder and Co-Chairman and President and Chief Executive Officer of North West Trust Company. Mr. Kipnes has also served on the board of directors of ALSA since its inception and was its first elected President and Chair. Mr. Kipnes was the Founding Chair of ALIRT, a position he held for six years and currently sits as past chair. Mr. Kipnes is a noted Edmonton philanthropist and serves on the boards of directors of several charitable and community organizations including as a board member of the University Hospital Foundation, member of the Campaign Cabinet of the Alberta Heart Institute, member of the Campaign Cabinet of the Capital Care Foundation (to relocate the Mewburn Veteran's Hospital) and Development Chair to develop a Jewish seniors residence in Edmonton. Mr. Kipnes graduated with a Bachelor of Science in Chemical Engineering (honours) in 1959 and worked as an Engineer for Imperial Oil until May 1963. The Dianne and Irving Kipnes Foundation, a charitable foundation established by Mr. Kipnes and his wife, Dr. Dianne Kipnes, owns approximately 17.8% of Liquor Depot and as at the date hereof owns indirectly approximately 4.3% of the outstanding Units (assuming the exchange of all outstanding LP Units).

R. John Butler, Q.C., Trustee and Director. Mr. Butler is counsel to Bryan & Company, a law firm. Mr. Butler is a member of the boards of directors of TELUS Corporation, Trans Global Insurance Company and Trans Global Life Insurance Company. He is the former Chair of the Edmonton Eskimos Football Club and a former member of the Board of Governors of the Canadian Football League. Mr. Butler holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta.

Jim Dinning, Trustee and Director. In December 2004, Mr. Dinning became the Chairman of the Board of Western Financial Group Inc. Prior thereto, Mr. Dinning was the Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) since 1997. Mr. Dinning served as Member of the Legislative Assembly of the Province of Alberta from 1986 to 1997. Mr. Dinning held several key positions during his 11 years as a member of the legislative assembly in Alberta including provincial treasurer (1992 to 1997), minister of education (1988 - 1992) and minister of community and occupational health (1986 - 1988). Mr. Dinning received the 1997 Distinguished Service Award from the Institute of Chartered Accountants of Alberta in recognition of his achievements as provincial treasurer. Mr. Dinning is a director of Finning International Inc., Shaw Communication Inc., Russel Metals Inc., Oncolytics Biotech Inc. and JED Oil Inc. Mr. Dinning served as the chair of the Calgary Health Region from 1999 to 2001.

Glen H. Heximer, C.A., Trustee and Director. Mr. Heximer is a consultant and business advisor to private clients. He is a Chartered Accountant and a retired partner of Ernst & Young LLP (formerly Clarkson Gordon) where, from 1974 to 2000, he was the Senior Tax Partner of the Edmonton office specializing in advising entrepreneurial businesses and public companies.

Robert S. Green, Director. Mr. Green is a director and the President and Chief Operating Officer of Sterling Centrecorp Inc. Mr. Green is a graduate of the University of Toronto Law School, and specialized in commercial real estate with a national law firm prior to joining North America Property Group, a real estate development company, in 1985. He has over 15 years experience in managing, leasing, developing and acquiring shopping centers and other retail properties throughout North America. Mr. Green was a member of the board of directors and the investment committee of Centrefund Realty Corporation. He was also a founding partner of Centrecorp Management Services, which during his tenure as President, became one of North America's largest managers of shopping centers and other commercial properties.

David B. Margolus, Q.C., Director. Mr. Margolus is a Senior Partner and former Managing Partner (13 years) of Witten LLP, law firm, with a practice focused primarily in the corporate, commercial and real estate areas. Mr. Margolus has served as a director and officer of a number of private and public companies including Liquor Depot, North West Trust Company (corporate secretary) and N.A. Properties Ltd. Mr. Margolus has served as legal counsel to ALSA since its inception in 1994. Mr. Margolus is active as a volunteer and is a member of the board of a number of charitable and other organizations including the Edmonton Regional Airport Authority.

Richard J. Crook, Executive Vice President and Chief Operating Officer. Mr. Crook joined Liquor Depot in 2000 and is currently its Senior Vice-President and General Manager. Mr. Crook has over 15 years experience in the liquor business including ten years (1990-2000) with Bacardi Canada Inc., the last six as Western Regional Manager. Mr. Crook has served on the board of directors of ALSA since April 2001.

Tom Orysiuk, CA, Vice President Finance and Chief Financial Officer. Mr. Orysiuk joined the Company in June 2004. Prior thereto, Mr. Orysiuk was Chief Financial Officer of Alberta Oats Milling Ltd. and a principal with Dito Capital Ltd., a private investment company. From 1997 to September 2002, Mr. Orysiuk was a Tax and Estate Planning Consultant with Manulife Financial, a financial services company. Mr. Orysiuk articulated with Touche Ross & Company from 1986 to 1989 and then held several progressively responsible positions with KPMG LLP, Chartered Accountants, from 1989 to 1997. Mr. Orysiuk received his Bachelor of Commerce from the University of Alberta in 1986 and his Chartered Accountant designation in 1990.

Unit and LP Unit Ownership

As at the date hereof, the Trustees and the directors and senior officers of the GP, as a group, own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of 36,500 Units and 2,355,500 LP Units, representing approximately 22.8% of the outstanding Units (assuming the exchange for Units of all of the outstanding Exchangeable LP Units and Subordinated LP Units) and no GP Common Shares. Liquor Depot owns beneficially, directly or indirectly, or exercises control or direction over, 2,511,859 LP Units (24.32%) and 2,511,859 GP Common Shares (24.32%) and LWGI owns beneficially, directly or indirectly, or exercises control or direction over, 1,330,396 LP Units (12.87%) and 1,330,396 GP Common Shares (12.87%). The remaining 357,745 LP Units (3.46%) and 357,745 GP Common Shares (3.46%) are held by the other Vendors. Mr. Kipnes, Mr. Margolus and Mr. Crook and their respective associates and affiliates own beneficially, directly or indirectly, or exercise control or direction over, approximately 85% of the outstanding shares of Liquor Depot and

Mr. Berezniki and Mr. Green and their respective associates and affiliates own beneficially, directly or indirectly, or exercise control or direction over, approximately 50% of the outstanding shares of LWGI.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- (a) is, as at the date of this annual information form, or has been, within the 10 years before the date of this annual information form, a director or executive officer of any company (including the Fund and the Company) that while that person was acting in that capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has within the 10 years before the date of this annual information form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

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

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

CONFLICTS OF INTEREST

Certain directors of the GP are associated with other companies or entities, including entities engaged in the commercial real estate development, services and leasing businesses, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a

party to a material contract or proposed material contract with the GP are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the GP. Other than as described above and elsewhere in this annual information form, there are no existing or potential material conflicts of interest between the Fund or its subsidiaries and any trustee, director or officer of the Fund or its subsidiaries.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of any trustee, director or executive officer of the Fund or the Company, any person or company that is the direct or indirect owner of, or who exercises control or direction of, more than 10% of any class or series of the Fund's outstanding voting securities, or any associate or affiliate of any of the foregoing persons or companies, in any transaction during the year ended December 31, 2004 or during the current financial year that has materially affected or will materially affect the Fund, other than as disclosed elsewhere in this annual information form or as set forth below:

1. Messrs. Bereznicki, Kipnes, Green and Margolus or persons or entities associated or affiliated with them are shareholders of Liquor Depot or Liquor World, which sold the Purchased Assets to Liquor Stores LP pursuant to the Acquisition. See "General Development of the Business";
2. Liquor Depot and Liquor World are party to a number of agreements with the Company and its affiliates. See "Material Contracts" and "Retained Interest and Exchange Rights". In addition, Messrs. Bereznicki and Kipnes have entered into the Non-Competition Agreements with the Company. See "Material Contracts";
3. Mr. Margolus is a partner of Witten LLP, which firm receives fees for legal services provided to the Fund and its affiliates, Liquor Depot and Liquor World;
4. Seven of the Company's stores are located in shopping centres formerly owned by entities of which Mr. Kipnes is an officer, director and shareholder, or entities of which Messrs Bereznicki and Green are or were officers and/or directors;
5. Liquor Depot leases its warehouse premises located at 5234 - 99th Street, Edmonton, Alberta from a company owned by the family of Mr. Margolus. The Vines at Riverbend store premises are leased from an entity in which Messrs. Bereznicki and Green are partners;
6. Entities of which one or more directors of the GP are directors, officers or shareholders currently manage the shopping centres at which seven of the Company's stores are located; and
7. As at the date hereof, the amount of \$427,373 is owed by Liquor Stores LP to the Vendors in respect of the Acquisition as a result of post-closing purchase price adjustments. No interest is payable by Liquor Stores LP to the Vendors in respect of this amount.

For additional information in respect of the foregoing, see note 9 to the Fund's audited annual financial statements for the year ended December 31, 2004, which note is incorporated herein by reference. The Fund's financial statements are available on SEDAR at www.sedar.com.

PROMOTERS

Liquor Depot and LWGI have taken the initiative in founding and organizing the Fund and may therefore be considered to be promoters of the Fund for the purposes of applicable securities legislation. See "General Development of the Business", "Description of the Business", "Retained Interest and Exchange Rights", "Trustees, Directors and Officers – Unit and LP Unit Ownership", "Interests of Management and Others in Material Transactions" and "Material Contracts".

LEGAL PROCEEDINGS

There are no material legal proceedings to which the Fund is a party or in respect of which any of its property is the subject, nor are any such proceedings known to the Fund to be contemplated.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is CIBC Mellon Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

The following is a list of contracts, other than contracts entered into in the ordinary course of business, that are material to the Fund and that were entered into during the year ended December 31, 2004:

1. the Declaration of Trust described under "Liquor Stores Income Fund";
2. the Non-Competition Agreements described below;
3. the Securityholders Agreement described below;
4. the Exchange Agreement described under "Retained Interest and Exchange Rights";
5. the Limited Partnership Agreement described under "Liquor Stores Limited Partnership";
6. the LSOT Declaration of Trust described under "Liquor Stores Operating Trust";
7. the Note Indenture described under "Liquor Stores Operating Trust";
8. the Administration Agreement described below; and
9. the Credit Facility described below.

Non-Competition Agreements

Each of Irving Kipnes and Henry Bereznicki have entered into the Non-Competition Agreements with the Company in which they have agreed that, until the earliest of: (i) the later of (A) September 28, 2007, and (B) the date on which either (I) the Vendor Group ceases to have the right to appoint a director of the GP, or (II) such individual, together with his affiliates, beneficially owns and controls less than 5% of the Units (on a diluted basis); (ii) the date on which any person or group of persons acting jointly or in concert (other than such individual or his associates and affiliates or the Fund or any of its affiliates, either individually or together) acquires more than 50% of the outstanding securities of the Fund; and (iii) Liquor Stores LP or the Fund and its affiliates cease to carry on the business currently carried on by Liquor Depot and Liquor World, subject to exceptions for certain passive investments: (a) he will not,

directly or indirectly, operate or have any financial interest in any entity the principal business of which is the operation of retail liquor stores in Alberta or British Columbia; and (b) he will not, directly or indirectly, operate or have any interest in any entity the principal business of which is the operation of retail liquor stores in any other province of Canada unless the opportunity to enter into the liquor store business in such other province has first been offered to the Fund and a majority of the Trustees have decided that the Fund will not participate.

Securityholders Agreement

The Fund, LSOT, Liquor Stores LP, the GP and the Vendors have entered into the Securityholders Agreement governing their security holdings in, and the business and affairs of the GP and Liquor Stores LP. The following is a summary of certain provisions of the Securityholders Agreement, which summary is not intended to be complete. Reference is made to the Securityholders Agreement for a complete description and the full text of its provisions.

Directors

The Securityholders Agreement provides that the board of directors of the GP will initially consist of seven directors. For so long as the Vendor Group holds, directly or indirectly, LP Units or Units representing (on a diluted basis) not less than 30% of the outstanding Units, the Vendor Group will be entitled to nominate three individuals as directors to the board of directors of the GP. For so long as the Vendor Group holds, directly or indirectly, LP Units or Units representing (on a diluted basis) less than 30% but not less than 20% of the outstanding Units (on a diluted basis), the Vendor Group will be entitled to nominate two individuals as directors to the board of directors of the GP. For so long as the Vendor Group holds, directly or indirectly, LP Units or Units representing (on a diluted basis) less than 20% but not less than 10% of the outstanding Units (on a diluted basis), the Vendor Group will be entitled to nominate one individual as a director to the board of directors of the GP. LSOT must vote its shares of the GP in favour of such individuals. These board representation rights are not transferable upon a transfer by the Vendor Group of LP Units or Units to a person who is not a member of the Vendor Group.

Issuances of Ownership Interests, Pre-Emptive Rights and Adjustments to Ownership Interests

The Securityholders Agreement also provides that the Vendor Group will have pre-emptive rights to purchase interests in Liquor Stores LP or any other subsidiary of the Fund to maintain its pro rata ownership interest in the event that Liquor Stores LP or such other subsidiary decides to issue equity securities (which term includes any instruments convertible into, or giving the holder the right to acquire, equity securities) to third parties or issues equity or debt to any existing partner or shareholder (including LSOT). If Liquor Stores LP, or any other subsidiary of the Fund, issues equity securities or such indebtedness, the Vendor Group will be entitled to participate pro rata on the same basis. Upon exercise of this right, the Vendor Group will be entitled to participate in the issue of securities of Liquor Stores LP at the most favourable price and on the most favourable terms as such securities are offered to any party. These terms could include the right to exchange partnership units for Units.

Proposals to Purchase LP Units

The Securityholders Agreement also provides that the Fund will not accept any offer or agree to support any other proposal involving the Ordinary LP Units unless the same offer or proposal is made to the holders of the Exchangeable LP Units and Subordinated LP Units for a consideration based on the consideration for the Exchangeable LP Units and Subordinated LP Units which reflects the percentage of indirect interest of the holders of the Exchangeable LP Units and Subordinated LP Units in Liquor Stores LP, without discount for minority position or restrictions on exchange for Units.

Tag-Along Rights

The Vendor Group is entitled to participate, on a pro rata basis, in any sale by the Fund of its direct or indirect interest in Liquor Stores LP.

Amendments

The Securityholders Agreement provides that for so long as the Vendors own, directly or indirectly, not less than 20% of the Units (on a diluted basis) the Securityholders Agreement, the Exchange Agreement, the Limited Partnership Agreement and the LSOT Declaration of Trust, may only be amended, and the GP may only withdraw as the general partner of Liquor Stores LP, with the approval of LSOT and the Vendor Group.

Securityholder Approval for Certain Matters

The Securityholders Agreement also provides that none of the Fund, LSOT, the GP or Liquor Stores LP may take the following actions without the prior approval of the Vendor Group so long as the Vendor Group holds or controls at least 20% of the Units (on a diluted basis) (other than in connection with an internal reorganization): enter into any merger, amalgamation, consolidation or other business combination or joint venture (other than any such transaction where the holders of the outstanding voting securities of the Fund, LSOT, the GP or Liquor Stores LP, as the case may be, immediately prior to such transaction hold at least a majority of the outstanding voting securities of the surviving corporation or other entity immediately after such transaction and no person or group of persons acting jointly or in concert (other than persons who were the holders of voting securities of the Fund, LSOT, the GP or Liquor Stores LP immediately prior to such transaction) holds 20% or more of the outstanding voting securities of the surviving corporation or other entity); issue voting securities representing 20% or more of the outstanding voting securities to any person or group of persons acting jointly or in concert in one or more related transactions (other than a distribution of securities to the public by way of a prospectus); sell, assign, convey or otherwise dispose of 20% or more of the securities of any subsidiary entity; sell, assign, convey or otherwise dispose of a material portion of the assets of the Fund on a consolidated basis, out of the ordinary course of business; adopt any plan or proposal to liquidate, dissolve or reorganize or seek relief under bankruptcy or insolvency laws; change the size of its board of directors or trustees, if any; or take or permit to be taken any action that would prevent the business of the Company from continuing on an ongoing basis.

Administration Agreement

The Fund and LSOT have entered into the Administration Agreement with the GP whereby the GP will agree to provide or arrange for the provision of services required in the administration of the Fund and LSOT. The GP's duties will include: (a) ensuring compliance by the Fund and LSOT with their continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (b) providing investor relations services; (c) providing or causing to be provided to Voting Unitholders and LSOT Unitholders all information to which Voting Unitholders and LSOT Unitholders are entitled under the Declaration of Trust and the LSOT Declaration of Trust, respectively, including relevant information with respect to income taxes; (d) convening meetings of Voting Unitholders and LSOT Unitholders and distributing required materials, including notices of meetings and information circulars, in respect of all such meetings; (e) providing for the calculation of distributions to Unitholders and LSOT Unitholders; (f) attending to all administrative and other matters arising in connection with any redemptions of Units and/or LSOT Units; (g) using its best efforts to ensure compliance with the Fund's limitations on non-resident ownership; (h) attending to all administrative and other matters arising in connection with the Note Indenture, including the payment of interest and

principal on the LSOT Notes and in connection with any redemption of the LSOT Notes; and (i) providing general accounting, bookkeeping and administrative services to the Fund and LSOT.

The administration of the Fund and LSOT under the Administration Agreement may be terminated at any time by the Fund or LSOT upon notice in writing to the GP and upon payment to the GP of all costs and expenses incurred by the GP in terminating contracts entered into by the GP with the approval of the Fund or LSOT, as applicable, for the performance by the GP of its duties under the Administration Agreement. No additional fees are payable to the GP on termination.

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

Credit Facility

Liquor Stores LP has entered into the Credit Facility with a Canadian chartered bank providing for, at the election of Liquor Stores LP, a \$24 million demand revolving loan (the "Operating Loan"), a \$7.5 million 364-day committed non-revolving loan (the "Capital Asset Loan") and a \$10 million 364-day committed non-revolving loan (the "Acquisition Loan"). Security for the Credit Facility includes a first security interest in all present and after acquired personal property of Liquor Stores LP including its inventory. Interest on the Operating Loan is payable at the lender's prime rate plus 0.25% or the banker's acceptance rate plus 1.50% and interest on the Capital Asset Loan and Acquisition Loan is payable at the lender's prime rate plus 0.50% or at the banker's acceptance rate plus 1.75%. The Credit Facility includes limits on incurring additional indebtedness or granting encumbrances without the consent of the lender and is subject to the maintenance of minimum working capital levels, a maximum ratio of debt to earnings before interest, taxes, depreciation and amortization, and a minimum interest coverage ratio. The Credit Facility may in certain circumstances restrict the ability of Liquor Stores LP to pay distributions to the holders of LP Units if the payment would result in a default under the Credit Facility. As at March 15, 2005, approximately \$15.5 million was drawn down under the Credit Facility.

INTERESTS OF EXPERTS

Names of Experts

The only persons or companies who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Fund during, or relating to, the Fund's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or company, are PricewaterhouseCoopers LLP, Meyers Norris Penny LLP and Grant Thornton LLP.

To the Fund's knowledge, no registered or beneficial interests, direct or indirect, in any securities or other property of the Fund or of one of the Fund's associates or affiliates (i) were held by PricewaterhouseCoopers LLP when PricewaterhouseCoopers LLP prepared the statement, report or valuation in question, (ii) were received by PricewaterhouseCoopers LLP after PricewaterhouseCoopers LLP prepared the statement, report or valuation in question, or (iii) is to be received by PricewaterhouseCoopers LLP.

Neither PricewaterhouseCoopers LLP, nor any director, officer or employee of PricewaterhouseCoopers LLP, is or is expected to be elected, appointed or employed as a director, officer or employee of the Fund or of any associate or affiliate of the Fund.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on SEDAR at www.sedar.com and on the Fund's website at www.liquorstoresincomefund.ca.

The Fund has not yet distributed an information circular to its securityholders. However, additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, is contained in the Fund's initial public offering prospectus dated September 17, 2004, which may be found on SEDAR at www.sedar.com.

Additional financial information is provided in the Fund's financial statements and management's discussion and analysis for the year ended December 31, 2004, which documents may be found on SEDAR at www.sedar.com.

SCHEDULE "A"

GLOSSARY OF TERMS

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

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

"**Acquisition**" has the meaning ascribed thereto under "General Development of the Business – Three Year History";

"**Acquisition Transaction**" means an amalgamation, merger or other form of business combination involving the Fund or Liquor Stores LP, any sale, lease, exchange or transfer of a substantial portion of the assets of the Fund or Liquor Stores LP, or any reorganization, recapitalization, liquidation or winding-up or other business combination involving the Fund or Liquor Stores LP;

"**Administration Agreement**" means the administration agreement to be entered into between the Fund, LSOT and the GP;

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

"**AGLC**" means the Alberta Gaming and Liquor Commission (formerly the Alberta Liquor Control Board), established pursuant to the GLA, which, among other things, administers the GLA and controls, in accordance with the GLA, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor in Alberta, and which, through the board of the AGLC, establishes policies, conducts hearings and makes decisions respecting licenses and registrations under the GLA;

"**ALIRT**" means the Alberta Liquor Industry Round Table;

"**ALSA**" means the Alberta Liquor Store Association;

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

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

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

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

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

"**Company**" means collectively, Liquor Stores LP and the GP, its general partner;

"**Credit Facility**" means the credit facility entered into by Liquor Stores LP with a Canadian chartered bank. See "Material Contracts – Credit Facility";

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

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

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

"Distribution Target" means distributions of at least \$1.00 per LP Unit in a fiscal year;

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

"EBITDA Target" means annual EBITDA of the Company (derived from audited financial statements) of at least \$9.836 million;

"Exchange Agreement" means the exchange agreement entered into among the Fund, LSOT, the Company, and the Vendors providing for, among other things, the Exchange Rights and demand and piggy-back registration rights. See "Retained Interest and Exchange Rights";

"Exchange Rights" means the right of a holder of Exchangeable LP Units to exchange one Exchangeable LP Unit for one Unit by delivering such Exchangeable LP Unit in exchange for a Unit. See "Retained Interest and Exchange Rights";

"Exchangeable LP Units" means the exchangeable units of Liquor Stores LP held by the Vendors;

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

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

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

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

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

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

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

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

"Limited Partnership Agreement" means the amended and restated limited partnership agreement, as amended, supplemented or restated from time to time, between the Vendors, the GP and LSOT, by which Liquor Stores LP is governed;

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

"Liquor Stores Entities" means, and includes LSOT, the GP, Liquor Stores LP, any of their affiliates and any other direct or indirect subsidiary of the Fund;

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

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

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

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

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

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

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

"LSOT Units" means the trust units of LSOT;

"LTIP" means the long-term incentive plan of Liquor Stores LP;

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

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

"Management" means senior management of the GP;

"Non-Competition Agreements" means the non-competition agreements entered into between each of Henry Bereznicki and Irving Kipnes and the Company as more particularly described under "Material Contracts — Non-Competition Agreements";

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

"Normalized EBITDA" has the meaning given to it under "Non-GAAP Measures";

"Note Indenture" means the note indenture made between LSOT and the Note Trustee, providing for the issuance of the LSOT Notes;

"Note Trustee" means the trustee under the Note Indenture;

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

"Partnership Special Resolution" means a resolution of the partners of Liquor Stores LP passed with the consent of the holders of at least 66 ²/₃% of the LP Units and GP Units, in the aggregate, voted on such

resolution at a duly constituted meeting or by a written resolution of partners holding more than 66²/₃% of the LP Units and GP Units, in the aggregate, entitled to vote at a duly constituted meeting;

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

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

"Purchased Assets" has the meaning ascribed thereto under "General Development of the Business – Three Year History";

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

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

"Securityholders Agreement" means the agreement entered into among LSOT, the GP and the Vendors providing for, among other things, the governance of the GP;

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

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

"Special Resolution" means a resolution of the Voting Unitholders passed by not less than 66²/₃% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66²/₃% of the Voting Units entitled to vote on such resolution;

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

"Subordinated LP Units" means the subordinated exchangeable units of Liquor Stores LP held by the Vendors;

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

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

"Trustees" mean the trustees of the Fund from time to time;

"TSX" means the Toronto Stock Exchange;

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

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

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

"**Vendors**" means, collectively, Liquor Depot and Liquor World;

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

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

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

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