

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and may not be offered or sold within the United States unless pursuant to an exemption from such registration. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Liquor Stores GP Inc., the administrator of Liquor Stores Income Fund, at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1, Telephone (780) 917-4179, and are also available electronically at www.sedar.com.

New Issue

September 22, 2006

SHORT FORM PROSPECTUS



\$35,680,000

1,600,000 Units

Liquor Stores Income Fund (the "**Fund**") is hereby qualifying for distribution 1,600,000 trust units (the "**Units**") of the Fund at a price of \$22.30 per Unit (the "**Offering**"). See "Plan of Distribution". The issued and outstanding Units are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "LIQ.UN". The closing price of the Units on the TSX on September 7, 2006, the last closing price prior to the announcement of the Offering, was \$22.75, and on September 21, 2006, the closing price of the Units on the TSX was \$21.70. The TSX has conditionally approved the listing of the Trust Units offered hereunder. Listing is subject to the Fund fulfilling all of the listing requirements of the TSX on or before December 12, 2006. The offering price of the Units was determined by negotiation between the Fund and RBC Dominion Securities Inc., National Bank Financial Inc., Sprott Securities Inc., Clarus Securities Inc., HSBC Securities (Canada) Inc. and Raymond James Ltd. (collectively, the "**Underwriters**").

Price: \$22.30 per Unit

	Price to the Public	Underwriters' Fee	Net Proceeds to the Fund ⁽¹⁾
Per Unit.....	\$22.30	\$1.115	\$21.185
Total.....	\$35,680,000	\$1,784,000	\$33,896,000

Notes:

- (1) Before deducting the expenses of the Offering, estimated to be \$250,000, which, together with the Underwriters' Fee, will be paid out of the general funds of the Fund.

Subscribers who purchase Units offered hereunder and who hold such Units on the relevant record date will be eligible to receive distributions commencing with the distribution expected to be payable on or about November 15, 2006, the record date for which will be October 31, 2006. Subscribers will not be eligible to receive the distribution to be paid on October 16, 2006, the record date for which will be September 30, 2006.

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Fund, and Fraser Milner Casgrain LLP, counsel to the Underwriters, on the basis of the applicable legislation as in effect on the date hereof, the Units offered hereunder, as of the date of closing will be qualified investments under the *Income Tax Act* (the "**Tax Act**") and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. See "Certain Canadian Federal Income Tax Considerations".

The Underwriters, as principals, conditionally offer the Units, subject to prior sale, if, as and when issued by the Fund and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters relating to the Offering on behalf of the Fund by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Fraser Milner Casgrain LLP.

The head office of the Fund, and the head and registered office of Liquor Stores GP Inc. (the "GP"), the administrator of the Fund, are located at Suite 1120, 10235 – 101st Street, Edmonton, Alberta, T5J 3G1.

HSBC Securities (Canada) Inc. is, directly or indirectly, a wholly-owned subsidiary of a Canadian chartered bank that is a lender to the Fund and to which the Fund is currently indebted. Consequently, the Fund may be considered a "connected issuer" of this Underwriter within the meaning of applicable Canadian securities legislation. See "Relationship Between the Fund and an Underwriter".

A return on an investment in the Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in the Units by a Unitholder is at risk, and the anticipated return on a Unitholder's investment is based on certain performance assumptions. **Although the Fund intends to make distributions of its available cash to Unitholders, these cash distributions are not guaranteed and may be reduced or suspended.** The ability of the Fund to make cash distributions and the actual amount distributed will depend on numerous factors disclosed in the Fund's continuous disclosure documents, including its financial performance, its debt covenants and obligations, working capital requirements and future capital requirements. In addition, the market value of the Units may decline if the Fund is unable to meet its cash distribution targets in the future, and that decline may be significant. It is important for a person making an investment in Units to consider the particular risk factors that may affect both the Fund and the industry in which the Fund, through its subsidiaries, operates and that may therefore affect the stability of the cash distributions on the Units. See the risks described in the Fund's annual information form and management's discussion and analysis that are incorporated by reference herein, which describe the Fund's assessment of those risk factors, as well as the potential consequences to a holder if a risk should occur. See also "Risk Factors".

The after-tax return to holders from an investment in Units will depend, in part, on composition for income tax purposes of distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital. That composition may change over time, thus affecting a holder's after-tax return. Returns on capital are generally taxed as ordinary income or as dividends in the hands of the holder. Returns of capital are generally tax-deferred (and reduce a holder's cost base in the Unit for tax purposes). See "Certain Canadian Federal Income Tax Considerations".

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 Fund qualifies as a mutual fund trust for the purposes of the Tax Act and offers and sells its Units to the public. 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.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing will occur on or about October 2, 2006 or such other date on or before October 31, 2006 as the Fund and the Underwriters may agree. A book entry only certificate representing the Units will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") or its nominee and will be deposited with CDS on the date of the closing. A purchaser of Units will receive only a customer confirmation from the registered dealer that is a CDS participant and from or through which the Units are purchased. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions that stabilize or maintain the market price of the Units at levels other than those that might otherwise prevail on the open market. See "Plan of Distribution".

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FORWARD LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain forward-looking statements. All statements other than statements of historical fact contained in this prospectus and the documents incorporated by reference herein are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving 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 distributions by 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 prospectus. 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; labour costs, shortages and relations; supply interruption; reliance on information and control systems; 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 to the Fund; income tax related risks, including the risk of changes in the tax treatment of income trusts; and the Vendors' right to approve certain material transactions.

The information contained in this prospectus and the documents incorporated by reference herein, 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. These factors should not be construed as exhaustive. The Fund undertakes no obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.

NON-GAAP MEASURES

References in this prospectus and the documents incorporated by reference herein 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;
- "operating margin" are to net earnings before provision for interest, amortization of property and equipment, intangibles and pre-opening costs and non-controlling interest, and
- "distributable cash" are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund described in the Fund's AIF.

EBITDA, Normalized EBITDA, operating margin 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, operating margin and distributable cash may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA, Normalized EBITDA, operating margin 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.

GLOSSARY OF TERMS

In this prospectus the following words and phrases have the following meanings unless the context otherwise requires:

"**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 amended credit facility entered into by Liquor Stores LP with a Canadian chartered bank on August 31, 2006. See "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.

"**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.

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

"**Fund's AIF**" means the Fund's Annual Information Form dated March 24, 2006.

"**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.

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

"**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.

"**LSOT Notes**" means, collectively, Series I and Series II promissory notes of LSOT issued under a note indenture made between LSOT and CIBC Mellon Trust Company.

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

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

"**Offering**" means the offering of Units pursuant to this prospectus.

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

"**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.

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

"**Trustees**" mean the trustees of the Fund from time to time.

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

"**Underwriters**" means, collectively, RBC Dominion Securities Inc., National Bank Financial Inc., Sprott Securities Inc., Clarus Securities Inc., HSBC Securities (Canada) Inc. and Raymond James Ltd.

"**Underwriting Agreement**" means the agreement dated September 13, 2006 between the Fund and the Underwriters in respect of the Offering.

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

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

"**Vendors**" means, collectively, The Liquor Depot Corporation, Liquor World Group Inc. and certain associated or managed entities.

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

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

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this prospectus are in Canadian dollars, except where otherwise indicated.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Fund, filed with the various securities commissions or similar authorities in the provinces of Canada, are specifically incorporated by reference into and form an integral part of this prospectus:

- (a) the Fund's AIF;
- (b) the audited financial statements of the Fund as at and for the year ended December 31, 2005 and as at December 31, 2004 and for the period from August 10, 2004 to December 31, 2004, together with the notes thereto, the auditors' report thereon, and management's discussion and analysis relating thereto;
- (c) the unaudited comparative financial statements of the Fund as at and for the six months ended June 30, 2006, together with the notes thereto, and management's discussion and analysis relating thereto;
- (d) the Fund's information circular dated April 13, 2006 relating to the annual meeting of Unitholders held on May 12, 2006; and
- (e) the Fund's material change report dated March 15, 2006 relating to a treasury offering of 1,600,000 Units by the Fund and a secondary offering of 827,132 Units by certain of the Vendors.

Any documents of the type required by National Instrument 44-101 to be incorporated by reference in a short form prospectus including any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations and information circulars filed by the Fund with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference in this prospectus.

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

LIQUOR STORES INCOME FUND

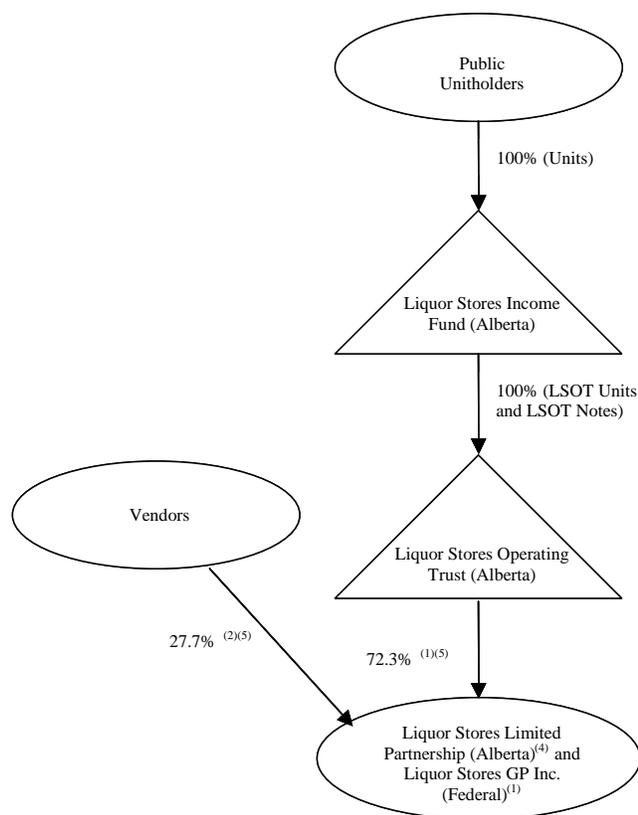
The Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta by the Declaration of Trust. The Fund owns all of the LSOT Notes and LSOT Units, and holds, indirectly through LSOT, a 72.3% interest in the Company. The Fund receives, indirectly through LSOT, distributions of distributable cash of the Company.

LSOT is an unincorporated trust established under the laws of the Province of Alberta. LSOT holds Ordinary LP Units and GP Common Shares, representing 72.3% of the LP Units and GP Common Shares, respectively.

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

The principal and head office of each of the Fund, LSOT, the GP and Liquor Stores LP is located at Suite 1120, 10325 – 101st Street, Edmonton, Alberta, T5J 3G1.

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



Notes:

- (1) Ordinary LP Units and GP Common Shares, representing 72.3% of the LP Units and GP Common Shares.
- (2) Exchangeable LP Units, Subordinated LP Units and GP Common Shares representing, collectively, 27.7% of the LP Units and GP Common Shares.
- (3) The GP holds all of the outstanding GP Units.
- (4) Liquor Stores LP currently operates 98 retail liquor stores.
- (5) After giving effect to the Offering, LSOT will hold Ordinary LP Units and GP Common Shares, representing 75.6% of the LP Units and GP Common Shares, respectively, and the Vendors will hold Exchangeable LP Units, Subordinated LP Units and GP Common Shares representing, collectively, 24.4% of the LP Units and GP Common Shares, respectively.

DESCRIPTION OF BUSINESS

The Company is the largest liquor store retailer in Alberta by number of stores. It is management's belief that in Alberta the Fund is the second largest liquor store operator by revenue. The Company currently operates 98 stores, 91 of which are located in Alberta and seven of which are located in British Columbia. The Company's predecessors have been in the retail liquor store business since privatization of the Alberta retail liquor distribution system in 1993.

RECENT DEVELOPMENTS

New Trustee

On September 5, 2006, Mr. Gary Collins was appointed as a trustee of the Fund and LSOT and as a director of the GP. Mr. Collins is the President and Chief Executive Officer of Harmony Airways and was a member of the British Columbia Legislature from 1991 to 2004 including serving as British Columbia's Minister of Finance from June 2001 to December 2004. Mr. Collins is an "independent" trustee and director within the meaning of applicable Canadian securities laws.

Amended Credit Facility

On August 31, 2006, Liquor Stores LP entered into an amended credit facility with a Canadian chartered bank. See "Credit Facility".

Increase in Cash Distributions

On August 11, 2006, the Fund announced that effective with its distribution to be paid on November 15, 2006, to Unitholders of record on October 31, 2006, the Fund will increase its monthly distribution level to \$ 0.1167 per Unit from \$0.10 per Unit. This is the third increase in distributions since the completion of the Fund's initial public offering on September 28, 2004 at which time the Fund's monthly distribution level was set at \$0.0833 per Unit. In May 2005, the Fund increased its monthly distributions from \$0.0833 per Unit to \$0.08958 per Unit and in January 2006, the Fund increased its monthly distribution level to \$0.10 per Unit from \$0.08958 per Unit.

CAPITALIZATION

There have been no material changes in the unit capitalization or in the indebtedness of the Fund since June 30, 2006, except that total bank indebtedness has increased from approximately \$23 million at June 30, 2006 to approximately \$27.5 million at September 21, 2006. Net of cash on hand, bank indebtedness increased from approximately \$23 million at June 30, 2006 to approximately \$26.9 million at September 21, 2006.

CREDIT FACILITY

On August 31, 2006, Liquor Stores LP entered into the Credit Facility with a Canadian Chartered Bank providing for, at the election of Liquor Stores LP, a \$32.0 million demand revolving loan that can be increased to \$38.0 million between October 1 and February 28 each year (the "**Operating Loan**"), a \$14.5 million 364-day committed non-revolving loan (the "**Capital Asset Loan**") and a \$15.0 million 364-day committed non-revolving loan (the "**Acquisition Loan**"). In addition the Credit Facility includes a \$0.65 million demand non-revolving loan (the "**Evergreen Loan**"), a \$0.65 million demand non-revolving electronic funds transfer loan facility (the "**EFT Loan**") and a \$1.0 million bank guarantee facility (the "**BG Facility**"). The Credit facility is secured by 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 or the banker's acceptance discount rate plus a stamping fee of 1.50% per annum, interest on the Capital Asset Loan and Acquisition Loan is payable at the lender's prime rate plus 0.25% per annum or the banker's acceptance discount rate plus a stamping fee of 1.75% per annum and interest on the Evergreen Loan and the EFT Loan is payable at the lender's prime rate plus 0.75% per annum. The fee for the BG facility is 1.50% per annum while the BG Facility is in use. The \$69.8 million aggregate of the Credit Facility must be reduced to \$54.8 million by September 30, 2007 at which time the \$54.8 million can be reallocated among the various loans and facilities based on Liquor Stores LP's requirements. The Credit Facility includes limits on incurring additional indebtedness or granting encumbrances without the consent of the lender and other customary restrictive covenants. Under the Credit Facility, Liquor Stores LP must maintain: (i) a ratio of interest bearing debt to earnings before interest, taxes, depreciation and amortization of not more than 3.5 to 1.0; (ii) a

ratio of current assets to current liabilities of not less than 1.25 to 1.0; and (iii) a fixed coverage ratio of not less than 1.1 to 1.0. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness or restrict the ability of Liquor Stores LP to pay distributions to the holders of LP Units. Liquor Stores LP is presently in compliance with such covenants and ratios. At September 21, 2006, the aggregate outstanding under the Credit Facility was approximately \$27.5 million.

PRICE RANGE AND TRADING VOLUME OF THE UNITS

The outstanding Units are traded on the TSX under the trading symbol "LIQ.UN". The following table sets forth the closing price range and trading volume of the Units as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
<u>2004</u>			
Fourth Quarter (from September 28).....	14.79	11.96	6,055,573
<u>2005</u>			
First Quarter	16.92	14.31	1,512,517
Second Quarter.....	19.50	16.55	1,321,100
Third Quarter.....	19.40	17.45	1,669,312
October.....	18.70	15.00	700,777
November.....	17.85	15.45	687,293
December.....	17.75	17.31	346,981
<u>2006</u>			
January.....	19.75	17.21	702,279
February.....	21.20	19.51	636,595
March.....	20.30	19.61	690,017
April.....	20.00	18.97	452,623
May.....	19.35	18.45	370,428
June.....	19.75	18.80	329,114
July.....	20.00	18.75	276,121
August.....	22.65	19.61	547,373
September (to September 21).....	23.24	21.70	340,527

The closing price of the Units on the TSX on September 7, 2006, the last closing price prior to the announcement of the Offering, was \$22.75, and on September 21, 2006, the closing price of the Units on the TSX was \$21.70.

DISTRIBUTIONS TO UNITHOLDERS

The Fund makes monthly distributions of its available cash to Unitholders to the extent determined prudent by the Trustees. Monthly distributions are paid to Unitholders of record on the last business day of each calendar month or such other date as may be determined from time to time by the Trustees and are paid generally on the 15th day of the following month. On August 11, 2006, the Fund announced that effective with its distribution to be paid on November 15, 2006, to Unitholders of record on October 31, 2006, the Fund will increase its monthly distribution level to \$0.1167 per Unit from \$0.10 per Unit. See "Recent Developments – Increase in Cash Distributions".

The following table sets forth the amount of annual cash distributions paid per Unit by the Fund since inception.

<u>Year</u>	<u>Distribution per Unit</u>
2004.....	\$0.1749 ⁽¹⁾
2005.....	\$1.0436
2006.....	\$0.8896 ⁽²⁾

Notes:

(1) The Fund completed its initial public offering on September 28, 2004.

- (2) Includes the distribution of \$0.10 per Unit for the month of September 2006, which has been declared and will be paid on October 16, 2006.

The Fund currently anticipates that aggregate distributions for the year ending December 31, 2006 will be approximately 90% of the Fund's distributable cash for the year. The Fund defines "distributable cash" as cash provided by operating activities plus net change in non-cash working capital items and equity earnings less purchase of non-growth property and equipment. The Fund's sales, earnings and distributable cash are subject to seasonal variations, with approximately 45% of same-store sales occurring in the first half of the year and 55% of same-store sales occurring in the latter half of the year. As of June 30, 2006, the Fund had made aggregate distributions to Unitholders (including holders of LP Units) of \$6,838,000, which is approximately 115% of the Fund's distributable cash for the six months ended June 30, 2006. Where distributions are greater than the Fund's distributable cash, the Fund finances the distributions through its working capital and credit facility.

Subscribers who purchase Units offered hereunder and who hold such Units on the relevant record date will be eligible to receive distributions commencing with the distribution expected to be payable on or about November 15, 2006, the record date for which will be October 31, 2006. Subscribers will not be eligible to receive the distribution to be paid on October 16, 2006, the record date for which will be September 30, 2006.

DESCRIPTION OF UNITS

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 described under "Redemption Right" at pages 18 through 20 of the Fund's AIF, 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.

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.

Additional Information

For additional information respecting the Units, including information respecting redemption rights, limitations on non-resident ownership, compulsory acquisition rights in the event of a successful take-over bid, actions that may be taken in connection with regulatory compliance, meetings and voting see "Liquor Stores Income Fund" at pages 16 through 27, inclusive, of the Funds' AIF. A copy of the Declaration of Trust is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which may be accessed at www.sedar.com.

USE OF PROCEEDS

The net proceeds to the Fund from the sale of the Units hereunder are estimated to be \$33,646,000 after deducting the fees of \$1,784,000 payable to the Underwriters and the expenses of the Offering estimated to be \$250,000. The net proceeds of the Offering will be used by the Fund to subscribe for additional securities of LSOT. LSOT will use the proceeds from the issuance of such securities to the Fund to subscribe for additional Ordinary LP Units. Liquor Stores LP will use the proceeds from the subscription for Ordinary LP Units to reduce the amount of indebtedness outstanding under the Credit Facility, to take advantage of acquisition opportunities that may arise, to open new stores and for general corporate purposes. The majority of the outstanding indebtedness under the Credit Facility was incurred to provide working capital.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Fund has agreed to issue and sell to the Underwriters an aggregate of 1,600,000 Units, and the Underwriters have severally agreed to purchase such Units on October 2, 2006, or such other date on or before October 31, 2006 as may be agreed among the parties to the Underwriting Agreement. Delivery of the Units is conditional upon payment by the Underwriters to the Fund on closing of \$22.30 per Unit. The Underwriting Agreement provides that the Fund will pay the Underwriters' fee of \$1.115 per Unit sold for an aggregate fee of \$1,784,000, in consideration for their services in connection with the Offering. The offering price of the Units was determined by negotiation between the Fund and the Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events. Except in certain limited circumstances, if an Underwriter fails to purchase the Units which it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Units. The Underwriters are, however, obligated to take up and pay for all Units if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Fund will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

The Fund has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Units at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Fund has agreed that, without the prior consent of RBC Dominion Securities Inc., which consent shall not be unreasonably withheld, it will not (and will cause its subsidiaries), during the period ending 90 days after the closing of the Offering, except pursuant to the exercise of the Exchange Rights, the long-term incentive plan of the Fund, any distribution reinvestment plan that may be established, or the issuance of securities as consideration for future acquisitions or in connection with future mergers, amalgamations or other business combinations (provided that the Fund shall require each party to whom such securities may be issued in connection with an acquisition, merger, amalgamation or business combinations to agree to not,

for the balance of such period, do any of the things listed in clause (i) or (ii) below), (i) create, allot, authorize, offer, issue, secure, pledge, sell, offer to sell, grant any option, right or warrant for the sale of, or contract to purchase or sell, or otherwise lend, transfer or dispose of, directly or indirectly, any Units, rights to purchase Units or any securities convertible into or exercisable or exchangeable for Units or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Units, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Units, or such other securities or interests, in cash or otherwise, or agree or, within such period, announce any intention to do so.

The TSX has conditionally approved the listing of the Trust Units offered hereunder. Listing is subject to the Fund fulfilling all of the listing requirements of the TSX on or before December 12, 2006.

The Units have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "**1933 Act**") or any state securities laws, and accordingly may not be offered or sold in the United States except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. Each Underwriter has agreed that, except as permitted by the Underwriting Agreement and except as expressly permitted by applicable laws of the United States, it will not offer or sell the Units as part of the distribution thereof at any time within the United States. The Underwriting Agreement enables the Underwriters to offer and resell the Units that they have acquired pursuant to the Underwriting Agreement to certain qualified institutional buyers in the United States, provided such offers and sales are made in accordance with Rule 144A under the 1933 Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Units outside the United States only in accordance with Regulation S under the 1933 Act. Terms used above in this paragraph have the meanings given to them by Regulation S under the 1933 Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the 1933 Act if such offer or sale is made other than in accordance with an exemption from such requirements.

RELATIONSHIP BETWEEN THE FUND AND AN UNDERWRITER

HSBC Securities (Canada) Inc. is, directly or indirectly, a wholly-owned subsidiary of a Canadian chartered bank (the "**Bank**") that is a lender to Liquor Stores LP. Accordingly, the Fund may be considered a connected issuer of this Underwriter under applicable Canadian securities legislation. Liquor Stores LP was indebted to the Bank in the aggregate amount of approximately \$27.5 million as at September 21, 2006 pursuant to the terms of the Credit Facility. Liquor Stores LP is in compliance with the terms of the Credit Facility. Neither the financial position of Liquor Stores LP nor the value of the security under the Credit Facility has changed substantially since the indebtedness under the Credit Facility was incurred. The Fund will indirectly use a portion of the net proceeds from the Offering to reduce the amount outstanding under the Credit Facility. See "Use of Proceeds".

The decision to distribute the Units and the determination of the terms of the Offering were made through negotiations between the Fund and the Underwriters. The Bank did not have any involvement in such decision or determination but has been advised of the Offering and the terms thereof. As a consequence of the Offering, HSBC Securities (Canada) Inc. will receive its share of the Underwriting fee payable by the Fund to the Underwriters. In addition, the Fund intends to indirectly use a portion of the net proceeds of the Offering to repay indebtedness to the Bank under the Credit Facility.

INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Burnet, Duckworth & Palmer LLP, on behalf of the Fund, and by Fraser Milner Casgrain LLP, on behalf of the Underwriters. As at the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP, as a group, and the partners and associates of Fraser Milner Casgrain LLP, as a group, own, directly or indirectly, less than 1% of the Units.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Fund, and Fraser Milner Casgrain LLP, counsel to the Underwriters (collectively, "**Counsel**"), the following is a fair and adequate summary of the principal Canadian federal income tax considerations under the Tax Act of acquiring, holding and disposing of Units acquired pursuant to the Offering generally applicable to a purchaser who will hold the Units as capital property for purposes of the Tax Act and who, at all material times, deals at arm's length with, and is not affiliated with the Fund for purposes of the Tax Act. Generally, the Units will

be considered to be capital property to a holder thereof unless they are held in the course of carrying on a business or in connection with an adventure in the nature of trade. Certain holders resident in Canada whose Units might not otherwise qualify as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their Units and any other "Canadian security" as defined in the Tax Act treated as capital property. Unitholders considering making such an election should consult their own tax advisors.

This summary is not applicable to a Unitholder that is a "financial institution", a "specified financial institution" or an interest in which would be a "tax shelter investment" all as defined in the Tax Act.

This summary is based upon the facts set out in this prospectus, the provisions of the Tax Act in force at the date hereof and Counsels' understanding, based on publicly available published materials, of the current administrative policies and assessing practices of the Canada Revenue Agency ("CRA"), all in effect as of the date hereof. There can be no assurance that the CRA will not change its administrative policies and assessing practices. This summary takes into account all specific current proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus ("**Tax Proposals**") and certificates from management of the Fund as to certain factual matters. This summary assumes that the Tax Proposals will be enacted as proposed, but there can be no assurance that the Tax Proposals will be enacted in the form proposed, if at all. This summary does not otherwise take into account or anticipate any changes in the law, whether by judicial, regulatory or legislative decision or action, or any changes in the administrative policies and assessing practices of the CRA, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in the prospectus.

This summary is not exhaustive of all possible Canadian income tax considerations applicable to an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the Unitholder's particular circumstances, including the province(s) or territory(ies) in which the Unitholder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice or representations to any prospective purchaser of Units or any Unitholder. Prospective Unitholders should consult their own tax advisors with respect to their particular circumstances.

Status of the Fund

The Fund is a "unit trust" as defined in the Tax Act and this summary assumes that the Fund qualifies and will continue to qualify as a "mutual fund trust" as defined in the Tax Act at all relevant times. This summary also assumes that the Fund is not established or maintained primarily for the benefit of non-residents. If the Fund were not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax considerations described below would, in some respects, be materially different.

Taxation of the Fund

The taxation year of the Fund is the calendar year. In each taxation year, the Fund will be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable capital gains computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the Fund or if the Unitholder is entitled in that year to enforce payment of the amount. The income for purposes of the Tax Act of the Fund for each taxation year will include all interest on LSOT Notes that accrues to, becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year and such amount of the income and net taxable capital gains, as is paid or becomes payable or deemed to be paid or payable to the Fund in the year in respect of the LSOT Units. The Fund will generally not be subject to tax on any amounts received as distributions on the LSOT Units that are in excess of the income of LSOT that is paid or payable or deemed to be paid or payable by LSOT to the Fund in a year but such amounts will generally reduce the adjusted cost base of the LSOT Units. Where the adjusted cost base of the LSOT Units would otherwise be a negative amount, the Fund will recognize a capital gain in such amount in that year, and its adjusted cost base of the LSOT Units at the beginning of the next taxation year will then be nil.

In computing its income, the Fund will generally be entitled to deduct reasonable administrative expenses incurred to earn income. The Fund will be entitled to deduct the costs incurred by it in connection with the issuance of Units on a five-year, straight-line basis.

Under the Declaration of Trust, all of the income of the Fund for each year other than taxable capital gains (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any net capital gains realized by the Fund (computed in accordance with the detailed provisions of the Tax Act) in the year (excluding any capital gains or income which may be realized by the Fund upon a transfer *in specie* of the Fund's assets to redeeming Unitholders in connection with a redemption of Units and designated by the Fund as income or capital gains paid or payable to the redeeming Unitholders) will be payable in the year to the Unitholders by way of cash distributions, subject to the exceptions described below. Counsel has been advised that the Fund intends to make distributions in each year to Unitholders in an amount sufficient to ensure that the Fund will generally not be liable for tax under Part I of the Tax Act in any year (after taking into account any applicable tax refunds to the Fund).

Income of the Fund that is applied to fund redemptions of Units for cash or is otherwise unavailable for cash distributions will be distributed to Unitholders in the form of additional Units ("**Reinvested Units**"). Income of the Fund payable to Unitholders, whether in cash or additional Units will generally be deductible by the Fund in computing its taxable income.

Losses incurred by the Fund cannot be allocated to Unitholders, but can be deducted by the Fund in future years in computing its taxable income, in accordance with the Tax Act. In the event the Fund would otherwise be liable for tax on its net recognized taxable capital gains for a taxation year, it will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the "**capital gains refund**"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the Fund's tax liability for the taxation year arising in connection with the transfer of property *in specie* to redeeming Unitholders on the redemption of Units. The Declaration of Trust provides that all or a portion of any capital gain or income recognized by the Fund in connection with such redemptions may, at the discretion of the trustees, be treated as capital gains or income paid to, and designated as capital gains or income of, the redeeming Unitholder. Such income or the taxable portion of any capital gain so designated must be included in the income of the redeeming Unitholders (as income or taxable capital gains) and will be deductible by the Fund in computing its income.

For purposes of the Tax Act, the Fund generally intends to deduct, in computing its income and taxable income, the full amount available for deduction in each year. As a result of such deductions and the Fund's entitlement to a capital gains refund, it is expected that the Fund will not be liable for any material amount of tax under the Tax Act. However, no assurance can be given in this regard.

Taxation of LSOT

The taxation year of LSOT is the calendar year. In each taxation year, LSOT will be subject to tax under Part I of the Tax Act on its income for the year, including its allocated share of the income of Liquor Stores LP, except to the extent such income is paid or payable or deemed to be paid or made payable in such year to its unitholders, including the Fund, and is deducted by LSOT in computing its income for tax purposes.

In computing its income for tax purposes, LSOT will generally be entitled to deduct its expenses (including interest that accrues, is payable or is paid on the LSOT Notes) incurred to earn such income, provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. Under the declaration of trust of LSOT, all of the income of LSOT for each year, together with the taxable and non taxable portion of any capital gains realized by LSOT in the year, will generally be paid or made payable in the year to holders of LSOT Units. For purposes of the Tax Act, LSOT generally intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Counsel has been advised by the Fund that the Fund does not expect LSOT to be liable for any material amount of tax under Part I of the Tax Act. However, counsel can provide no opinion in this regard.

Taxation of Liquor Stores LP

Liquor Stores LP is not subject to tax under the Tax Act. Each partner of Liquor Stores LP, including LSOT, is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of Liquor Stores LP for its fiscal year ending in, or coincidentally with, the partner's taxation year end, whether or not any of that income is distributed to the partner in the taxation year. Liquor Stores LP's fiscal period will be the calendar year. For this purpose, the income or loss of Liquor Stores LP will be computed for each fiscal year as if Liquor Stores LP were a separate person resident in Canada. In computing the income or loss of Liquor Stores LP, deductions may be claimed in respect of capital cost allowance, reasonable administrative costs, interest and other expenses incurred by Liquor Stores LP for the purpose of earning income,

subject to the relevant provisions of the Tax Act. The income or loss of Liquor Stores LP for a fiscal year will be allocated to the partners of Liquor Stores LP, including LSOT, on the basis of their respective share of that income or loss as provided in the partnership agreement for Liquor Stores LP, subject to the detailed rules in the Tax Act in that regard.

Generally, distributions to partners in excess of the income of Liquor Stores LP for a fiscal year will result in a reduction of the adjusted cost base of the partner's units in Liquor Stores LP by the amount of such excess. If, as a result, LSOT's adjusted cost base at the end of a taxation year of its units in Liquor Stores LP would otherwise be a negative amount, LSOT will be deemed to realize a capital gain in such amount for that year, and LSOT's adjusted cost base at the beginning of the next taxation year of its units in Liquor Stores LP will then be nil. If Liquor Stores LP were to incur losses for tax purposes, LSOT's ability to deduct such losses may be limited by certain rules under the Tax Act.

Taxation of Unitholders

Residents of Canada

This portion of the summary is applicable to a Unitholder who, for purposes of the Tax Act and at all relevant times, is resident in Canada.

A Unitholder is generally required to include in computing income for a particular taxation year the portion of the net income for tax purposes of the Fund for that year, including net realized taxable capital gains, that is paid or payable or deemed to be paid or payable to the Unitholder in that year, whether that amount is received in cash, additional Units or otherwise. The income of a Unitholder from the Units will be considered to be income from property for the purposes of the Tax Act. Any deduction or loss of the Fund for the purposes of the Tax Act cannot be allocated to and treated as a deduction or loss of a Unitholder.

The non-taxable portion of any net realized capital gains of the Fund that is paid or payable or deemed to be paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of the Fund that is paid or payable or deemed to be paid or payable to a Unitholder in a year will not generally be included in the Unitholder's income for the year. However, where such an amount is paid or payable to a Unitholder, other than as proceeds of disposition or deemed disposition of Units or any part thereof, the adjusted cost base of the Units held by the Unitholder will be reduced by such amount (except to the extent that it represents the Unitholder's share of the non-taxable portion of the net realized capital gains of the Fund for the year, the taxable portion of which was designated by the Fund in respect of the Unitholder). Where reductions to a Unitholder's adjusted cost base of Units for the year will result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain recognized by the Unitholder in the year and the Unitholder's adjusted cost base of the Units at the beginning of the next year will then be nil.

Provided that appropriate designations are made by the Fund, such portions of its net taxable capital gains, taxable dividends received or deemed to be received on shares of taxable Canadian corporations and foreign source income as are paid or payable or deemed to be paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act, and Unitholders may be entitled to claim a foreign tax credit for foreign taxes paid by the Fund. To the extent that amounts are designated as having been paid to Unitholders out of the net taxable capital gains of the Fund, such designated amounts will be deemed for tax purposes to be received by Unitholders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. To the extent that amounts are designated as having been paid to Unitholders out of taxable dividends received or deemed to be received on shares of taxable Canadian corporations, the normal gross-up and dividend tax credit provisions will be applicable in respect of Unitholders who are individuals, the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual or related group of individuals, the deduction in computing taxable income will be available to Unitholders that are corporations, and an additional refundable 6 2/3% tax will be payable by Unitholders that are Canadian-controlled private corporations in certain circumstances.

Upon the disposition or deemed disposition by a Unitholder of a Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the Fund that is otherwise required to be included in the Unitholder's income (such as an amount designated as payable by the Fund to a redeeming Unitholder out of capital gains or income of the Fund as described above).

For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, the cost of the newly acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that acquisition. The adjusted cost base of a Unit to a Unitholder will include all amounts paid by the Unitholder for the Unit, with certain adjustments. The cost to a Unitholder of Units received in lieu of a cash distribution of income of the Fund will be equal to the amount of such distribution that is satisfied by the issuance of such Units.

A redemption of Units in consideration for cash, LSOT Notes or other securities distributed to the Unitholder in satisfaction of the redemption price, as the case may be, will be a disposition of such Units for proceeds of disposition equal to the aggregate of any cash and the fair market value of the LSOT Notes or other securities so distributed, as the case may be, less the portion of any income or capital gain realized by the Fund in connection with the redemption of those Units that has been designated by the Fund as payable to the redeeming Unitholder as described above. Where the Fund has designated such capital gain or income as payable to a redeeming Unitholder, the Unitholder will be required to include in income such income and the taxable portion of the capital gain so designated. Redeeming Unitholders will consequently realize a capital gain (or capital loss), depending upon whether the proceeds of disposition received exceed (or are less than) the adjusted cost base of the Units so redeemed and any reasonable costs of disposition. The adjusted cost base of the LSOT Notes or other securities transferred by the Fund to a Unitholder upon an *in specie* redemption of Units by that Unitholder will generally be equal to the fair market value of such notes at the time of transfer less any accrued but unpaid interest on such notes at that time. The Unitholder will thereafter be required to include in income interest on any such notes in accordance with the provisions of the Tax Act. To the extent that the Unitholder is thereafter required to include in income any interest accrued to the date of the acquisition of such notes by the Unitholder, an offsetting deduction will be available. Where a Unitholder that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends from taxable Canadian corporations previously designated by the Fund to the Unitholder except to the extent that a loss on a previous disposition of a Unit has been reduced by such dividends. Similar rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

Generally, one-half of any capital gain realized by a Unitholder and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income as a taxable capital gain. One-half of any capital loss realized by a Unitholder on a disposition or deemed disposition of Units may generally be deducted only from taxable capital gains of the Unitholder in accordance with the provisions of the Tax Act.

Where a Unitholder that is a corporation or trust (other than a mutual fund trust) disposes of a Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of any dividends received by the Fund previously designated by the Fund to the Unitholder, except to the extent that a loss on a previous disposition of a Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

A Unitholder that throughout the relevant taxation year is a "Canadian controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 2/3% on certain investment income, including taxable capital gains. In general terms, net income of the Fund, paid or payable or deemed to be paid or payable to a Unitholder who is an individual or a certain type of trust, that is designated as taxable dividends or as net taxable capital gains and capital gains realized on the disposition of Units may increase the Unitholder's liability for minimum tax.

Non-Residents of Canada

This portion of the summary is applicable to a Unitholder who, for the purposes of the Tax Act and at all relevant times, is not resident in Canada and is not deemed to be resident in Canada, and will not use or hold or be deemed to use or hold the Units in, or in the course of, carrying on business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**").

Where the Fund makes distributions to a Non-Resident Holder, the same considerations as those discussed above with respect to a Unitholder who is resident in Canada will apply, except that any distribution of income paid or credited by the Fund to a Non-Resident Holder will be subject to Canadian withholding tax at the time such distribution is paid or credited at the rate of 25%, subject to reduction of such rate under an applicable income tax convention. For example, a Non-Resident Holder who qualifies as a resident of the United States under the Canada United States Income Tax Convention (the "**Convention**") will generally be subject to 15% Canadian non-resident withholding tax. It should be noted that it is the position of the CRA that

United States limited liability companies generally do not qualify as residents of the United States under the Convention and as such are not eligible for benefits under the Convention.

A disposition or deemed disposition of a Unit by a Non-Resident Holder, whether on redemption, by virtue of capital distributions in excess of a Non-Resident Holder's adjusted cost base or otherwise, will not give rise to a capital gain which is subject to tax under the Tax Act unless the Units constitute "taxable Canadian property". Units of a Non-Resident Holder will not generally constitute "taxable Canadian property" under the Tax Act unless: (i) at any time during the period of sixty months immediately preceding the disposition of Units by such Non-Resident Holder, not less than 25% of the issued Units were owned by the Non-Resident Holder, by persons with whom the Non-Resident Holder did not deal at arm's length or by any combination thereof; (ii) the Fund ceases to qualify as a mutual fund trust; or (iii) the Non-Resident Holder's Units are otherwise deemed to be taxable Canadian property. A Non-Resident Holder will generally compute the adjusted cost base of a Unit pursuant to the same rules as apply to residents of Canada.

The Fund is required to maintain a special "TCP gains balance" account to which it will add its gains from dispositions of "taxable Canadian property" (as defined in the Tax Act) and from which it will deduct its capital losses from such dispositions and the amount of all "TCP gains distributions" made by it. If the Fund pays an amount to a Unitholder who is a Non-Resident Holder, makes a designation to treat that amount as a taxable capital gain and the total of all amounts designated by the Fund in a taxation year to Non-Resident Holders exceeds five percent of all such designated amounts, such portion of that amount as does not exceed the Non-Resident Holder's pro rata portion of the Fund's "TCP gains balance" account (as defined in the Tax Act) effectively will be subject to the same Canadian withholding tax as described above for distributions of income (other than net realized capital gains). Unitholders should consult with their own tax advisors with respect to the taxability under the Tax Act of any such designated net taxable capital gains.

Tax Exempt Unitholders - Qualified Investments

Provided the Fund is, on Closing, a mutual fund trust within the meaning of the Tax Act, Units will be, at that time, qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, and registered education savings plan ("**Exempt Plans**") subject to the specific provisions of any particular plan. If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the Units will not be qualified investments under the Tax Act for Exempt Plans. LSOT Notes or other securities received as a result of a redemption *in specie* of Units may not be qualified investments for Exempt Plans and this could give rise to adverse consequences to such plan or the annuitant or beneficiary under that plan. Accordingly, Exempt Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

RISK FACTORS

Before making an investment decision, prospective purchasers of Units should consider carefully the information contained in and incorporated by reference in this prospectus and, in particular, the risk factors set out at pages 32 through 41 inclusive in the Fund's AIF and at page 10 of the Fund's management's discussion and analysis for the year ended December 31, 2005. These risks include industry risks associated with the retail liquor store business including: 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 achieve the benefits of acquisitions; dependence on key personnel; supply interruption; reliance on information and control systems; and dependence on capital markets to fund the Company's growth strategy beyond its available credit facilities. The risk factors also include risks associated with the structure of the Fund including: the dependence of the Fund on the Company; unpredictability and potential volatility of the trading price of the Units including the effect of market interest rates on the price of Units; the nature of the Units; cash distributions are not guaranteed and will fluctuate with the Company's performance; the legal attributes of the Units; leverage and restrictive covenants in agreements relating to current and future indebtedness of the Company; the restrictions on the potential growth of the Company as a consequence of the payment by the Company of substantially all of its operating cash flow to the Fund; income tax related risks, including the risk of changes in the tax treatment of income trusts; future sales of Units by the holders of Exchangeable LP Units and Subordinated LP Units; the right to approve certain material transactions by certain holders of Exchangeable LP Units and Subordinated LP Units; investment eligibility of the Units; the distribution of securities on redemption or termination of the Fund; and restrictions on non-resident Unitholders and liquidity of Units.

LEGAL PROCEEDINGS

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

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton, Alberta.

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

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus of Liquor Stores Income Fund (the "**Fund**") dated September 22, 2006 relating to the qualification for distribution of 1,600,000 Units at a price of \$22.30 per Unit (the "**Prospectus**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference in the above mentioned Prospectus, of our report to the trustees of the Fund, on the consolidated balance sheets of the Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and cumulative undistributed earnings and cash flows for the year ended December 31, 2005 and the period from August 10, 2004 to December 31, 2004. Our report is dated February 15, 2006.

Edmonton, Alberta
September 22, 2006

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

CERTIFICATE OF THE FUND AND THE PROMOTERS

Dated: September 22, 2006

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada, other than Québec.

LIQUOR STORES INCOME FUND

**By its attorney:
Liquor Stores GP Inc.**

(signed) Irving Kipnes
President and Chief Executive Officer

(signed) Patrick de Grace
Chief Financial Officer

On Behalf of the Board of Directors

(signed) David Margolus
Director

(signed) Henry Bereznicki
Director

ON BEHALF OF THE PROMOTERS

THE LIQUOR DEPOT CORPORATION

By: (signed) Irving Kipnes
Managing Director and Chief Executive Officer

LIQUOR WORLD GROUP INC.

By: (signed) Henry Bereznicki
President and Chief Executive Officer

CERTIFICATE OF THE UNDERWRITERS

Dated: September 22, 2006

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada, other than Québec.

RBC DOMINION SECURITIES INC.

By: (signed) Derek Neldner

NATIONAL BANK FINANCIAL INC.

By: (signed) Michelle Fiebig

SPROTT SECURITIES INC.

By: (signed) Brian K. Petersen

CLARUS SECURITIES INC.

By: (signed) Rod Campbell

HSBC SECURITIES (CANADA) INC.

By: (signed) Andrew Bishop

RAYMOND JAMES LTD.

By: (signed) Jason L. Holtby