# Management's Responsibility for Financial Reporting

The financial statements of Newport Partners Income Fund ("Newport") and all of the information in the annual report are the responsibility of Management, including responsibility for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that the information used internally by management and disclosed externally is complete and reliable in all material respects. Management has evaluated the effectiveness of the disclosure controls and procedures and has concluded that they are effective.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that are based on Management's best judgments. Actual results may differ from these estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects.

Management has developed and maintains a system of internal controls to provide reasonable assurance that Newport's assets are safeguarded, transactions are accurately recorded and the financial statements report Newport's operating and financial results in a timely manner. Financial information presented elsewhere in the annual report has been prepared on a consistent basis with that in the Consolidated Financial Statements.

The Board of Trustees of Newport annually appoints an audit committee comprised of Independent Trustees and members who are not employees of Newport. This committee meets regularly with management and the auditors to review significant accounting, reporting and internal control matters. The auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the external auditors' report, and the annual report. The Audit Committee reports its findings to the Board of Trustees for the Trustee's consideration in approving the financial statements for issuance to the Unitholders. The Audit Committee also considers, for review by the Board of Trustees and approval by the Unitholders, the engagement or re-appointment of the external auditors.

KPMG LLP, an independent firm of chartered accountants was appointed to audit Newport's Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards. They have provided an independent professional opinion. KPMG LLP has full and free access to the Audit Committee.

| | |
|---|---|
| Peter Wallace,<br>President & CEO | Kelly Baird,<br>Chief Financial Officer |

Toronto, Canada
March 29, 2006

**KPMG** LLP
**Chartered Accountants**
Yonge Corporate Centre
4100 Yonge Street, Suite 200
Toronto ON M2P 2H3

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Telefax (416) 228-7123
www.kpmg.ca

# AUDITORS' REPORT

To the Trustees of Newport Partners Income Fund

We have audited the consolidated balance sheet of Newport Partners Income Fund (the "Fund") as at December 31, 2005 and the consolidated statements of earnings, retained earnings and cash flows for the period from August 8, 2005 (date of commencement of operations) to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the period from August 8th, 2005 (date of commencement of operations) to December 31, 2005 in accordance with the Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
March 24, 2006

Consolidated Financial Statements of

# NEWPORT PARTNERS INCOME FUND

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

# NEWPORT PARTNERS INCOME FUND

Consolidated Balance Sheet
(In thousands of dollars)

| | | December 31, 2005 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 25,278 |
| Accounts receivable | | 117,867 |
| Inventory | | 31,164 |
| Prepaid expenses | | 2,359 |
| Other current assets (note 6) | | 6,587 |
| | | 183,255 |
| Property, plant and equipment (note 3) | | 16,445 |
| Long-term investments (note 4) | | 42,154 |
| Goodwill | | 258,102 |
| Intangible assets (note 5) | | 210,177 |
| Other assets (note 6) | | 4,971 |
| | $ | 715,104 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 7) | $ | 19,436 |
| Accounts payable and accrued liabilities | | 98,252 |
| Deferred revenue | | 5,357 |
| Current portion of capital lease obligation (note 8) | | 2,729 |
| Current portion of long-term debt (note 9) | | 2,018 |
| | | 127,792 |
| Capital lease obligation (note 8) | | 3,082 |
| Long-term debt (note 9) | | 17 |
| Future tax liability | | 2,044 |
| Non-controlling interest | | 259,090 |
| Convertible debenture (note 10) | | 84,339 |
| Unitholders' Equity (note 11) | | 238,740 |
| Commitments and contingencies (note 18) | | |
| Subsequent events (note 20) | | |
| | $ | 715,104 |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees of the fund

John K. Bell
Trustee

K. Michael Edwards
Trustee

# NEWPORT PARTNERS INCOME FUND

Consolidated Statement of Income
(In thousands of dollars, except per unit amounts)

| | For the period from August 8, 2005 (date of commencement of operations) to December 31, 2005 |
|---|---|
| Revenues | $ 205,240 |
| Cost of revenues | 157,560 |
| | 47,680 |
| Expenses | |
| Selling, general and administrative | 26,258 |
| Amortization of deferred financing charges | 123 |
| Amortization of intangible assets | 10,357 |
| Depreciation | 1,585 |
| | 38,323 |
| Income before the undernoted | 9,357 |
| Income from equity investments | 1,844 |
| Interest expense | 1,390 |
| Other income | 146 |
| Income before non-controlling interest | 9,957 |
| Non-controlling interest | (6,905) |
| Income | $ 3,052 |
| Income per unit (note 13) | |
| Basic and diluted | $ 0.12 |

See accompanying notes to consolidated financial statements.

# NEWPORT PARTNERS INCOME FUND

Consolidated Statement of Unitholders' Equity
(In thousands of dollars, except unit amounts)

| | Units | For the period from August 8, 2005 (date of commencement of operations) to December 31, 2005 |
|---|---|---|
| Issued on initial public offering | 21,300,000 | $ 200,753 |
| Issued on exercise of over allotment option | 1,350,000 | 12,723 |
| Issued on exchange for A2 units of Newport Private Yield LP | 3,116,036 | 31,089 |
| | | 244,565 |
| Income for the period | | 3,052 |
| Distributions (note 12) | | (9,546) |
| | 25,766,036 | $ 238,071 |
| Equity component of convertible debenture (note 10) | | 669 |
| Unitholders' Equity at December 31, 2005 | | $ 238,740 |

See accompanying notes to consolidated financial statements.

# NEWPORT PARTNERS INCOME FUND

Consolidated Statement of Changes in Financial Position
(In thousands of dollars)

| | | Period from August 8, 2005 (date of commencement of operations) to December 31, 2005 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Income for the period | $ | 3,052 |
| Items not affecting cash: | | |
| Amortization of deferred financing charges | | 123 |
| Amortization of intangible assets | | 10,357 |
| Depreciation | | 1,585 |
| Income from equity investment | | (1,844) |
| Non-controlling interest | | 6,905 |
| | | 20,178 |
| Changes in non-cash working capital (note 17) | | (28,701) |
| | | (8,523) |
| Financing activities: | | |
| Issuance of units | | 213,476 |
| Issue of convertible debentures, net of costs | | 81,298 |
| Distributions to unitholders | | (7,506) |
| Distributions to non-controlling interest by NPY | | (11,201) |
| Decrease in long-term debt | | (3,181) |
| Decrease in bank indebtedness | | (4,855) |
| Increase in capital lease obligations | | (649) |
| | | 267,382 |
| Investing activities: | | |
| Acquisition of interest in Newport Private Yield LP, net of cash acquired | | (196,832) |
| Other acquisitions, net of cash acquired | | (34,409) |
| Increase in other assets | | (1,455) |
| Purchase of intangible assets | | (705) |
| Purchase of property, plant and equipment | | (1,454) |
| Distributions received on equity investment | | 1,274 |
| | | (233,581) |
| Increase in cash and cash equivalents | | 25,278 |
| Cash and cash equivalents, beginning of period | | - |
| Cash and cash equivalents, end of period | $ | 25,278 |
| Supplemental cash flow information: | | |
| Interest paid | $ | 1,058 |
| Cash acquired upon acquisitions | | 17,072 |

See accompanying notes to consolidated financial statements.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

Newport Partners Income Fund ("Newport") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated May 13, 2005 (the "Declaration of Trust").

Newport has been created to hold, through Newport's investment in Newport Partners Commercial Trust (the "Commercial Trust"), interests in Newport Private Yield LP ("NPY"), and its general partner, NPY GP Trust. NPY is a limited partnership formed to invest in securities of private businesses, either in limited partnerships or in corporations (collectively the "Operating Partnerships") and distribute the available cash flows to the limited partners. The operations of NPY are in the following business segments: financial services; marketing; distribution; and industrial services.

On July 28, 2005, a prospectus was filed for Newport for the issuance of 21,300,000 trust units. The initial public offering was completed on August 8, 2005 (the "Closing"). Subsequent to the Closing the over-allotment option was exercised, and a further 1,350,000 trust units were issued for a total of 22,650,000 units (together with the initial 21,300,000 trust units issued, the "Offering"). With the proceeds of the offering Newport acquired A1 LP units of NPY, and after the exchange of certain A2 LP units to A1 LP units, Newport indirectly holds, through Commercial Trust, all of the A1 LP Units of NPY, representing approximately 40% of the outstanding LP units.

## 1. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Newport controls NPY through its 100% indirect ownership of the general partner of NPY, NPY GP Trust, and also has the continuing right to appoint all of the Board of Directors of the general partner of NPY, and therefore accounts for its interest as the controlling unitholder and uses the purchase method of accounting. The consolidated financial statements include 100% of NPY and the non-controlling interest represents 60% of NPY. The consolidated financial statements of NPY include NPY's 100% owned subsidiaries and investments in jointly controlled operations on a proportionate consolidation method.

Under the proportionate consolidation method, NPY's share of assets, liabilities, revenue and expenses are included in each major financial statement caption from the date of purchase. All intercompany balances and transactions are eliminated upon consolidation.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

The following table indicates the method of accounting for each of the Operating Partnerships of NPY as at December 31, 2005.

| Operating Partnership | Acquisition Date | % Ownership | Accounting Method | Business Description |
|---|---|---|---|---|
| On-Site LP (''On -Site'') | March 2004 | 100 | Consolidation | Automated teller machines (''ATMs'') provider |
| Ezee ATM LP (''EZEE'') | January 2005 | 100 | Consolidation | Full-service provider of ATMs |
| Newport Partners LP (''NP LP'') | Closing | 100 | Consolidation | Individual and corporate wealth management services |
| Sports and Entertainment Limited Partnership (''S&E'') | Closing | 80 | Proportionate consolidation | Alternative advertising company |
| NPC Integrity Energy Services Limited Partnership (''NPC'') | Closing | 80 | Proportionate consolidation | Mid-stream production services provider to the energy industry |
| Gemma Communications LP (''Gemma'') | March 2005 | 80 | Proportionate consolidation | Integrated direct marketing company |
| Jutan Limited Partnership (''Jutan'') | Closing | 80 | Proportionate consolidation | Distributor of consumer electronics |
| Elliott Special Risks LP (''ESR'') | Closing | 80 | Proportionate consolidation | Managing General Agent for commercial liability insurance |
| Morrison Williams Investment Management LP (''Morrison Williams'') | Closing | 80 | Proportionate consolidation | Institutional money manager |
| Capital C Communications LP (''Capital C'') | Closing | 80 | Proportionate consolidation | Integrated marketing services agency |
| Kenna Group LP (''Kenna'') | September 2005 | 50 | Proportionate consolidation | Automated marketing solutions provider |

(b) Inventories

Inventories are stated at the lower of cost, determined on a first-in first-out basis, and net realizable value. Inventories of ATMs are carried at the lower of average cost and net realizable value.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

(c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease.

Depreciation is calculated using the following methods and annual rates based on the estimated useful life of the assets as follows:

| Asset | Basis | Rate |
|---|---|---|
| Equipment under capital lease | Straight line | Term of lease |
| Buildings | Declining balance | 4% |
| Automotive and heavy equipment | Declining balance | 30% - 40% |
| Furniture and equipment | Mainly declining balance | 14% - 40% |
| ATMs | Declining balance | 20% - 30% |
| Computer hardware and software | Declining balance | 20% - 100% |
| Leasehold improvements | Straight line | Term of the lease |

(d) Long-term investments

Investments over which Newport is able to exercise significant influence are accounted for under the equity method. Under the equity method, the original cost of investment is adjusted for Newport's share of post-acquisition earnings or losses, less distributions in the case of investments in partnerships and dividends in the case of investments in companies.

Investments are written down when there is evidence that a decline in value that is other than temporary has occurred.

(e) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets with finite useful lives, are amortized over their useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. When Newport enters into a business combination, the purchase method of accounting is used.

Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

As at December 31, 2005, there was no impairment in the carrying value of goodwill.

(g) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are recognized and measured at cost. Intangible assets acquired in a transaction, including those acquired in business combinations, are recorded at their fair value. Intangible assets with determinable useful lives, such as customer relationships/contracts, ATM location contracts, distribution licenses management contracts, intellectual property and non-competition agreements are amortized over their useful lives and are tested for impairment, as described in note 1(e). Intangible assets having an indefinite life, such as brands, are not amortized but instead are tested for impairment on an annual or more frequent basis by comparing their fair value with book value. An impairment loss on indefinite life intangible assets is recognized when the carrying amount of the asset exceeds its fair value.

As at December 31, 2005, there was no impairment in the carrying value of intangible assets having an indefinite life.

Intangible assets with determinable lives are amortized on a straight line basis annually over their estimated useful lives as follows:

| | |
|---|---|
| Customer relationships/contracts | 5 - 10 years |
| ATM location contracts | 4 - 5 years |
| Management contracts | 5 years |
| Distribution licences | 5 years |
| Intellectual property | 1 year |
| Non-competition agreements | term of contract |

(h) Revenue recognition

(i) Financial services

Financial services revenue mainly includes management fee income generated from investment management services, commission income from insurance policies, corporate finance and advisory fees and revenue generated from the operation and sale of ATMs.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

Management fees are based on contracts, calculated as a percentage of the net asset value of the respective funds or other portfolios being managed and are recognized when earned. Commission income related to insurance policies is recognized when there is persuasive evidence of an agreement, service delivery has occurred and collectibility is considered probable. Contingent profit commissions are recorded when receipt is probable and the amount is reasonably estimable. Corporate finance and advisory fees relate to financial advisory assignments and are recorded when the underlying transaction is substantially completed under the terms of the agreement.

Revenue from ATM operations includes surcharge fees charged to the cardholder when cash is dispensed, and interchange fees, which are the fees charged to the financial institution for the administrative service of agreeing to pay cash to the cardholder. These fees are recognized pursuant to written contracts in the period that the cash dispensing transaction occurs. Revenue from the sale of ATMs is recognized when the machines have been delivered and title has passed to the customer and the customer assumes risk of loss, collection of the relevant receivable is probable and the sales price is fixed or determinable.

(ii) Marketing

Marketing revenue includes revenue generated from marketing campaign projects, teleservice programs and the sale of advertisements. Revenues from marketing campaign projects are recognized using the percentage of completion method where dependable estimates of progress toward completion can be made. Revenue from teleservice programs are recognized as services are performed, generally based on hours incurred. Advertisements are recognized at the time the advertisement is displayed and when collection of the relevant receivable is probable and the sale price is fixed or determinable. Deposits received in excess of amounts billed for marketing campaign projects and on sales of advertisements not yet displayed are recorded as deferred revenue and the related costs are included in work in progress or prepaid expenses.

(iii) Distribution

Distribution revenue includes revenue generated from the import and distribution of electronic and household products which is recognized when goods are delivered and title has passed to the customer and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, net of estimated returns, discounts and other allowances. Sales, provisions for estimated sales returns and the costs of products sold are recorded at the time of shipment.

(iv) Industrial services

Industrial services revenue includes revenue from contracts entered into to provide mid-stream production and maintenance services to the energy industry. Revenue from such contracts is recognized as services are performed and related costs are incurred. Provisions for estimated losses on all uncompleted contracts are made in the period in which such losses are determined.

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses other than depreciation and amortization are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(j) Income taxes

Under the terms of the Income Tax Act (Canada), Newport, as a trust, will not be subject to income taxes to the extent that its taxable income and taxable capital gains are paid or payable to a unitholder. Any provision for income taxes relates to the corporate subsidiaries of Newport. In addition, Newport is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable to it. Newport intends to continue not to be subject to income taxes.

No provision has been made in the accounts for income taxes with respect to the Operating Partnerships as they are not taxable entities and the reporting of income for tax purposes is the responsibility of each of the limited partners to the extent that allocations are made by NPY to the limited partners.

Income taxes of corporate subsidiaries are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs.

Income tax obligations related to the distributions of Newport are the obligations of the unitholders.

Share acquisitions by non-taxable entities during the period generally resulted in an excess of the carrying value of the intangible and other assts of the acquired entities over the related tax basis. Accordingly, the recovery of the intangible and other assets could result in income for tax purposes allocated to unitholders being greater than income reported for accounting purposes.

(k) Leases

Leases entered into by NPY as lessee that transfer substantially all the benefits and risks of ownership to the lessee are recorded as capital leases and included in property, plant and equipment and long-term debt. All other leases are classified as operating leases under which leasing costs are recorded as expenses in the period in which they are incurred.

(l) Income per unit

The income per unit of Newport is computed by dividing Newport's income by the weighted average units outstanding during the reporting period. Diluted income per unit is similar to basic income per unit, except that the denominator is increased to include the number of additional units that would have been outstanding if the potentially dilutive units had been issued, and the numerator excludes distributions. Convertible units and restricted units described in note 13 are included in the computation of diluted income per unit. At December 31, 2005, disclosure of diluted income per unit is not applicable as the restricted units are anti-dilutive.

(m) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less, cash in circulation in ATMs and cash on deposit with financial institutions, which are unrestricted as to their use.

(n) Derivative financial instruments and cash flow hedging strategy

A portion of Jutan's transactions are denominated in U.S. dollars. Jutan utilizes derivative financial instruments in the management of its foreign currency exposure. Jutan's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Jutan enters into hedges of its foreign currency exposures on anticipated foreign currency denominated purchases and resulting cash flows within the following year by entering into offsetting foreign exchange forward contracts, when it is deemed appropriate.

Prior to December 19, 2005, Jutan documented all relationships between hedging instruments and hedged items, as well as their risk management objectives and strategy for undertaking various hedged transactions ("hedging relationships"). This process included linking derivatives to forecasted transactions.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated foreign currency purchases and resulting in cash flows were recognized as an adjustment of the purchases when the transactions were recorded.

Realized and unrealized gains or losses associated with derivative instruments, which had been terminated or ceased to be effective prior to maturity, were deferred under the current, or non-current, assets or liabilities on the consolidated balance sheets and recognized in income in the period in which the underlying hedged transaction was recognized. In the event a designated hedged item was sold, extinguished or matured prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument was recognized in net income (loss) for the period.

Jutan discontinued documenting hedging relationships on December 19, 2005. Jutan's derivative financial instruments as at December 31, 2005 are recorded at fair value. Derivative financial instruments are marked to market with the resulting gain (loss) recognized in net income (loss) for the period.

(o) Deferred financing charges

Financing costs incurred with respect to obtaining financing are deferred and amortized on a straight-line basis over the term of the related financing, which vary from three to five years in length.

(p) Non-controlling interest

Non-controlling interest represents the exchangeable shares issued by NPY which are exchangeable for units of Newport. Non-controlling interest on the consolidated balance sheet is recognized based on either the fair value or the carrying value of the exchangeable shares on issuance together with a portion of Newport's accumulated earnings or loss attributable to the non-controlling interest subsequent to their issuance. Net income or loss is reduced for the portion of earnings attributable to the non-controlling interest. As the exchangeable shares are converted to Newport units, the non-controlling interest on the consolidated balance sheet is reduced on a pro-rata basis together with a corresponding increase in unitholders' equity for units which are recognized at fair value and for units which are recorded at carrying value the conversions are accounted for using step acquisition accounting, as their conversion would represent the acquisition of the non-controlling interest for fair value.

(q) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, accrued liabilities, intangible assets and goodwill, and valuation allowances for receivables and inventories.

(r) Comparative figures

Comparative figures have not been provided as this is the first period of operations.

**2. Business combinations**

On August 8, 2005 Newport acquired a 35.1% interest in NPY for $213,476. Newport controls NPY through its 100% indirect ownership of the general partner of NPY, NPY GP, Trust and also has the continuing right to appoint all of the Board of Directors of the general partner of NPY, and therefore has accounted for its interest as the controlling unitholder, using the purchase method of accounting. In October, 2005 through the exchange of A2 LP units of NPY into trust units, Newport increased its ownership interest in NPY to 39.9%.

On September 13, 2005 Kenna Group Inc. sold substantially all of its assets to Kenna and NPY purchased 50% of the limited partnership units of Kenna for cash of $9,164. Kenna is a provider of automated marketing solutions.

During 2005, NPY also completed the following investments indirectly through Jutan and NPC respectively.

On September 30, 2005 NPY invested $17,000 in Jutan to fund its acquisition of certain assets of Sonigem Products Inc ("Sonigem"). This additional investment did not result in a change in NPY's ownership interest of 80% in Jutan. The 20% share of this investment, being $3,400, has been accounted for as goodwill by NPY in its financial statements. From the $17,000 investment by NPY, Jutan used $16,715 to purchase Sonigem and to fund additional working capital requirements of Sonigem. Sonigem is a marketer and distributor of consumer audio and video electronics.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

Subsequent to August 7, 2005, NPC acquired all of the operations of three regional oil and gas service companies located in Alberta. These investments were completed by NPC of which NPY has an 80% interest. In November 2005 NPC acquired McConnell Welding & Construction LP, and in December 2005 acquired Jenpai Oilfield Services Ltd., and the assets of Polar Facilities Ltd. These investments were completed by NPC for a total of $8,958. The latter three investments were funded primarily through an equity investment in NPC by NPY. NPY's ownership interest did not change from 80%, and the 20% share of this investment, being $1,772, has been accounted for as goodwill of NPY it its financial statements.

The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values as follows:

| | NPY | Kenna | Other | Total |
|---|---|---|---|---|
| **Assets Acquired:** | | | | |
| Current assets | $ 39,584 | $ 1,219 | $ 11,333 | $ 52,136 |
| Property, plant and equipment | 5,031 | 773 | 1,471 | 7,275 |
| Long-term investments | 14,989 | | | 14,989 |
| Goodwill | 122,822 | | 5,206 | 128,028 |
| Intangible assets | 69,856 | 8,002 | 12,098 | 89,956 |
| Other assets | 236 | | | 236 |
| | 252,518 | 9,994 | 30,108 | 292,620 |
| **Liabilities Assumed:** | | | | |
| Current liabilities | 36,593 | 830 | 4,367 | 41,790 |
| Long-term liabilities | 2,449 | | 68 | 2,517 |
| | 39,042 | 830 | 4,435 | 44,307 |
| Net assets acquired | 213,476 | 9,164 | 25,673 | 248,313 |
| Cash consideration | $ 213,476 | $ 9,164 | $ 25,673 | $ 248,313 |

The above purchase price allocation to intangible assets and goodwill reflects management's best estimate at the time of preparing these consolidated financial statements and are subject to refinement.

## 3. Property, plant and equipment

| | December 31, 2005 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Equipment under capital lease | $ 5,993 | $ 615 | $ 5,378 |
| Furniture and equipment | 4,249 | 290 | 3,959 |
| Computer hardware and software | 2,684 | 424 | 2,260 |
| Automotive and heavy equipment | 1,512 | 69 | 1,443 |
| Land and buildings | 1,275 | - | 1,275 |
| Leasehold improvements | 1,592 | 122 | 1,470 |
| ATMs | 725 | 65 | 660 |
| | $ 18,030 | $ 1,585 | $ 16,445 |

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

## 4. Long-term investments

| | December 31, 2005 |
|---|---|
| Investments in: | |
| Brompton | $ 41,795 |
| Other | 359 |
| | $ 42,154 |

On August 8, 2005, NPY acquired a 45% equity interest in Brompton Funds LP (together with its general partner BFGP Limited collectively referred to as "Brompton") for $42,270 including costs of $112. The acquisition was payable by way of issue of 3,372,692 A2 LP units and 843,173 B2 LP units of NPY respectively. Brompton is a manager of public and private investment funds. The estimated fair value of the underlying assets acquired are as follows:

| | |
|---|---|
| Goodwill | $ 20,783 |
| Intangible assets, primarily customer relationships | 21,487 |
| | $ 42,270 |

The purchase price allocations above reflect managements' best estimates at the time of preparing these consolidated financial statements and are subject to refinement.

## 5. Intangible assets

| December 31, 2005 | Cost | Accumulated amortization | Net Book Value |
|---|---|---|---|
| Definite life intangible assets: | | | |
| Customer relationships/contracts | $ 167,896 | $ 6,953 | $ 160,943 |
| ATM location contracts | 4,974 | 982 | 3,992 |
| Management contracts | 473 | 45 | 428 |
| Distribution licenses | 15,995 | 1,283 | 14,712 |
| Intellectual property | 825 | 275 | 550 |
| Non-competition agreements | 1,000 | 111 | 889 |
| | 191,163 | 9,649 | 181,514 |
| Indefinite life intangible assets: | | | |
| Brands | 28,663 | | 28,663 |
| | $ 219,826 | $ 9,649 | $ 210,177 |

The above intangible assets include management's best estimates of intangibles recorded through acquisitions. These estimates may be revised as purchase equations are finalized.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

## 6. Other assets

| | December 31, 2005 |
|---|---|
| Advances to operating partners (note 14) | $ 6,173 |
| Deferred financing charges | 4,466 |
| Other | 919 |
| | 11,558 |
| Less current portion | 6,587 |
| | $ 4,971 |

Deferred financing charges are net of amortization of $115.

## 7. Bank indebtedness

NPY, through its wholly owned subsidiary, Newport Partners Holdings LP ("Holdings LP"), entered into a credit agreement (the "Credit Agreement") with a syndicate of Canadian banks on August 8, 2005, and amended on August 31 and November 15, 2005. The facility is available up to a maximum of $70,000 and includes an acquisition line facility as well as an operating facility. The facilities bear interest at the bank's prime rate adjusted for leverage and are subject to certain covenants. The operating facility is a three-year revolving facility and the acquisition line facility is for a one year term. The facilities are collateralized by general security agreements covering assets of NPY, ESR, Morrison Williams, EZEE, On-site, NPC, S&E, Capital C, Gemma, Kenna and NP LP.

As of December 31, 2005, there were no drawings on both the operating and acquisition facility.

Jutan has a demand operating and letter of credit facility with a Canadian bank available to a maximum of $80,000. The facility bears interest at the bank's prime rate and is collateralized by a general security agreement over the assets of Jutan. As of December 31, 2005, NPY's share of the amount drawn on the operating facility and letters of credit issued was $19,436 and $24,640 respectively.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

## 8. Obligations under capital leases

Capital lease obligations relate to vehicles and heavy equipment. The leases bear interest at rates from 4.5% to 15% per annum and are secured by specific assets. The proportionate share in future minimum payments are as follows:

| | December 31, 2005 |
|---|---|
| 2006 | $ 3,043 |
| 2007 | 2,321 |
| 2008 | 731 |
| 2009 | 168 |
| 2010 | 37 |
| Total minimum lease payments | 6,300 |
| Less amount representing interest (at rates ranging from 4.5% to 15%) | 489 |
| Present value of net minimum capital lease payments | 5,811 |
| Less current portion of obligations under capital leases | 2,729 |
| | $ 3,082 |

Interest of $648 for the period from August 8 to December 31, 2005 relating to capital lease obligations has been included in interest expense.

## 9. Long-term debt

Long-term debt consists of:

| | December 31, 2005 |
|---|---|
| Gemma | |
| Term loan[a] | 35 |
| Jutan | |
| Demand term loan[b] | 2,000 |
| | 2,035 |
| Less current portion | 2,018 |
| | 17 |

(a) Term loan secured by software, requiring a monthly blended payment of $2, bearing interest at 7.99% per annum and maturing October, 2007.

(b) Demand term loan, bears interest at the bank's cost of funds plus 1.75% and is secured by a general security agreement covering all of the assets of Jutan. The loan matures in September 2009. Interest only is repayable in

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

monthly instalments until October 2006. Subsequently, the loan is repayable in monthly principal instalments of $69, plus interest. The term loan can be called by the lender at any time.

| | December 31, 2005 |
|---|---|
| 2006 | $ 2,018 |
| 2007 | 17 |
| | $ 2,035 |

**10. Convertible debenture**

On December 12, 2005 Newport issued $85,000 principal amount of 7.50% subordinated unsecured convertible debentures for net proceeds of $81,298 after issue and related costs. The debentures pay interest semi-annually, commencing on June 30, 2006. The debentures are convertible into units of Newport at the option of the holder at any time prior to maturity at a conversion price of $9.50 per unit. The debentures mature on December 31, 2010 at which time they are due and payable. After December 31, 2008, the debentures may be redeemed in whole or in part by Newport, at the amount outstanding plus accrued and unpaid interest thereon, except that for redemption on or prior to December 31, 2009 the current market price of the units must not be less than 125% of the conversion price.

Newport, Commercial Trust and Holdings LP, the wholly owned subsidiary of NPY, entered into an agreement pursuant to which Holdings LP agreed to bear the costs that Newport would otherwise incur as a condition of Newport arranging for Commercial Trust to invest $85,000 in the Convertible Class B LP units of Holdings LP.

Holdings LP has only issued two series of units, Class A LP units, which are 100% owned by NPY, and the Class B LP units all owned by Commercial Trust. In the case of conversion of the convertible debentures of Newport into units of Newport, Commercial Trust will transfer the corresponding number of Class B LP of Holdings LP units to NPY for a corresponding number of NPY Class A1 LP units, and NPY will then exchange its Class B LP units of Holdings LP for a corresponding number of Class A LP units of Holdings LP.

The debentures have been classified as debt, net of the fair value of the conversion feature which has been classified as unitholders' equity. This resulted in $84,331 being classified as debt and $669 being classified as equity. Issue costs will be amortized over the term of the debentures, and the debt portion will accrete up to the principal balance at maturity. The accretion expense of $8 and amortization of issue costs of $35 are included in amortization of deferred financing charges in the consolidated statement of income. Interest expense during the period was $332. If, and when, the debentures are converted to units, a portion of the value of the conversion feature under unitholders' equity will be reclassified to unitholders' capital along with the principal amounts converted.

| | |
|---|---|
| Issued December 15, 2005 | $ 85,000 |
| Portion allocated to equity | (669) |
| Accretion of non-interest expense | 8 |
| Balance December 31, 2005 | $ 84,339 |

The proceeds were used in part to repay amounts owing on the operating and acquisition facilities, and the balance was added to cash reserves.

**11. Unitholders' equity**

On July 28, 2005, Newport filed a prospectus for the issuance of 21,300,000 trust units. Subsequent to the Closing, the over-allotment option was exercised and a further 1,350,000 trust units were issued. The proceeds of the offering, net of the underwriters' fee of $12,247 were $213,476.

Each unit represents an equal undivided beneficial interest in Newport and any distributions from Newport. Each unit is transferable, entitles the holder thereof to participate equally in distributions of Newport, is not subject to future calls or assessments, entitles the holder to rights of redemption and entitles the holder to one vote at all meetings of unitholders.

The beneficial interests of Newport are divided into interests of two classes, described and designated as "Units" and "Special Voting Units", respectively.

**Declaration of Trust**

Pursuant to the declaration of trust:

(a) an unlimited number of Units and Special Voting Units will be issuable;

(b) each Unit is transferable and represents an equal undivided beneficial interest in any distributions from Newport and in the net assets of Newport in the event of the termination or winding-up of Newport;

(c) the Units issued pursuant to the Offering will not be subject to future calls or assessments, and will entitle the holder thereof to one vote for each whole Unit held at all meetings of unitholders;

(d) the Special Voting Units do not entitle the holder to any interest or share in Newport, in any distributions from Newport or in the net assets of Newport in the event of the termination or winding-up of Newport;

(e) special Voting Units are only issued to the holders of A2 LP Units, A3 LP Units, Class B LP Units and Class C LP Units and, if determined by the trustees of Newport, other exchangeable securities, in each case, for the purpose of providing voting rights with respect of Newport to the holders of such securities;

(f) each Special Voting Unit entitles the holder thereof to that number of votes at any meeting of Unitholders equal to the number of Units that may be obtained upon the exchange (direct or indirect) of the A2 LP Units, A3 LP Units, Class B LP Units and Class C LP Units of NPY or other exchangeable securities to which the Special Voting Unit is related; and

(g) upon the exchange or conversion of an A2 LP Units, Class B LP Unit or Class C LP Unit or other exchangeable security for Units, the Special Voting Unit that relates to such A2 LP Unit, Class B LP Unit or Class C LP Unit of NPY or other exchangeable security will immediately be cancelled without any further action and the former holder of such Special Voting Unit will cease to have any rights with respect thereto.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

On Closing, Newport granted the holders of A2 LP Units of NPY the right to require Newport at any time to indirectly exchange each A2 LP Unit for Units of Newport on a one-for-one basis, subject to customary anti-dilution protections, pursuant to the Exchange Agreement.

As of December 31, 2005, 3,116,036 Units had been issued in exchange for A2 LP Units of NPY.

**Administration Agreement**

On Closing, Newport, the Commercial Trust (through which Newport owns its investment in NPY) and the new General Partner entered into the Administration Agreement. Under the terms of the Administration Agreement, the General Partner provides, for no additional consideration other than reimbursement by Newport and Commercial Trust of out-of-pocket expenses incurred by the General Partner, for the provision of such administrative and support services to Newport.

The Administration Agreement has an initial term of three years, and is renewable for additional one-year terms at the option of the parties thereto. The Administration Agreement may be terminated by any of the parties in the event of the insolvency or receivership of another party, or in the case of default by one of the other parties, in the performance of a material obligation of the Administration Agreement which is not remedied within 30 days after written notice thereof has been delivered. The Administration Agreement may also be terminated upon 30 days' written notice by Newport or the Commercial Trust to the General Partner.

**12. Distributions and allocations to unitholders**

Effective the date of the Closing, monthly distributions were paid at the rate of $0.07708 per unit. On September 27, 2005, Newport announced an increase in its monthly distribution to $0.079167 per unit, effective for distributions payable on November 15, 2005.

The total distributions paid and payable during the period ended December 31, 2005 were $9,546

All of the net income and realized capital gains (losses) of Newport are allocated to the unitholders.

**13. Income per unit**

The following table sets forth the computation of basic income per unit:

| | Period from August 8 (date of commencement of operations) to December 31, 2005 |
|---|---|
| Numerator: | |
| Net income | $ 3,052 |
| Denominator: | |
| Weighted average number of units outstanding: | |
| Basic and diluted | 25,218,352 |
| Income per unit: | |
| Basic and diluted | $ 0.12 |

The computation of fully diluted income per share is anti-dilutive and is not shown here.

**14. Related party transactions**

The following describes the significant transactions completed during the period:

As of December 31, 2005, directors, officers and employees of the general partner and entities related to NPY hold an aggregate of 2,736,072 trust units and 24,272,973 LP units, which represents 41.7% of total issued and outstanding units on a fully diluted basis (2004 – 793,474 LP units, 12.1%). The units issued to the directors, officers and employees of the general partner were at the same price as units issued to unrelated limited partners.

Pursuant to the NPY Partnership Agreement, Newport Investment Counsel Inc. (''NICI'') was entitled to a performance fee of 20% of the realized appreciation above 8% of the net assets of NPY. The Offering triggered realized appreciation for the limited partners in excess of 8% and as a result the performance fee was earned and payable. On Closing, NICI was paid a performance fee of $44,760, inclusive of GST, which its employees immediately reinvested back into NPY the full net of tax amount, approximately $21,600. On August 8, 2005 the Partnership Agreement was amended to eliminate all management, administrative and performance fees. NPY has recorded management and administrative fees of $1,201 (2004 – $1,843).

An amount of $464 due from a related party, International Supply Services Ltd., a 50% equity investment of NPC, is non-interest bearing, unsecured and has no fixed terms of repayment.

An employee loan was made by NPY to an executive of EZEE in the amount of $250. In accordance with the terms and condition of the loan, the loan was non-interest bearing and was used to purchase units in NPY.

Included in Other Assets are advances of $6,173 made to the Operating Partnerships of NPY which are proportionately consolidated by NPY. Advances bear interest at bank prime, are unsecured and have no fixed terms of repayment. Interest income on the advances is $134.

**15. Financial instruments**

(a) Fair values of financial assets and liabilities

Financial instruments consist of current assets and current liabilities where their carrying values approximate their fair values due to the relatively short periods to maturity of the instruments. The fair values of long-term financial instruments do not differ significantly from their carrying amount.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

(b) Interest rate risk

NPY's exposure to interest rate fluctuations is with respect to short-term and long-term financing which bears interest at floating rates.

(c) Significant customers and concentration of credit risk

Financial instruments that potentially subject NPY to concentrations of credit risk consist principally of accounts receivable. NPY believes that risks are moderated by the diversity of its end customers and the

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

geographic sales area. NPY also considers concentrations of credit risk in establishing the reserves for bad debts and believes the recorded reserves are adequate.

(d) Foreign exchange risk

Jutan is exposed to foreign currently fluctuations to the extent that a portion of sales and purchases are denominated by foreign currencies. Jutan uses financial instruments to hedge these risks.

**16. Interests in jointly controlled entities**

At December 31, 2005, NPY holds an 80% interest in S&E, NPC, Gemma, Jutan, Capital C, ESR and Morrison Williams and a 50% interest in Kenna. The consolidated financial statements include NPY's proportionate share of the revenue, expenses, assets and liabilities of these jointly controlled entities as follows:

| | December 31, 2005 |
|---|---|
| Current assets | 152,128 |
| Property, plant and equipment | 14,826 |
| Long-term investments | 359 |
| Goodwill and intangibles | 64,874 |
| Other assets | 464 |
| | 232,651 |
| Current liabilities | 107,889 |
| Long-term liabilities | 5,142 |
| | 113,031 |

| | Period from August 8 to December 31, 2005 |
|---|---|
| Revenues | 198,225 |
| Expenses | 177,378 |
| Net income | 20,847 |
| Cash provided by (used in): | |
| Operating activities | (3,503) |
| Financing activities | 35,967 |
| Investing activities | (39,375) |

(In thousands of dollars, except per unit amounts)

**17. Changes in working capital**

Changes in non-cash working capital balances related to operations are as follows:

| | December 31, 2005 |
|---|---|
| Accounts receivable | $ (51,896) |
| Inventories | 4,182 |
| Prepaid expenses | 221 |
| Other current assets | (1,732) |
| Accounts payable and accrued liabilities | 17,265 |
| Deferred revenue | 3,259 |
| | $ (28,701) |

**18. Commitments and contingencies**

(a) NPY is committed to payments under operating leases for equipment and office premises through 2011 in the total amount of $12,703. The minimum annual payments, exclusive of operating costs under these lease arrangements, are as follows:

| | December 31, 2005 |
|---|---|
| 2006 | 3,249 |
| 2007 | 2,893 |
| 2008 | 2,298 |
| 2009 | 1,821 |
| 2010 | 1,668 |
| Thereafter | 774 |

(b) The acquisition of On-Site includes contingent consideration payable in the form of 232,760 A2 LP Units of NPY. 232,760 Class A units, payable to On-Site Cash Inc., have been placed in escrow, to be released in two years and 30 days from March 3, 2004, subject to On-Site meeting certain annual distributable cash flow targets, as defined in the purchase and sale agreement. The contingency has not been resolved at December 31, 2005.

(c) Some of the acquisition agreements provide that elections must be made under the Income Tax Act (Canada) to transfer the assets of the predecessor businesses to the various respective limited partnerships on a tax deferred basis. Accordingly, the tax cost to the Operating Partnership of the assets transferred where such elections are made may be less than the fair market value of such assets and, as such, some of the Operating Partnerships may realize a taxable gain on a future disposition of the assets.

(d) NPY and its operating partners are subject to claims and litigation proceedings arising in the normal course of operations. These contingencies are provided for when they are likely to occur and can be reasonably estimated. Management believes that the ultimate resolution of these matters will not have a material effect on NPY's consolidated financial statements.

(e) As at December 31, 2005 Jutan has outstanding forward foreign exchange contracts to buy U.S. dollars of $18,880 at various dates between January 2006 and August 2006. The exchange rates on forward foreign exchange contracts range from 1.1988 to 1.2320. Since August 8, 2005, NPY's share of realized and unrealized foreign exchange losses (gains) were $1,395 and ($61) respectively.

(f) The acquisitions involved various corporate structuring steps to complete the transactions in a tax-effective manner. These transactions involved interpretations of the Income Tax Act (Canada) which could if interpreted differently, result in additional tax liabilities.

(g) Guarantees

(i) NPC has guaranteed the bank facility of a 90% owned subsidiary, which has an overall credit limit of $180.

(ii) NPC has guaranteed the outstanding operating line and corporate credit cards of a 45% owned joint venture to a maximum of $400.

(h) EZEE has been named as a defendant in a defamation claim and two counterclaim actions. Management is of the opinion that there is a strong defence against the defamation claim. Due to the present undetermined outcome of the actions, management has not made a provision for any potential losses.

(i) EZEE had previously indicated that its customer contracts in Quebec may be subject to Article 2125 of the Civil Code of Quebec which provides Quebec businesses with the right to unilaterally cancel a service contract at any time upon notice. If customers had this right, future prospects and results of operations could have been adversely affected. During 2005 EZEE initiated legal action in the Province of Quebec against two of its clients, who had terminated long-term contracts before expiry of the term, for breach of contract. In December 2005, the Quebec Superior Court ruled in favour of EZEE in both these actions. EZEE's contracts were determined to be enforceable in accordance with their terms and not subject to any unilateral cancellation right by these customers prior to the expiry of their terms.

**19. Segmented information**

NPY has four reportable operating segments, each of which has separate operational management and management reporting information. All of NPY's operations, assets and employees are located in Canada. The financial services segment incorporates investment management, institutional money management, wealth management, specialty insurance underwriting, and the servicing of ATMs. The marketing segment represents the investment in non-traditional marketing operations that acquires rights in media, publications and television, and an investment in an integrated direct marketing company with its primary focus on inbound and outbound teleservices and an investment in a fully integrated marketing services agency.

# NEWPORT PARTNERS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

For the period August 8, 2005 (date of commencement of operations) to December 31, 2005

The industrial services segment represents the investment in fully integrated providers of mid-stream production services to the energy industry. The distribution segment represents investment in the operations of the import and distribution of electronic and household products. The accounting polices of the segments are the same as those described in the summary of significant accounting polices in note one. NPY evaluates the performance of its operating segments based on earnings and cash flows.

| | Financial Services | Marketing | Industrial Services | Distribution | Total |
|---|---|---|---|---|---|
| Revenues | $ 23,621 | $ 21,947 | $ 43,290 | $ 116,382 | $ 205,240 |
| Cost of revenues | 8,992 | 12,840 | 36,503 | 99,225 | 157,560 |
| | 14,629 | 9,107 | 6,787 | 17,157 | 47,680 |
| Expenses | | | | | |
| Selling, general and administrative | 7,435 | 5,445 | 3,504 | 9,874 | 26,258 |
| Amortization of deferred financing charges | 123 | - | - | - | 123 |
| Amortization of intangible assets | 5,851 | 2,007 | 702 | 1,797 | 10,357 |
| Depreciation | 195 | 435 | 815 | 140 | 1,585 |
| | 13,604 | 7,887 | 5,021 | 11,811 | 38,323 |
| Income before the undernoted | 1,025 | 1,220 | 1,766 | 5,346 | 9,357 |
| Income from equity investment | 1,844 | - | - | - | 1,844 |
| Interest expense | 356 | 32 | 612 | 390 | 1,390 |
| Other income | 146 | - | - | - | 146 |
| Income before non-controlling interest | $ 2,659 | $ 1,188 | $ 1,154 | $ 4,956 | $ 9,957 |
| Goodwill acquired | 186,345 | 19,120 | 9,555 | 43,082 | 258,102 |
| Expenditures for property, plant and equipment | 664 | 627 | 1,126 | 132 | 2,549 |
| Total assets | 405,069 | 79,695 | 74,559 | 155,781 | 715,104 |
| Total goodwill | 186,345 | 19,120 | 9,555 | 43,082 | 258,102 |

## 20. Subsequent events

On January 17, 2006 NPC indirectly acquired 40% of the common shares of Waydex Services Inc. for approximately $2,000.

On March 16, 2006 Newport acquired an 80% interest in Murray Demolition LP for total consideration of $30,500, comprising cash and units in Newport. Newport drew on its credit facility to finance the cash portion of this transaction. Murray Demolition is a leading provider of demolition, abatement and remediation contract services in Canada.

## Management's Responsibility for Financial Reporting

The financial statements of Newport Private Yield LP ("NPY") and all of the information in the annual report are the responsibility of Management, including responsibility for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that the information used internally by management and disclosed externally is complete and reliable in all material respects. Management has evaluated the effectiveness of the disclosure controls and procedures and has concluded that they are effective.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that are based on Management's best judgments. Actual results may differ from these estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects.

Management has developed and maintains a system of internal controls to provide reasonable assurance that NPY's assets are safeguarded, transactions are accurately recorded and the financial statements report NPYs operating and financial results in a timely manner. Financial information presented elsewhere in the annual report has been prepared on a consistent basis with that in the Consolidated Financial Statements.

The Board of Directors of NPY annually appoints an Audit Committee comprised of Independent Directors and members who are not employees of NPY. This committee meets regularly with management and the auditors to review significant accounting, reporting and internal control matters. The auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the external auditors' report, and the annual report. The Audit Committee reports its findings to the Board of Directors for the Director's consideration in approving the financial statements. The Audit Committee also considers, for approval by the Board of Directors, the engagement or re-appointment of the external auditors.

KPMG LLP, an independent firm of chartered accountants was appointed to audit Newport's Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards. They have provided an independent professional opinion. KPMG LLP has full and free access to the Audit Committee.

Peter Wallace,
President & CEO

Kelly Baird,
Chief Financial Officer

Toronto, Canada
March 29, 2006

**KPMG** LLP
**Chartered Accountants**
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## AUDITORS' REPORT

To the directors of NPY GP Trust

We have audited the consolidated balance sheets of Newport Private Yield LP (the "Partnership") as at December 31, 2005 and 2004 and the consolidated statements of operations, changes in partners' equity and cash flows for the year ended December 31, 2005 and for the period from February 27, 2004 (date of formation) to December 31, 2004. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from February 27, 2004 (date of formation) to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
March 24, 2006

Consolidated Financial Statements of

# NEWPORT PRIVATE YIELD LP

December 31, 2005

# NEWPORT PRIVATE YIELD LP

Consolidated Balance Sheets
(In thousands of dollars)

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 25,275 | $ 2,351 |
| Accounts receivable (note 14 (c)) | 118,244 | 7,905 |
| Inventories | 31,164 | 239 |
| Prepaid expenses | 2,359 | 177 |
| Other current assets (note 6) | 6,587 | 18 |
| | 183,629 | 10,690 |
| Property, plant and equipment (note 2) | 16,445 | 4,542 |
| Long-term investments (note 3) | 42,154 | 10,320 |
| Goodwill (note 4) | 206,073 | 7,455 |
| Intangible assets (note 5) | 210,177 | 14,764 |
| Other assets (note 6) | 4,971 | 154 |
| | $ 663,449 | $ 47,925 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 7) | $ 19,436 | $ 3,622 |
| Accounts payable and accrued liabilities | 97,046 | 6,797 |
| Deferred revenue | 5,357 | 143 |
| Current portion of obligations under capital leases (note 8) | 2,729 | 1,745 |
| Current portion of long-term debt (note 9) | 2,018 | 566 |
| | 126,586 | 12,873 |
| Obligations under capital leases (note 8) | 3,082 | 366 |
| Long-term debt (note 9) | 17 | 1,761 |
| Future tax liability | 2,044 | - |
| Convertible units (note 15) | 84,339 | - |
| Partners' equity (note 10) | 447,381 | 32,925 |
| Commitments and contingencies (note 18) | | |
| Subsequent events (note 20) | | |
| | $ 663,449 | $ 47,925 |

See accompanying notes to consolidated financial statements.

On behalf of the General Partner

Mark A. Kinney
Director

David T. Lloyd
Director

# NEWPORT PRIVATE YIELD LP

Consolidated Statements of Operations
(In thousands of dollars, except per unit amounts)

| | Year ended December 31, 2005 | Period from February 27, 2004 (date of inception) to December 31, 2004 |
|---|---|---|
| Revenues | $ 257,554 | $ 10,059 |
| Cost of revenues | 198,446 | 7,409 |
| | 59,108 | 2,650 |
| Expenses | | |
| Selling, general and administrative | 31,570 | 1,743 |
| Amortization of deferred financing charges | 123 | - |
| Amortization of intangible assets | 13,202 | 1,550 |
| Depreciation | 2,704 | 276 |
| | 47,599 | 3,569 |
| Income/(loss) before the undernoted | 11,509 | (919) |
| Performance fee expense (note 13) | 44,760 | - |
| Income/(loss) from equity investments | 410 | (103) |
| Interest expense | 1,924 | 253 |
| Other income | 146 | - |
| Partnership loss | $ (34,619) | $ (1,275) |
| Loss per unit (note 12) | | |
| Basic and diluted | (0.97) | (0.68) |

See accompanying notes to consolidated financial statements.

# NEWPORT PRIVATE YIELD LP

Consolidated Statement of Changes in Partners' Equity
(In thousands of dollars, except unit amounts)

| | Number of Units | General Partner $ | Limited Partner $ | Limited Partner $[1] | Limited Partner $ | Limited Partner $ | Limited Partner $ | Limited Partner $ | Limited Partner $ | Limited Partner $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | A1 | A2 | A3 | B1 | B2 | B3 | B4 | C | |
| Issue of 3,393,688 class A limited partnership units | 3,393,688 | | | 36,335 | | | | | | | 36,335 |
| Loss for the period | | | | (1,275) | | | | | | | (1,275) |
| Distributions (note 11) | | | | (2,135) | | | | | | | (2,135) |
| Partners' equity, December 31, 2004 | 3,393,688 | | | 32,925 | | | | | | | 32,925 |
| Issue of 6,147,328 class A limited partnership units | 6,147,328 | | | 79,343 | | | | | | | 79,343 |
| | 9,541,016 | | | | | | | | | | |
| Split and redesignation of all original limited partner units to A2 units (note 10) | 22,206,450 | | | | | | | | | | - |
| Issue of 35,462,101 units for Roll-up and New Investments (note 10) | 35,462,101 | | | 239,178 | 52,138 | 15,362 | 8,432 | 3,200 | 13,035 | 23,276 | 354,621 |
| Issue of 22,650,000 A1 units to Newport Partners Commercial Trust | 22,650,000 | | 213,412 | | | | | | | | 213,412 |
| Issue of 2,163,013 A2 units to NICI employees (note 10) | 2,163,013 | | | 21,630 | | | | | | | 21,630 |
| Issue of General Partner units to NPY GP Trust | | 61 | | | | | | | | | 61 |
| Redemption of 12,731,454 A2 units and 5,213,824 A3 units | (17,945,278) | | | (127,315) | (52,138) | | | | | | (179,453) |
| Exchange of A2 units for A1 units | | | 30,717 | (30,717) | | | | | | | - |
| Issue costs | | | | (10,112) | | | | | | | (10,112) |
| Income / (loss) for the year | | | 4,347 | (40,048) | - | 262 | 144 | 55 | 223 | 398 | (34,619) |
| Distributions paid (note 11) | | | (7,424) | (16,438) | - | (446) | (245) | | (378) | (676) | (25,607) |
| Distributions payable (note 11) | | | (2,194) | (2,783) | - | (131) | (72) | - | (111) | (198) | (5,489) |
| Sub-total | 64,536,286 | 61 | 238,858 | 145,663 | - | 15,047 | 8,259 | 3,255 | 12,769 | 22,800 | 446,712 |
| Equity portion of convertible debenture (note 15) | | | | | | | | | | | 669 |
| Partners' equity at December 31, 2005 | 64,536,286 | 61 | 238,858 | 145,663 | - | 15,047 | 8,259 | 3,255 | 12,769 | 22,800 | 447,381 |

(1) On August 8, 2005, the A Limited Partner Units were redesignated as A2 Limited Partner Units and split on a 2.3276 basis.

See accompanying notes to consolidated financial statements.

# NEWPORT PRIVATE YIELD LP

Consolidated Statements of Changes in Financial Position
(In thousands of dollars)

| | Year ended December 31, 2005 | Period from February 27, 2004 (date of inception) to December 31, 2004 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss for the period | $ (34,619) | $ (1,275) |
| Items not affecting cash: | | |
| Amortization of deferred financing charges | 123 | |
| Amortization of intangible assets | 13,202 | 1,550 |
| Depreciation | 2,704 | 276 |
| Income from equity investment | (410) | 103 |
| | (19,000) | 654 |
| Changes in non-cash working capital (note 17) | (31,308) | 498 |
| | (50,308) | 1,152 |
| Financing activities: | | |
| Issuance of partnership units, net of costs | 304,334 | 35,255 |
| Redemption of partnership units | (179,453) | |
| Issuance of convertible units, net of costs | 81,298 | |
| Distributions to unitholders | (25,607) | (2,135) |
| (Decrease)/increase in bank indebtedness | (2,836) | 1,989 |
| (Decrease) in long term debt | (8,258) | (394) |
| Increase/(decrease) in capital lease obligations | 3,278 | (78) |
| | 172,756 | 34,637 |
| Investing activities: | | |
| Acquisition of businesses, net of cash acquired | (96,893) | (20,782) |
| Increase in other assets | (1,455) | (10,450) |
| Purchase of intangible assets | (797) | (2,061) |
| Purchase of property, plant and equipment | (4,018) | (309) |
| Distributions received on equity investment | 3,639 | 164 |
| | (99,524) | (33,438) |
| Increase in cash and cash equivalents | 22,924 | 2,351 |
| Cash and cash equivalents, beginning of period | 2,351 | - |
| Cash and cash equivalents, end of period | $ 25,275 | $ 2,351 |
| Supplemental cash flow information: | | |
| Interest paid | $ 1,708 | $ 253 |
| Cash acquired upon acquisition | 8,362 | 2,351 |
| Supplemental disclosure of non-cash financial and investing activities: | | |
| Issuance of partnership units on business combinations and long term investments | 354,621 | 1,081 |

See accompanying notes to consolidated financial statements.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

Newport Private Yield LP ("NPY") is a limited partnership duly constituted under the laws of the Province of Ontario formed by a limited partnership agreement dated February 27, 2004 and later amended on January 26, 2005 and August 8, 2005 (the "Partnership Agreement"). The business of NPY is to invest in securities of private businesses, either in limited partnerships or in corporations (collectively the "Operating Partnerships"), and distribute the available cash flows to the limited partners. The operations of NPY are in the following business segments:

- financial services;
- marketing;
- distribution; and
- industrial services

On July 28, 2005, a prospectus was filed for Newport Partners Income Fund ("Newport") for the issuance of 21,300,000 trust units (together with the issuance of 1,350,000 from the over-allotment option, the "Offering"). Newport is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. Newport is entirely dependent on the operations of NPY and the Operating Partnerships. On closing of Newport's initial public offering on August 8, 2005 (the "Closing"), Newport indirectly capitalized NPY through the purchase of 100% of NPY's A1 units, resulting in a 38% ownership of NPY. Newport subsequently increased its ownership of NPY through the exchange of A2 LP units into A1 units and owns approximately 40% of NPY as at December 31, 2005.

Newport was created to hold, through its investment in Newport Partners Commercial Trust (the "Commercial Trust"), its interest in NPY and 100% of the shares of Newport Partners GP Inc. ("GP Trustee") which is the sole trustee of the NPY GP Trust ("General Partner"). Prior to the Offering the General Partner of NPY was Newport Private Yield Inc. On closing, NPY transferred to Newport Partners Holdings LP ("Holdings") all of its interests in the operating partnerships.

The General Partner is responsible for the management of NPY, including the determination of distributions paid to the limited partners and assumes the rights, obligations and liabilities as the sole general partner of the Partnership.

The initial term of the Partnership Agreement ends on February 28, 2014 and is automatically extendable for two consecutive periods of two years each unless otherwise determined by the General Partner.

**1. Significant accounting policies**

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the financial statements of NPY's 100%-owned subsidiaries and NPY's investments in jointly controlled operations on a proportionate consolidation method.

Under the proportionate consolidation method, NPY's share of assets, liabilities, revenue and expenses are included in each major financial statement caption from the date of purchase. All intercompany balances and transactions are eliminated upon consolidation.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

The following table indicates the accounting method for each of the Operating Partnerships as at December 31, 2005. All Operating Partnerships were acquired together with their respective general partner.

| Operating Partnership | Acquisition Date | % Ownership | Accounting Method | Business Description |
|---|---|---|---|---|
| On-Site LP ("On -Site") | March 2004 | 100 | Consolidation | Automated teller machines ("ATMs") provider |
| Ezee ATM LP ("EZEE") (i) | January 2005 | 100 | Consolidation | Full-service provider of ATMs |
| Newport Partners LP ("NP LP") | August 2005 | 100 | Consolidation | Individual and corporate wealth management services |
| Sports and Entertainment Limited Partnership ("S&E") (ii) | August 2005 | 80 | Proportionate consolidation | Alternative advertising company |
| NPC Integrity Energy Services Limited Partnership ("NPC") (iii) | August 2005 | 80 | Proportionate consolidation | Mid-stream production services provider to the energy industry |
| Gemma Communications LP ("Gemma") | March 2005 | 80 | Proportionate consolidation | Integrated direct marketing company |
| Jutan Limited Partnership ("Jutan") (iv) | August 2005 | 80 | Proportionate consolidation | Distributor of consumer electronics |
| Elliott Special Risks LP ("ESR") | August 2005 | 80 | Proportionate consolidation | Managing General Agent for commercial liability insurance |
| Morrison Williams Investment Management LP ("Morrison Williams") | August 2005 | 80 | Proportionate consolidation | Institutional money manager |
| Capital C Communications LP ("Capital C") | August 2005 | 80 | Proportionate consolidation | Integrated marketing services agency |
| Kenna Group LP ("Kenna") | September 2005 | 50 | Proportionate consolidation | Automated marketing solutions provider |

(i) An initial investment in EZEE of 39.1% was made in March 2004 and a further 10.8% interest was acquired in June 2004. A further 50.1% interest was acquired in January 2005 to bring the total investment to 100%.

(ii) An initial investment in S&E of 25% was made in October 2004. An additional 55% interest was acquired on Closing to bring the total investment to 80%.

(iii) An initial investment in NPC of 50% was made in December 2004. An additional 30% interest was acquired on Closing to bring the total investment to 80%.

(iv) An initial investment in Jutan of 37.5% was made in October 2004 and an additional 15% was acquired in April 2005. An additional 27.5% interest was acquired on Closing to bring the total investment to 80%.

(b) Inventories

Inventories are stated at the lower of cost, determined on a first-in first-out basis, and net realizable value. Inventories of ATMs are carried at the lower of average cost and net realizable value.

(c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease.

Depreciation is calculated using the following methods and annual rates based on the estimated useful life of the assets as follows:

| Asset | Basis | Rate |
|---|---|---|
| Equipment under capital lease | Straight line | Term of lease |
| Buildings | Declining balance | 4% |
| Automotive and heavy equipment | Declining balance | 30% - 40% |
| Furniture and equipment | Mainly declining balance | 14% - 40% |
| ATMs | Declining balance | 20% - 30% |
| Computer hardware and software | Declining balance | 20% - 100% |
| Leasehold improvements | Straight line | Term of the lease |

(d) Long-term investments

Investments over which NPY is able to exercise significant influence are accounted for under the equity method. Under the equity method, the original cost of investment is adjusted for NPY's share of post-acquisition earnings or losses, less distributions in the case of investments in partnerships and dividends in the case of investments in companies.

Investments are written down when there is evidence that a decline in value that is other than temporary has occurred.

(e) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets with finite useful lives, are amortized over their useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. When NPY enters into a business combination, the purchase method of accounting is used.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

As at December 31, 2005 there was no impairment in the carrying value of goodwill.

(g) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are recognized and measured at cost. Intangible assets acquired in a transaction, including those acquired in business combinations, are recorded at their fair value. Intangible assets with determinable useful lives, such as customer relationships/contracts, ATM location contracts, management contracts, distribution licences, intellectual property and non-competition agreements are amortized over their useful lives and are tested for impairment, as described in note 1(e). Intangible assets having an indefinite life, such as brands, are not amortized but instead are tested for impairment on an annual or more frequent basis by comparing their fair value with book value. An impairment loss on indefinite life intangible assets is recognized when the carrying amount of the asset exceeds its fair value.

As at December 31, 2005 there was no impairment in the carrying value of intangible assets having an indefinite life.

Intangible assets with determinable lives are amortized on a straight line basis annually over their estimated useful lives as follows:

| | |
|---|---|
| Customer relationships/contracts | 5 - 10 years |
| ATM location contracts | 4 - 5 years |
| Management contracts | 5 years |
| Distribution licences | 5 years |
| Intellectual property | 1 year |
| Non-competition agreement | term of contract |

(h) Revenue recognition

(i) Financial services

Financial services revenue primarily includes management fee income generated from investment management services, commission income from insurance policies, corporate finance and advisory fees and revenue generated from the operation and sale of ATMs.

Management fees are based on contracts, calculated as a percentage of the net asset value of the respective funds or other portfolios being managed and are recognized when earned. Commission income related to insurance policies is recognized when there is persuasive evidence of an agreement, service delivery has occurred and collectibility is considered probable. Contingent profit commissions are recorded when receipt is probable and the amount is reasonably estimable. Corporate finance and advisory fees relate to financial advisory assignments and are recorded when the underlying transaction is substantially completed under the terms of the agreement.

Revenue from ATM operations includes surcharge fees charged to the cardholder when cash is dispensed, and interchange fees, which are the fees charged to the financial institution for the administrative service of agreeing to pay cash to the cardholder. These fees are recognized pursuant to written contracts in the period that the cash dispensing transaction occurs. Revenue from the sale of ATMs is recognized when the machines have been delivered and title has passed to the customer and the customer assumes risk of loss, collection of the relevant receivable is probable and the sales price is fixed or determinable.

(ii) Marketing

Marketing revenue includes revenue generated from marketing campaign projects, teleservice programs and the sale of advertisements. Revenues from marketing campaign projects are recognized using the percentage of completion method where dependable estimates of progress toward completion can be made. Revenue from teleservice programs are recognized as services are performed, generally based on hours incurred. Advertisements are recognized at the time the advertisement is displayed and when collection of the relevant receivable is probable and the sale price is fixed or determinable. Deposits received in excess of amounts billed for marketing campaign projects and on sales of advertisements not yet displayed are recorded as deferred revenue, and the related costs are included in work in progress or prepaid expenses.

(iii) Distribution

Distribution revenue includes revenue generated from the import and distribution of electronic and household products which is recognized when goods are delivered and title has passed to the customer and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, net of estimated returns, discounts and other allowances. Sales, provisions for estimated sales returns and the costs of products sold are recorded at the time of shipment.

(iv) Industrial services

Industrial services revenue includes revenue from contracts entered into to provide mid-stream production and maintenance services to the energy industry. Revenue from such contracts is recognized as services are performed and related costs are incurred. Provisions for estimated losses on all uncompleted contracts are made in the period in which such losses are determined.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses other than depreciation and amortization are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(j) Income taxes

No provision has been made in the accounts for income taxes with respect to the Operating Partnerships as they are not taxable entities and the reporting of income for tax purposes is the responsibility of each of the limited partners to the extent that allocations are made by NPY to the limited partners.

Income taxes of corporate subsidiaries are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs.

(k) Leases

Leases entered into by NPY as lessee that transfer substantially all the benefits and risks of ownership to the lessee are recorded as capital leases and included in property, plant and equipment and long-term debt. All other leases are classified as operating leases under which leasing costs are recorded as expenses in the period in which they are incurred.

(l) Loss per unit

The loss per unit of NPY is computed by dividing NPY's income by the weighted average units outstanding during the reporting period. Diluted income per unit is similar to basic income per unit, except that the denominator is increased to include the number of additional units that would have been outstanding if the potentially dilutive units had been issued, and the numerator excludes distributions. Convertible units and restricted units described in note 12 are included in the computation of diluted loss per unit. At December 31, 2005, a disclosure of diluted loss per unit is not applicable as the restricted units are anti-dilutive.

(m) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less, cash in circulation in ATMs and cash on deposit with financial institutions, which are unrestricted as to their use.

(n) Derivative financial instruments and cash flow hedging strategy

A portion of Jutan's transactions are denominated in U.S. dollars. Jutan utilizes derivative financial instruments in the management of its foreign currency exposure. Jutan's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Jutan enters into hedges of its foreign currency exposures on anticipated foreign currency denominated purchases and resulting cash flows within the following year by entering into offsetting foreign exchange forward contracts, when it is deemed appropriate.

Prior to December 19, 2005, Jutan documented all relationships between hedging instruments and hedged items, as well as their risk management objectives and strategy for undertaking various hedged transactions ("hedging relationships"). This process included linking derivatives to forecasted transactions.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated foreign currency purchases and resulting in cash flows were recognized as an adjustment of the purchases when the transactions were recorded.

Realized and unrealized gains or losses associated with derivative instruments, which had been terminated or ceased to be effective prior to maturity, were deferred under the current, or non-current, assets or liabilities on the consolidated balance sheets and recognized in income in the period in which the underlying hedged transaction was recognized. In the event a designated hedged item was sold, extinguished or matured prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument was recognized in net income (loss) for the period.

Jutan discontinued documenting hedging relationships on December 19, 2005. Jutan's derivative financial instruments as at December 31, 2005 are recorded at fair value. Derivative financial instruments are marked to market with the resulting gain (loss) recognized in net income (loss) for the period.

(o) Deferred financing charges

Financing costs incurred with respect to obtaining financing are deferred and amortized on a straight-line basis over the term of the related financing, which vary from three to five years in length.

(p) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, accrued liabilities, intangible assets and goodwill, and valuation allowances for receivables and inventories.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

## 2. Property, plant and equipment

| December 31, 2005 | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Equipment under capital lease | $ 6,553 | $ 1,175 | $ 5,378 |
| Furniture and equipment | 4,453 | 494 | 3,959 |
| Computer hardware and software | 2,887 | 627 | 2,260 |
| Automotive equipment | 1,650 | 207 | 1,443 |
| Land and buildings | 1,316 | 41 | 1,275 |
| Leasehold improvements | 1,627 | 157 | 1,470 |
| ATMs | 939 | 279 | 660 |
| | $ 19,425 | $ 2,980 | $ 16,445 |

| December 31, 2004 | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Equipment under capital lease | $ 2,140 | $ 77 | $ 2,063 |
| Furniture and equipment | 796 | 1 | 795 |
| Computer hardware and software | 363 | 22 | 341 |
| Automotive equipment | 383 | 8 | 375 |
| Land and buildings | 893 | 146 | 747 |
| Leasehold improvements | 153 | 16 | 137 |
| ATMs | 90 | 6 | 84 |
| | $ 4,818 | $ 276 | $ 4,542 |

## 3. Long-term investments

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Investments in: | | |
| Brompton | $ 41,795 | $ - |
| Jutan (note 4(b)(ii)) | - | 10,184 |
| Other | 359 | 136 |
| | $ 42,154 | $ 10,320 |

On August 8, 2005, NPY acquired a 45% equity interest in Brompton Funds LP (together with its general partner BFGP Limited, collectively referred to as "Brompton") for $42,270 including costs of $112. The acquisition was payable by way of issue of 3,372,692 A2 LP units and 843,173 B2 LP units respectively. Brompton is a manager of public and private investment funds. The estimated fair values of the underlying assets acquired are as follows:

| | |
|---|---|
| Goodwill | $ 20,783 |
| Intangible assets, primarily customer relationships | 21,487 |
| | $ 42,270 |

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

The amortization of the intangible assets was $708 during the period.

The purchase price allocations above reflect management's best estimates at the time of preparing these consolidated financial statements and are subject to refinement.

## 4. Business combinations

The following investments made during the year ended December 31, 2005 were accounted for using the purchase method, and the results of the operations have been included in NPY's consolidated financial statements since the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed for each of the acquisitions are as follows:

| Year ended December 31, 2005 | (a)(i) EZEE | (a)(ii) Gemma | (b)(i) NPC | (b)(ii) Jutan | (b)(iii) S&E | (c)(i) ESR | (c)(ii) Morrison Williams | (c)(iii) Capital C | (c)(iv) NPI | (d) Kenna | (e) Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of acquisition | January 28 | March 31 | August 8 | August 8 | August 8 | August 8 | August 8 | August 8 | August 8 | September 14 | Various | |
| Percentage acquired | 50.1% | 80.0% | 30.7% | 27.5% | 55.0% | 80.0% | 80.0% | 80.0% | 100.0% | 50.0% | 80.0% | |
| Accounting method | (1) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (1) | (2) | (2) | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Assets Acquired:** | | | | | | | | | | | | |
| Current assets | 518 | 5,384 | 7,380 | 16,603 | 274 | 19,047 | 1,850 | 5,096 | 2,800 | 1,219 | 12,095 | 72,266 |
| Property, plant and equipment | 124 | 1,821 | 3,420 | 372 | 36 | 660 | 58 | 728 | 225 | 773 | 1,659 | 9,876 |
| Long term assets | - | - | 153 | 41 | - | 266 | - | 80 | 239 | - | - | 779 |
| Goodwill | 14,814 | 1,947 | 5,901 | 26,873 | 4,666 | 37,460 | 31,666 | 12,010 | 45,266 | - | 5,206 | 185,809 |
| Intangible assets | 2,403 | 23,148 | 9,508 | 9,163 | 4,137 | 47,852 | 33,462 | 10,833 | 30,207 | 8,002 | 12,606 | 191,321 |
| | 17,859 | 32,300 | 26,362 | 53,052 | 9,113 | 105,285 | 67,036 | 28,747 | 78,737 | 9,994 | 31,566 | 460,051 |
| **Liabilities assumed:** | | | | | | | | | | | | |
| Current liabilities | 2,679 | 3,869 | 8,113 | 12,828 | 578 | 18,233 | 1,689 | 8,036 | 1,901 | 830 | 5,223 | 63,979 |
| Long-term liabilities | 80 | 148 | 1,602 | 2,204 | - | - | - | 26 | - | - | 296 | 4,356 |
| | 2,759 | 4,017 | 9,715 | 15,032 | 578 | 18,233 | 1,689 | 8,062 | 1,901 | 830 | 5,519 | 68,335 |
| **Net assets acquired:** | 15,100 | 28,283 | 16,647 | 38,020 | 8,535 | 87,052 | 65,347 | 20,685 | 76,836 | 9,164 | 26,047 | 391,716 |
| **Consideration:** | | | | | | | | | | | | |
| Cash | 15,000 | 28,025 | - | - | - | - | - | - | - | 9,059 | 17,955 | 70,039 |
| Units Issued | - | - | 16,647 | 37,917 | 8,535 | 86,897 | 65,173 | 20,483 | 76,811 | - | - | 312,463 |
| Note payable | - | - | - | - | - | - | - | - | - | - | 7,599 | 7,599 |
| Transaction Costs | 100 | 258 | - | 103 | - | 155 | 174 | 202 | 25 | 105 | 493 | 1,615 |
| | 15,100 | 28,283 | 16,647 | 38,020 | 8,535 | 87,052 | 65,347 | 20,685 | 76,836 | 9,164 | 26,047 | 391,716 |

(1) Proportionate Consolidation

(2) Consolidation

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

The purchase price allocations above reflect management's best estimate at the time of preparing these consolidated financial statements and are subject to refinement.

(a) Acquisitions prior to Closing

(i) EZEE

On January 28, 2005, NPY acquired an additional 50.1% (7,000,000 Class B partnership units), of EZEE for $15,100, bringing its holding to 100%. EZEE is a full-service provider of ATMs and a full range of ATM management services, from ATM deployment and maintenance to transaction processing, reporting and settlement. With this acquisition, EZEE became a wholly owned subsidiary of NPY.

(ii) Gemma

On March 31, 2005, NPY acquired 80.0% (7,999 partnership units) of Gemma for $28,283. Gemma is an integrated direct marketing company with its primary focus on inbound and outbound teleservices.

(b) Roll-up Agreements concurrent with the Closing

On Closing of the public offering of Newport, NPY increased its investments in NPC, S&E and Jutan to 80%. These acquisitions were made as follows:

(i) NPC

NPY acquired an additional 30.6% of the limited partnership units of NPC for $16,647 payable by way of issue of 1,664,767 A2 LP units;

(ii) Jutan

NPY acquired an additional 27.5% of the limited partnership units of Jutan for $38,020 payable by way of issue of 3,791,660 A2 LP units. This increased its investment to 80%. Previously this investment had been recorded as a long-term investment using the equity method of accounting. The two earlier investments totalling 52.5% were completed in December 2004 and April 2005 for a cash consideration of $10,450, including costs of $250, and $26,000 respectively. Goodwill and intangibles arising from these two investments were $12,809 and $15,789 respectively. Jutan is an importer, marketer and distributor of electronic and appliance products to the Canadian retail industry; and

(iii) S&E

NPY acquired an additional 55% of the limited partnership units of S&E for $8,535 payable by way of issue of 533,409 A2 LP units and 320,045 B3 LP units respectively. S&E is an alternative advertising company that provides a specialized service for clients seeking to enhance their advertising awareness in new areas beyond traditional media placement. NPY's investment in additional limited partnership units of S&E is subject to price adjustment. The A2 LP units and

B3 LP units issued are being held in escrow, and will be released on a defined schedule over a 30-month period based upon the level of distributable cash earned by S&E after Closing.

(c) Acquisitions concurrent with the Closing

On Closing, NPY invested in ESR, MWI, Capital C and NP LP pursuant to the Acquisition Agreements, in each case, in a series of transactions as follows:

(i) Elliott Special Risks Ltd. sold substantially all of its assets to ESR and NPY purchased 80% of the limited partnership units of ESR for $86,897 payable by way of issue of 3,475,882 A2 LP units and 5,213,824 A3 LP units respectively. ESR is a specialty managing general agent and is qualified to underwrite commercial liability insurance on behalf of insurers. ESR does not assume any liability for claims, expenses or payments if an insured incurs a loss. This liability is the responsibility of the insurer that underwrites the policy.

(ii) Morrison Williams Investment Management Ltd. sold substantially all of its assets to MWI and NPY purchased 80% of the limited partnership units of Morrison Williams for $65,173 payable by way of issue of 5,213,824 A2 LP units and 1,303,456 B4 units respectively. Morrison Williams is an institutional money manager.

(iii) Capital C Communications Inc. sold all of its assets to Capital C and NPY indirectly purchased 80% of the limited partnership units of Capital C for $20,483 payable by way of issue of 2,048,288 A2 LP units. Capital C is a fully integrated marketing services agency that works with its clients to develop innovative marketing programs for its clients' products and services.

(iv) Newport Insurance Inc. and Newport Securities Inc. sold substantially all of their respective assets to Newport Insurance LP and Newport Securities LP and NPY purchased 100% of the limited partnership units of Newport Insurance LP and Newport Securities LP and purchased from Newport Holdings Ltd. 100% of the shares of Newport Investment Counsel Inc. ("NICI") for $76,811 in aggregate, payable by way of issue of 3,817,264 A2 LP units, 1,536,216 B1 LP units and 2,327,600 Class C LP units. On completion of this transaction, NPY transferred its direct investment in these entities to Newport Partners LP.

(d) Acquisitions subsequent to Closing

On September 13, 2005 Kenna Group sold substantially all of its assets to Kenna and NPY purchased 50% of the limited partnership units of Kenna for cash of $9,059. Kenna is a provider of automated marketing solutions.

(e) Other

During 2005, NPY also completed investments indirectly through Jutan and NPC respectively.

On September 30, 2005 NPY invested $17,000 in Jutan to fund its acquisition of certain assets of Sonigem Products Inc ("Sonigem"). This additional investment did not result in a change in NPY's ownership interest of 80% in Jutan. The 20% share of this investment, being $3,400, has been accounted for as goodwill by NPY in its financial statements. From the $17,000 investment by NPY, Jutan used

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
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$16,715 to purchase Sonigem and to fund additional working capital requirements of Sonigem. Sonigem is a marketer and distributor of consumer audio and video electronics.

Subsequent to August 7, 2005, NPC acquired all of the operations of three regional oil and gas service companies located in Alberta. These investments were completed by NPC of which NPY has an 80% interest. In November 2005 NPC acquired McConnell Welding & Construction LP, and in December 2005 acquired Jenpai Oilfield Services Ltd., and the assets of Polar Facilities Ltd. These investments were completed by NPC for a total of $9,332. These investments were funded primarily through an equity investment in NPC by NPY. NPY's ownership interest did not change from 80%, and the 20% share of this investment, being $1,772 has been accounted for as goodwill of NPY it its financial statements.

The above purchase price allocation to intangible assets and goodwill reflects management's best estimate at the time of preparing these consolidated financial statements and are subject to refinement.

| Period ended December 31, 2004 | On-Site | EZEE | EZEE | S&E | NPC | Total |
|---|---|---|---|---|---|---|
| Date of acquisition | March 3 | March 3 | June 28 | October 4 | December 1 | |
| Percentage acquired | 100.0% | 39.1% | 10.8% | 25.0% | 50.0% | |
| Accounting method | (1) | (2) | (2) | (2) | (2) | |
| **Assets acquired**: | | | | | | |
| Current assets | $ 663 | $ 559 | $ 1,405 | $ 221 | $ 8,607 | $ 11,455 |
| Property, plant and equipment | 678 | 71 | 20 | 20 | 3,721 | 4,510 |
| Long-term assets | - | - | - | - | 135 | 135 |
| Goodwill | 216 | 3,833 | 1,098 | 595 | 1,713 | 7,455 |
| Intangible assets | 622 | 1,485 | 422 | 1,802 | 9,922 | 14,253 |
| | 2,179 | 5,948 | 2,945 | 2,638 | 24,098 | 37,808 |
| **Liabilities assumed**: | | | | | | |
| Current liabilities | 233 | 156 | 43 | 288 | 9,954 | 10,674 |
| Long-term liabilities | 650 | 1,085 | 302 | - | 704 | 2,741 |
| | 883 | 1,241 | 345 | 288 | 10,658 | 13,415 |
| **Net assets acquired** | $ 1,296 | $ 4,707 | $ 2,600 | $ 2,350 | $ 13,440 | $ 24,393 |
| **Consideration:** | | | | | | |
| Cash | $ - | $ 4,500 | $ 2,500 | $ 2,250 | $ 12,940 | $ 22,190 |
| Units issued | 1,080 | - | - | - | - | 1,080 |
| Transaction costs | 216 | 207 | 100 | 100 | 500 | 1,123 |
| | $ 1,296 | $ 4,707 | $ 2,600 | $ 2,350 | $ 13,440 | $ 24,393 |

(1) Consolidation

(2) Proportionate Consolidation

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

## 5. Intangible assets

| December 31, 2005 | Cost | Accumulated amortization | Net Book Value |
|---|---|---|---|
| Definite life intangible assets: | | | |
| Customer relationships/contracts | $ 169,369 | $ 8,426 | $ 160,943 |
| ATM location contracts | 7,867 | 3,875 | 3,992 |
| Management contracts | 502 | 74 | 428 |
| Distribution licenses | 15,995 | 1,283 | 14,712 |
| Intellectual property | 825 | 275 | 550 |
| Non-competition agreements | 1,000 | 111 | 889 |
| | 195,558 | 14,044 | 181,514 |
| Indefinite life intangible assets: | | | |
| Brands | 28,663 | - | 28,663 |
| | $ 224,221 | $ 14,044 | $ 210,177 |

| December 31, 2004 | Cost | Accumulated amortization | Net Book Value |
|---|---|---|---|
| Definite life intangible assets: | | | |
| Customer relationships/contracts | $ 9,625 | $ 106 | $ 9,519 |
| ATM location contracts | 4,590 | 1,435 | 3,155 |
| Management contracts | 172 | 9 | 163 |
| | 14,387 | 1,550 | 12,837 |
| Indefinite life intangible assets: | | | |
| Brands | 1,927 | - | 1,927 |
| | $ 16,314 | $ 1,550 | $ 14,764 |

The above intangible assets reflect management's best estimates of intangibles recorded through acquisitions. These estimates may be revised as purchase equations are refined.

## 6. Other assets

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Advances to operating partners (note 13) | $ 6,173 | $ - |
| Deferred financing charges | 4,466 | - |
| Other | 919 | 172 |
| | 11,558 | 172 |
| Less current portion | 6,587 | 18 |
| | $ 4,971 | $ 154 |

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
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Deferred financing charges are net of amortization of $115.

## 7. Bank indebtedness

NPY, through its wholly owned subsidiary, Newport Partners Holdings LP, entered into a credit agreement (the "Credit Agreement") with a syndicate of banks on August 8, 2005, and amended on August 31 and November 15, 2005. The facility is available up to a maximum of $70,000 and includes an acquisition line facility as well as an operating facility. The operating facility is a three-year revolving facility and the acquisition facility is for a 1-year term. The facilities bear interest at the bank's prime rate adjusted for leverage and are subject to certain covenants. The facilities are collateralized by general security agreements covering assets of NPY, ESR, MWI, EZEE, On-site, NPC, S&E, Capital C, Gemma, Kenna and NP LP.

As of December 31, 2005, there were no drawings on both the operating and acquisition facility.

Jutan has a demand operating and letter of credit facility with a Canadian Bank available to a maximum of $80,000. The facility bears interest at the bank's prime rate and is collateralized by a general security agreement over the assets of Jutan. As of December 31, 2005, NPY's share of the amount drawn on the operating facility and letters of credit issued was $19,436 and $24,640 respectively.

## 8. Obligations under capital leases

Capital lease obligations relate to vehicles and heavy equipment. The leases bear interest at rates from 4.5% to 15% (2004 – 4.5% to 15%) per annum and are secured by specific assets. NPY's proportionate interest in future minimum payments are as follows:

| | December 31, 2005 |
|---|---|
| 2006 | $ 3,043 |
| 2007 | 2,321 |
| 2008 | 731 |
| 2009 | 168 |
| 2010 | 37 |
| Total minimum lease payments | 6,300 |
| Less amount representing interest (at rates ranging from 4.5% to 15%) | 489 |
| Present value of net minimum capital lease payments | 5,811 |
| Less current portion of obligations under capital leases | 2,729 |
| | $ 3,082 |

Interest of $656 for the year ended December 31, 2005 (2004 – $14) relating to capital lease obligations has been included in interest expense.

# NEWPORT PRIVATE YIELD LP
Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

## 9. Long-term debt

Long-term debt consists of:

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Gemma | | |
| Term loan[(a)] | $ 35 | $ - |
| Jutan | | |
| Demand term loan[(b)] | 2,000 | - |
| NPC | | |
| Term loans[(c)] | - | 167 |
| Mortgage loan[(d)] | - | 167 |
| EZEE | | |
| Note payable[(e)] | - | 813 |
| Note payable[(f)] | - | 343 |
| Small business loan[(g)] | - | 64 |
| Debenture[(h)] | - | 123 |
| On-Site | | |
| Note payable[(i)] | - | 650 |
| | $ 2,035 | $ 2,327 |
| Less current portion | 2,018 | 566 |
| | $ 17 | $ 1,761 |

(a) Term loan secured by software, requiring a monthly blended payment of $2, bearing interest at 7.99% per annum and maturing October, 2007.

(b) Demand term loan, bears interest at the bank's cost of funds plus 1.75% and is secured by a general security agreement covering all of the assets of Jutan. The loan matures in September 2009. Interest is only repayable in monthly instalments until October 2006. Subsequently, the loan is repayable in monthly principal instalments of $69, plus interest. The term loan can be called by the lender at any time.

(c) The term loans due November 15, 2005 to August 1, 2009, bear interest at the lender's cost of funds plus 2.75%, or at the bank's floating base rate plus 1%, payable in monthly instalments and are secured by a first charge collateral mortgage on specific land and building of NPC and intercompany guarantees of a related party. The loan was repaid on August 8, 2005.

(d) The mortgage loan maturing on June 1, 2017, bears interest at the bank's base rate plus 1.5% is payable in monthly instalments of $1 (plus interest) and is secured by mortgage charge on land and building of a related entity of NPC. The loan was repaid on August 8, 2005.

(e) The note bears interest at 18%, payable in blended monthly instalments of $37 and is secured by a general security agreement on certain ATM contracts and other assets of EZEE. Bonus interest accrues at $5 per month of a minimum of 15 months to a maximum of 30 months. In addition, the note payable in (f) has been subordinated to this note payable. The note was repaid on January 31, 2005.

(f) The note bears interest at 8.5% and is due on March 3, 2008. The note is payable to a company related to one of the limited partners. This note is subordinated to the note payable in (e). Interest expense for the period ended December 2004 totalled $24. At December 31, 2004, accrued interest is $2. The note was repaid on January 28, 2005.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

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(g) The small business loans bears interest at 3% above bank prime rate, payable in monthly instalments of $2 and secured by assets of a related entity of EZEE and a personal guarantee of a former partner of that related entity and is due June 28, 2007. The loan was repaid on February 18, 2005.

(h) The debenture bears interest at 7%, payable in blended monthly instalments of $8 and is due February 2006. The debenture was repaid in April 2005.

(i) The note is payable to a Trust related to an officer and director of the GP. The note is for a term of three years maturing on March 2, 2007, bears interest at 12% payable monthly is secured by a general agreement on the assets of On-Site. Interest of $65 had been included as part of interest on long-term debt. The note was repaid on April 20, 2005.

The aggregate repayments of long-term debt for each of the five years and thereafter as follows:

| | December 31, 2005 |
|---|---|
| 2006 | 2,018 |
| 2007 | 17 |
| | $ 2,035 |

**10. Limited partnership units and capital contributions**

(a) Pursuant to the Partnership Agreement, and prior to August 8, 2005

(i) NPY is authorized to issue an unlimited number of units;

(ii) the general partner may raise capital from time to time by selling units of NPY and may determine the price and conditions of such issue;

(iii) each limited partner has the right, but not the obligation, to subscribe on a pro-rata basis to its current holdings in NPY for up to 50% of the units offered for sale by the General Partner; and

(iv) each unit, representing an undivided interest in the net assets of NPY, participates equally with other units and carries one vote.

(b) Pursuant to the Partnership Agreement and subsequent to August 8, 2005

(i) NPY is authorized to issue various classes and series of units, for such consideration and on such terms and conditions as may be determined by the General Partner. On Closing the issued and outstanding LP units were split on a 2.3276 to one basis and redesignated as 22,206,450 A2 LP units.

Each LP unit has economic rights that are equivalent in all material respects, except that:

(i) A2 LP units are exchangeable for units at the option of the holder on a one-for-one basis (subject to customary anti-dilution protections) at any time;

(ii) Class B LP units and Class C LP units are automatically exchanged into A2 LP units on a one-for-one basis following the applicable Class B Subordination and Class C Subordination end date;

(iii) distributions on the Class B LP units are subordinated to A1 and A2 LP units;

(iv) distributions on the Class C LP units are subordinated to A1, A2 and Class B LP units;

(v) LP units automatically become exchangeable into units of Newport upon the satisfaction of certain conditions and in certain circumstances;

(vi) each of the A2 LP units, Class B LP units and Class C LP units are accompanied by a Special Voting unit which entitles the holder thereof to receive notice of, to attend and to vote at all meetings of unitholders; and

(vii) on Closing, Newport granted the holders of A2 LP units the right to require Newport at any time to indirectly exchange each A2 LP unit for units of Newport on a one-for-one basis, subject to customary anti-dilution protections, pursuant to the Exchange Agreement.

Each limited partner is entitled to one vote for each unit held at all meetings of limited partners of NPY LP. In addition, the holders of LP units of each class or series of LP units are entitled to vote separately as a class upon any proposal to add to, remove or change the rights, privileges, restrictions or conditions attaching to such class or series of LP units or otherwise adversely affect such class or series of LP units.

(c) Issuance of units pursuant to the initial public offering of Newport

On July 28, 2005, a prospectus was filed for Newport for the issuance of 21,300,000 trust units. The Closing was completed on August 8, 2005. Subsequent to the Closing, the over-allotment option was exercised, and a further 1,350,000 trust units were issued for a total of 22,650,000 units. Newport has been created to hold an interest in NPY.

The proceeds of the Offering net of the underwriters' fee were $213,476. Newport used $213,412 of the Offering to indirectly capitalize NPY. NPY used the proceeds of the Offering, to pay the expenses of the Offering of $10,112, to pay a portion of the performance fee due on Closing to NICI to enable NICI to pay source deductions of $20,202 due on related employee bonuses, to pay GST of $2,928 on the performance fee, and to redeem 12,731,454 A2 LP units and 5,213,824 A3 LP Units for $127,315 and $52,138, respectively. Amounts received by employees were used to subscribe for 2,163,013 A2 LP units which were immediately exchangeable for A1 LP units.

(d) Issuance of new units as a result of the Roll-up Agreements and acquisitions concurrent with the Closing

(i) On Closing, NPY issued units to increase its investments in NPC, S&E and Jutan to 80% pursuant to the Roll-up Agreements and as detailed in note 4. NPY's investment in additional limited partnership units of S&E is subject to price adjustment. The A2 LP units and B3 LP units issued pursuant to the applicable Roll-up Agreement are being held in escrow, and will be released on a defined schedule over a 30-month period based upon the level of distributable cash earned by S&E after Closing.

(ii) On Closing, NPY issued units to acquire 80% of ESR, MWI and Capital C and 100% of NP LP pursuant to the acquisition agreements and as detailed in note 4. NPY also issued units to acquire 45% of Brompton as detailed in note 3.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

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## 11. Distributions and allocations to limited partners

The General Partner may, at its discretion, make distributions to limited partners in proportion to the number of partnership units held by them at the time of the distribution. Distributions of $0.125 per partnership unit were paid each month from April to September 2004. Effective October 2004, the distributions were paid at the rate of $0.1375 per partnership unit. Subsequent to the unit split and the Closing, monthly distributions were paid at $0.07708 per unit. On September 27, 2005, the Partnership announced an increase in its monthly distribution to $0.079167 per unit, effective for distributions payable on and after November 15, 2005.

The total distributions paid and payable during the year ended December 31, 2005 were $31,096 (2004 – $2,135).

Pursuant to the Partnership Agreement, all of the net income and realized capital gains (losses) of the Partnership are allocated to the limited partners.

## 12. Loss per unit

The following table sets forth the computation of basic and dilutive loss per unit:

| | Year ended December 31, 2005 | Period from February 27, 2004 (date of inception) to December 31, 2004 |
|---|---|---|
| Numerator: | | |
| Net loss | $ (34,619) | $ (1,275) |
| Denominator: | | |
| Weighted average number of units outstanding | | |
| Basic and diluted | 35,801,224 | 1,879,915 |
| Loss per unit: | | |
| Basic and diluted | $ (0.97) | $ (0.68) |

The effect of potentially dilutive 232,760 Class A units (pre-split 100,000) payable to On-Site Cash Inc. was excluded from the computations of basic losses per unit in the periods as their effect is anti-dilutive. The computation of fully diluted loss per share is anti-dilutive and is not shown here.

232,760 Class A units, payable to On-Site Cash Inc., have been placed in escrow, to be released in two years and 30 days from March 3, 2004, subject to On-Site meeting certain annual distributable cash flow targets, as defined in the purchase and sale agreement. The contingency has not been resolved at December 31, 2005.

## 13. Related party transactions

### Administration Agreement

On Closing, Newport, the Commercial Trust (through which Newport owns its investment in NPY) and the new General Partner entered into the Administration Agreement. Under the terms of the Administration

Agreement, the General Partner provides, for no additional consideration other than reimbursement by Newport and Commercial Trust of out-of-pocket expenses incurred by the General Partner, administrative and support services to Newport.

The Administration Agreement has an initial term of three years, and is renewable for additional one-year terms at the option of the parties thereto. The Administration Agreement may be terminated by any of the parties in the event of the insolvency or receivership of another party, or in the case of default by one of the other parties, in the performance of a material obligation of the Administration Agreement which is not remedied within 30 days after written notice thereof has been delivered. The Administration Agreement may also be terminated upon 30 days' written notice by Newport or the Commercial Trust to the General Partner.

The following describes the significant transactions completed during the period:

As of December 31, 2005, directors, officers and employees of the general partner and entities related to NPY hold an aggregate of 24,272,973 LP units and 2,736,072 trust units, which represents 41.7% of total issued and outstanding units on a fully diluted basis (2004 – 793,474, 12.1%).

Pursuant to the Partnership Agreement, NICI was entitled to a performance fee of 20% of the realized appreciation above 8% of the net assets of NPY. The Offering triggered realized appreciation for the limited partners in excess of 8% and as a result the performance fee was earned and payable. On Closing, NICI was paid a performance fee of $44,760, inclusive of GST, which its employees immediately reinvested back into NPY the full net of tax amount, approximately $21,600. On August 8, 2005 the Partnership Agreement was amended to eliminate all management, administrative and performance fees. NPY has recorded management and administrative fees of $1,201 (2004 – $1,843).

An amount of $464 due from a related party, International Supply Services Ltd., a 50% equity investment of NPC, is non-interest bearing, unsecured and has no fixed terms of repayment.

An employee loan was made by NPY to an executive of EZEE in the amount of $250. In accordance with the terms and condition of the loan, the loan was non-interest bearing and was used to purchase units in NPY.

Included in Other Assets are advances of $6,173 (2004 – NIL) made to the Operating Partnerships. Advances bear interest at bank prime, are unsecured and have no fixed terms of repayment. Interest income on the advances is $134.

**14. Financial instruments**

(a) Fair values of financial assets and liabilities

Financial instruments consist of current assets and current liabilities where their carrying values approximate their fair values due to the relatively short periods to maturity of the instruments. The fair values of long-term financial instruments do not differ significantly from their carrying amount.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

# NEWPORT PRIVATE YIELD LP

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(b) Interest rate risk

NPY's exposure to interest rate fluctuations is with respect to short-term and long-term financing which bears interest at floating rates.

(c) Significant customers and concentration of credit risk

Financial instruments that potentially subject NPY to concentrations of credit risk consist principally of accounts receivable. NPY believes that risks are moderated by the diversity of its end customers and the geographic sales area. NPY also considers concentrations of credit risk in establishing the reserves for bad debts and believes the recorded reserves are adequate.

Sales to three customers represents 36% of NPC's total sales for the year ended December 31, 2005 and 38% of the accounts receivable balance at December 31, 2005 is due from these customers.

Jutan has three customers which represent 80% (2004 four customers represent 76%) of the accounts receivable balance as at December 31, 2005. Three customers comprised 65% of sales (January 1, 2005 to December 31, 2005) (72% for the period September 28, 2004 to December 31, 2004).

Gemma has five customers which represent 81% of the accounts receivable as at December 31, 2005. Four customers comprised 76% of sales for the period April 1, 2005 to December 31, 2005.

Capital C has two customers which represent 44% of sales.

(d) Foreign exchange risk

Jutan is exposed to foreign currently fluctuations to the extent that a portion of sales and purchases are denominated by foreign currencies. Jutan uses financial instruments to hedge these risks.

**15. Convertible units**

On December 12, 2005 Newport issued $85,000 principal amount of 7.5% subordinated unsecured convertible debentures for net proceeds of $81,298 after issue and related costs. The debentures are convertible into units of Newport at the option of the holder at any time prior to maturity at a conversion price of $9.50 per unit. The debentures mature on December 31, 2010 at which time they are due and payable. After December 31, 2008, the debentures may be redeemed in whole or in part by Newport, at the amount outstanding plus accrued and unpaid interest thereon, except that for redemption on or prior to December 31, 2009 the current market price of the units must not be less than125% of the conversion price.

Newport, Commercial Trust and Holdings LP, the wholly owned subsidiary of NPY, entered into an agreement pursuant to which Holdings LP agreed to bear the costs that Newport would otherwise incur as a condition of Newport arranging for Commercial Trust to invest $85,000 in the Convertible Class B LP units of Holdings LP.

Holdings LP has only issued two series of units, Class A LP units, which are 100% owned by NPY, and the Class B LP units which are all owned by Commercial Trust. In the case of conversion of the convertible debentures of Newport into units of Newport, Commercial Trust will transfer the corresponding number of Class B LP units of Holdings LP to NPY for a corresponding number of NPY Class A1 LP units, and NPY will then exchange its Class B LP units of Holdings LP for a corresponding number of Class A LP units of Holdings LP.

(In thousands of dollars, except per unit amounts)

The convertible units have been classified as debt, net of the fair value of the conversion feature which has been classified as unitholders' equity. This resulted in $84,331 being classified as debt and $669 being classified as equity. Issue costs will be amortized over the term of the debentures, and the debt portion will accrete up to the principal balance at maturity. The accretion expense of $8 and amortization of issue costs of $35 are included in amortization of deferred financing charges in the consolidated statement of income. Interest expense during the period was $332.

| | | |
|---|---|---|
| Issued December 12, 2005 | $ | 85,000 |
| Portion allocated to equity | | (669) |
| Accretion of non-interest expense | | 8 |
| Balance December 31, 2005 | $ | 84,339 |

The proceeds from this issue were used to retire balances owing on the operating and acquisition bank facilities and the balance was added to cash reserves.

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

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**16. Interests in jointly controlled entities**

At December 31, 2005, NPY holds an 80% interest in S&E, NPC, Gemma, Jutan, Capital C, ESR, and Morrison Williams and a 50% interest in Kenna (2004 – 49.9% interest in EZEE, 25% interest in S&E and a 50% interest in NPC and 0% in Gemma, Capital C, ESR and Morrison Williams. Jutan was accounted for using the equity method in 2004). The consolidated financial statements include NPY's proportionate share of the revenue, expenses, assets and liabilities of these jointly controlled entities as follows:

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Current assets | $ 152,128 | $ 8,913 |
| Other assets | 464 | 153 |
| Property, plant and equipment | 14,826 | 3,795 |
| Long-term investments | 359 | 133 |
| Goodwill and intangibles | 64,874 | 21,111 |
| | $ 232,651 | $ 34,105 |
| Current liabilities | $ 107,889 | $ 11,242 |
| Long-term obligations | 5,142 | 1,477 |
| | $ 113,031 | $ 12,719 |

| | Year ended December 31, 2005 | Period ended December 31, 2004 |
|---|---|---|
| Revenues | $ 234,624 | $ 8,780 |
| Expenses | 216,326 | 9,592 |
| Net income | $ 18,298 | $ (812) |
| Cash provided by (used in): | | |
| Operating activities | 2,660 | (956) |
| Financing activities | 24,479 | 4,362 |
| Investing activities | (32,582) | (2,727) |

# NEWPORT PRIVATE YIELD LP

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

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**17. Changes in working capital**

Changes in non-cash working capital balances related to operations are as follows:

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Accounts receivable | $ (55,639) | $ 535 |
| Inventories | 4,245 | (115) |
| Prepaid expenses | 241 | 15 |
| Other current assets | (2,551) | 43 |
| Accounts payable and accrued liabilities | 19,791 | (122) |
| Deferred revenue | 2,605 | 142 |
| | $ (31,308) | $ (498) |

**18. Commitments and contingencies**

(a) NPY is committed to payments under operating leases for equipment and office premises through 2011 in the total amount of approximately $12,703 (2004 – $461). The minimum annual payments, exclusive of operating costs under these lease arrangements, are as follows:

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| 2006 | $ 3,249 | $ 85 |
| 2007 | 2,893 | 92 |
| 2008 | 2,298 | 81 |
| 2009 | 1,821 | 70 |
| 2010 | 1,668 | 68 |
| Thereafter | 774 | 65 |

(b) The acquisition of On-Site includes contingent consideration payable in the form of 232,760 Class A2 NPY partnership units.

(c) The various Acquisition Agreements provide that elections may be made under the Income Tax Act (Canada) to transfer the assets of the predecessor businesses to the various respective limited partnerships on a tax deferred basis. Accordingly, the tax cost to the Operating Partnership of the assets transferred where such elections are made may be less than the fair market value of such assets and, as such, some of the investee partnerships may realize a taxable gain on a future disposition of the assets.

(d) NPY and its Operating Partnerships are subject to claims and litigation proceedings arising in the normal course of operations. These contingencies are provided for when they are likely to occur and can be reasonably estimated. Management believes that the ultimate resolution of these matters will not have a material effect on NPY's consolidated financial statements.

(e) As at December 31, 2005 Jutan has outstanding forward foreign exchange contracts to buy U.S. dollars of $18,880 at various dates between January 2006 and August 2006. The exchange rates on forward foreign exchange contracts range from 1.1988 to 1.2320. Since August 8, 2005, NPY's share of realized and unrealized foreign exchange losses (gains) were $1,395 and ($61), respectively.

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(f) The acquisitions involved various corporate structuring steps to complete the transactions in a tax-effective manner. These transactions involved interpretations of the Income Tax Act (Canada) which could if interpreted differently, result in additional tax liabilities.

(g) Guarantees

  (i) NPC has guaranteed the bank facility of a 90% owned subsidiary, which has an overall credit limit of $180.

  (ii) NPC has guaranteed the outstanding operating line and corporate credit cards of a 45% owned joint venture to a maximum of $400.

(h) EZEE has been named as a defendant in a defamation claim and two counterclaim actions. Management is of the opinion that there is a strong defense against the defamation claim. Due to the present undeterminable outcome of the actions, management has not made a provision for any potential losses.

(i) EZEE had previously indicated that its customer contracts in Quebec may be subject to Article 2125 of the Civil Code of Quebec which provides Quebec businesses with the right to unilaterally cancel a service contract at any time upon notice. If customers had this right, future prospects and results of operations could have been adversely affected. During 2005 EZEE initiated legal action in the Province of Quebec against two of its clients, who had terminated long-term contracts before expiry of the term, for breach of contract. In December 2005, the Quebec Superior Court ruled in favour of EZEE in both these actions. EZEE's contracts were determined to be enforceable in accordance with their terms and not subject to any unilateral cancellation right by these customers prior to the expiry of their terms.

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**19. Segmented information**

NPY has four reportable operating segments, each of which has separate operational management and management reporting information. All of NPY's operations, assets and employees are located in Canada. The financial services segment incorporates investment management, institutional money management, wealth management, specialty insurance underwriting, and the servicing of ATMs. The marketing segment represents the investment in non-traditional marketing operations that acquires rights in media, publications and television, and an investment in an integrated direct marketing company with its primary focus on inbound and outbound teleservices and an investment in a fully integrated marketing services agency. The industrial services segment represents the investment in fully integrated providers of mid-stream production services to the energy industry. The distribution segment represents investment in the operations of the import and distribution of electronic and household products. The accounting polices of the segments are the same as those described in the summary of significant accounting polices in note one. NPY evaluates the performance of its operating segments based on earnings.

| Year ended December 31, 2005 | Financial Services | Marketing | Industrial Services | Distribution | Total |
|---|---|---|---|---|---|
| Revenues | $ 33,676 | $ 33,001 | $ 74,495 | $ 116,382 | $ 257,554 |
| Cost of revenues | 16,886 | 19,786 | 62,549 | 99,225 | 198,446 |
| | 16,790 | 13,215 | 11,946 | 17,157 | 59,108 |
| Expenses | | | | | |
| Selling, general and administrative | 8,587 | 7,554 | 5,555 | 9,874 | 31,570 |
| Amortization of deferred financing charges | 123 | - | - | - | 123 |
| Amortization of intangible assets | 7,308 | 2,899 | 1,198 | 1,797 | 13,202 |
| Depreciation | 312 | 707 | 1,545 | 140 | 2,704 |
| | 16,330 | 11,160 | 8,298 | 11,811 | 47,599 |
| Income before the undernoted | 460 | 2,055 | 3,648 | 5,346 | 11,509 |
| Performance fee | 44,760 | - | - | - | 44,760 |
| Income (loss) from equity investment | 1,844 | - | - | (1,434) | 410 |
| Interest expense | 438 | 40 | 1,056 | 390 | 1,924 |
| Other income | 146 | - | - | - | 146 |
| Partnership income (loss) | $ (42,748) | $ 2,015 | $ 2,592 | $ 3,522 | $ (34,619) |
| Goodwill acquired | 129,206 | 18,623 | 7,707 | 43,082 | 198,618 |
| Expenditures for property, plant and equipment | 687 | 861 | 1,890 | 132 | 3,570 |
| Total assets | 353,413 | 79,695 | 74,559 | 155,782 | 663,449 |
| Total goodwill | 134,316 | 19,120 | 9,555 | 43,082 | 206,073 |

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Year ended December 31, 2005 and the period from February 27, 2004 (date of inception) to December 31, 2004

| Period ended December 31, 2004 | Financial Services | Marketing | Industrial Services | Distribution | Total |
|---|---|---|---|---|---|
| Revenues | $ 6,813 | $ 334 | $ 2,912 | $ - | $ 10,059 |
| Cost of revenues | 4,495 | 230 | 2,684 | - | 7,409 |
| | 2,318 | 104 | 228 | - | 2,650 |
| Expenses | | | | | |
| Selling, general and administrative | 1,457 | 41 | 245 | - | 1,743 |
| Amortization of intangible assets | 1,436 | 47 | 67 | - | 1,550 |
| Depreciation | 165 | 1 | 110 | - | 276 |
| | 3,058 | 89 | 422 | - | 3,569 |
| Income (loss) before the undernoted | (740) | 15 | (194) | - | (919) |
| Income(loss) from equity investment | - | - | - | (103) | (103) |
| Interest expense | 224 | - | 29 | - | 253 |
| Partnership income (loss) | $ (964) | $ 15 | $ (223) | $ (103) | $ (1,275) |
| Goodwill acquired | 5,147 | 595 | 1,713 | - | 7,455 |
| Expenditures for property, plant and equipment | 229 | 1 | 79 | - | 309 |
| Total assets | 11,681 | 2,719 | 23,338 | 10,187 | 47,925 |
| Total goodwill | 4,623 | 959 | 1,873 | - | 7,455 |

**20. Subsequent Events**

On January 17, 2006 NPC indirectly acquired 40% of the common shares of Waydex Services Inc. for approximately $2,000.

On March 16, 2006 Newport acquired an 80% interest in Murray Demolition LP ("Murray Demolition"). for total consideration of $30,500, comprising cash and units in Newport. Newport drew on its credit facility to finance the cash portion of this transaction. Murray Demolition is a leading provider of demolition, abatement and remediation contract services in Canada.