



## **Newport Partners Income Fund**

**ANNUAL INFORMATION FORM**  
(for the year ended December 31, 2007)

**March 26, 2008**

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## Caution Regarding Forward-Looking Information and Non-GAAP Measures

### Forward-Looking Information

Certain information included in this Annual Information Form may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management’s future outlook and anticipated events or results and may include statements or information regarding the future plans or prospects of the Fund or the Operating Partnerships and reflects management’s expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Fund and the Operating Partnerships. Without limitation, information regarding the future operating results and economic performance of the Fund and the Operating Partnerships constitutes forward-looking information. Such forward-looking information reflects management’s current beliefs and is based on information currently available to management of the Fund and the Operating Partnerships.

Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including risks related to investments, conditions of capital markets, economic conditions, taxation of income trusts, dependence on key personnel, limited customer bases, interest rates, regulatory change, continued availability of credit facilities, availability of future financing, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. In addition, in evaluating this information, investors should specifically consider various factors, including the risks outlined under “Risk Factors”, which may cause actual events or results to differ materially from any forward-looking statement.

In formulating forward-looking information herein, management has assumed that business and economic conditions affecting the Fund and the Operating Partnerships will continue substantially in the ordinary course, including without limitation with respect to general levels of economic activity, regulations, taxes, interest rates, that there will be no material changes in its credit arrangements. Although the forward-looking information is based on what management of the Fund and the Operating Partnerships consider to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management’s assumptions may prove to be incorrect. This forward-looking information is made as of the date of this Annual Information Form, and the Fund does not assume any obligation to update or revise them to reflect new events or circumstances. Undue reliance should not be placed on forward looking information.

Except as otherwise noted, the information contained herein is given as of March 25, 2008.

References in this Annual Information Form to the “Fund”, “we”, “us”, “our” or similar terms refers to Newport Partners Income Fund and references to “NPY” refers to Newport Private Yield LP, the private fund which preceded the creation of Newport Partners Income Fund.

Capitalized terms not otherwise defined in this Annual Information Form have the meanings set forth in Appendix B - Glossary of Terms.

### Non-GAAP Measures

The terms “EBITDA”, “LTM EBITDA”, “Net Debt/LTM EBITDA”, “Distributable Cash”, “Invested Capital” (collectively the “Non-GAAP Measures”) are financial measures used in this Annual Information Form that are not standard measures under Canadian generally accepted accounting principles. The Fund’s method of calculating Non-GAAP Measures may differ from the methods used by other issuers. Therefore, the Fund’s Non-GAAP Measures, as presented in this Annual Information Form, may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings determined in accordance with GAAP, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and the Trustees as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDA to monitor the performance of the Fund’s reportable segments. As the Fund intends to distribute a substantial

portion of its available cash on an on-going basis (after deducting certain amounts from EBITDA as described in the Funds Management Discussion and Analysis, dated March 26, 2008 ("MD&A"), including interest expense, income taxes, capital expenditures and debt service), management believes that in addition to net income or loss and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. The Fund has provided a reconciliation of income to EBITDA in its MD&A.

LTM EBITDA refers to EBITDA after giving effect to the contribution of all new investments made in the year and still in the portfolio as at the end of the year, as if each investment had been owned by the Fund for the full twelve month period since January 1st. LTM EBITDA is a measure that management believes may be useful to investors as it facilitates the analysis of the Fund's financial performance over a full business cycle.

Net debt/LTM EBITDA refers to total senior debt plus capital lease obligations less the Fund's consolidated cash balance divided by LTM EBITDA plus priority income. Management uses this measure to monitor its future debt capacity. Investors may find this information useful in analyzing the capital structure of the Fund and its future debt capacity.

Distributable Cash or Adjusted Distribution Base is not a standard measure under GAAP and is generally used by Canadian income funds as an indicator of financial performance. The Fund's method of calculating distributable cash may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities. The Fund has provided a reconciliation of cash provided by operations to distributable cash in its MD&A and is calculated as standardized distributable cash adjusted for changes in working capital, growth capital expenditure and priority income amounts. References to distributable cash are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund. As the Fund intends to make monthly cash distributions and management believes it is therefore a useful financial measure as an indication of the Fund's ability to make such distributions and is used by management and the Trustees for this purpose. Distributable cash is also used by management in the calculation of overall yield which it uses to monitor the performance of the Fund's Operating Partnerships. One of the factors that may be considered relevant by prospective investors is the cash distributions by the Fund relative to distributable cash and the price of the Units. Management believes that distributable cash is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund.

Invested Capital refers to the cost to acquire an equity interest in an Operating Partnership and excludes transaction costs and any working capital provided to such Operating Partnership. Management uses this measure to monitor the performance of its investment strategy and as an input to the calculation of its targeted overall yield for an Operating Partnership. Management believes that invested capital is a useful supplemental measure that provides investors with useful information about the capital that the Fund deploys for each Operating Partnership which can subsequently be used to determine the performance of each Operating Partnership.

Investors are cautioned that the Non-GAAP Measures are not alternatives to measures under GAAP and should not, on their own, be construed as an indicator of the Fund's performance or cash flows, a measure of liquidity or as a measure of actual return on the Units. These Non-GAAP Measures should only be used in conjunction with the financial statements of the Fund's business as at and for the period ended December 31, 2007.

Throughout this Annual Information Form, the relationship between the Fund and the Operating Partnerships is described as an "operating partnership" or that the parties are "partners" or are "partnering". "Partnership", "partners" and "partnering" used in this context does not mean a legal partnership between the parties. Rather, these terms serve to encapsulate the principles around which the Fund makes its decisions with respect to a particular Operating Partnership and the common values and approach taken by both the Fund and the entrepreneurs that manage the Operating Partnership to manage and grow the business of the Operating Partnership.

## **1. Corporate Structure**

### **1.1 Name, Address and Incorporation**

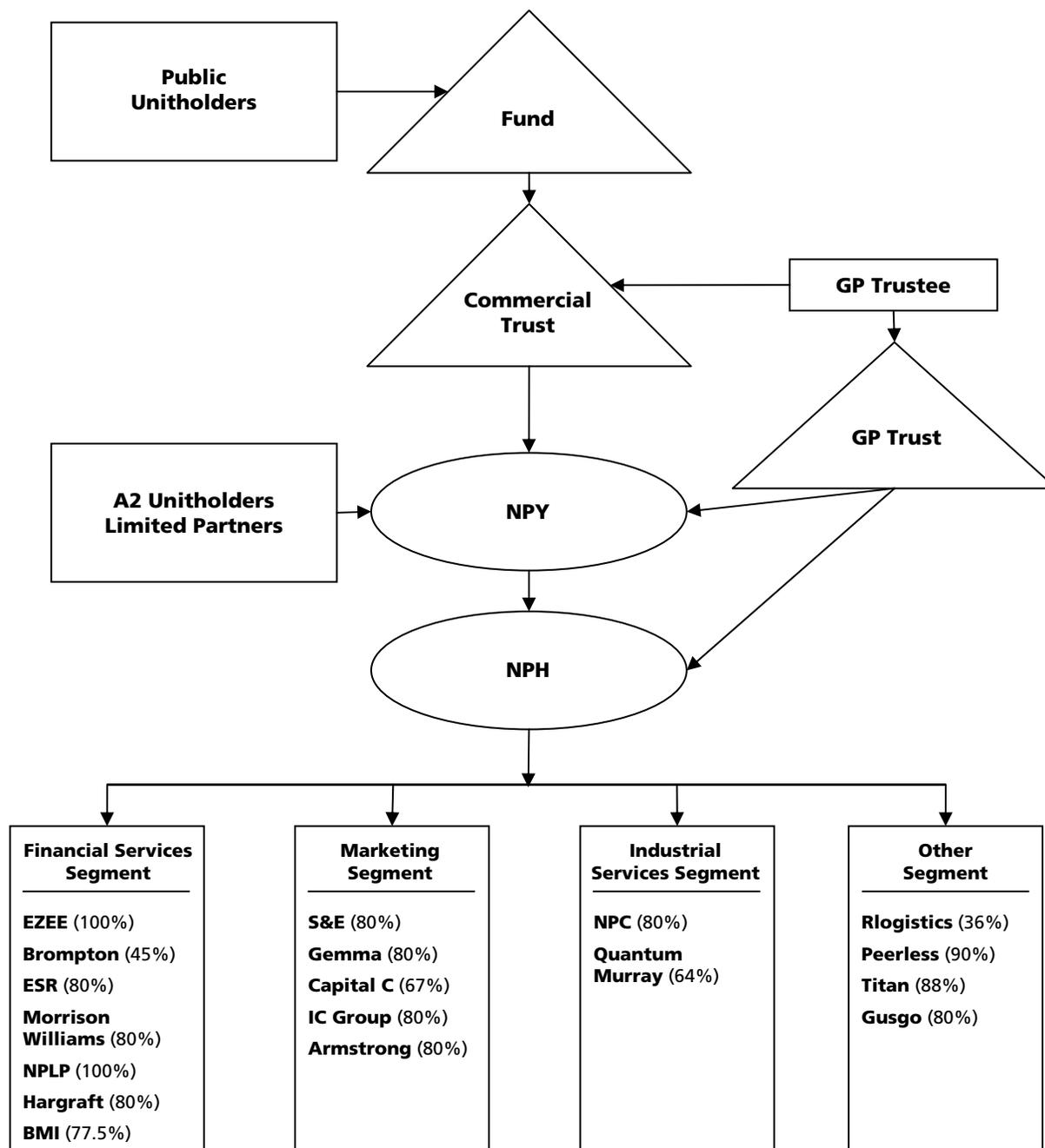
Newport Partners Income Fund (the "**Fund**") is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated May 13, 2005, as amended and restated on June 22, 2005, and on August 8, 2005, and as further amended by an amending agreement dated March 21, 2007 (the "**Declaration of Trust**"). The head office of the Fund is located at 469 King Street West, 4th Floor, Toronto, Ontario M5V 1K4.

### **1.2 Intercorporate Relationships**

The Fund holds all of the outstanding units (the "**CT Units**") and notes (the "**CT Notes**") of Newport Partners Commercial Trust (the "**Commercial Trust**") and indirectly holds all of the A1 LP Units of Newport Private Yield LP ("**NPY**") (approximately 58% of the outstanding LP Units), and 100% of the shares of Newport Partners GP Inc. ("**GP Trustee**") which is the sole trustee of NPY GP Trust ("**GP Trust**"), the general partner of NPY. NPY indirectly holds interests ranging from 36% to 100% in the Operating Partnerships.

The simplified structure of the Fund follows on the next page.

The simplified structure of the Fund is as follows. This chart has been updated to reflect all changes as of the date of this Annual Information Form.



Each of the Fund, the Commercial Trust, NPY, Newport Partners Holdings LP ("**NPH**"), GP Trust, GP Trustee and the Operating Partnerships, other than Brompton, NPC, and Titan, have been established under the laws of the Province of Ontario.

Brompton was established under the laws of the Province of Manitoba. NPC and Titan have been established under the laws of the Province of Alberta.

## 2. General Development of the Business

### 2.1 History

Newport Partners is an asset manager with a specific focus on making investments in private businesses led by successful entrepreneurs. In December 2000, several of the Newport Partners Principals established Newport Partners Inc., a predecessor to Newport Partners LP (“NPLP”), to provide personal and corporate wealth management services and advice to a client base focused on entrepreneurs. In late 2002, management concluded that the investment returns of their clients could be enhanced by partnering with private companies and therefore decided to create NPY. As a result, the Newport Partners Principals approached personal and corporate clients, many of whom were entrepreneurs, to assess their interest in this partnering approach. As a result of this interest, NPY was formed on February 27, 2004 and prior to the initial public offering of the Fund on August 8, 2005 raised over \$100 million from accredited investors to fund investments in private companies.

NPY formed its first Operating Partnership in March 2004 and made investments in this and ten additional Operating Partnerships between then and its initial public offering. Since the Fund’s initial public offering, nine new Operating Partnerships have been formed, numerous investments have been made directly by the Operating Partnerships and the Fund has sold one investment, RGC LP.

As of December 31, 2007, the Fund has ownership interests in 18 Operating Partnerships that operate in four reportable segments: financial services, marketing, industrial services, and other. The Fund forms these partnerships by acquiring an ownership interest in the entrepreneur’s business with the entrepreneur typically retaining a significant equity interest.

The following table identifies the 18 Operating Partnerships, the business of each Operating Partnership, the Fund’s current invested capital and ownership interest, and the date of the Fund’s initial investment. The table is current as of the date of this report.

Operating Partner	Business	Ownership Interest	Date of Initial Investment	Invested Capital (000s)
<b>Financial Services</b>				
EZEE	ATM Operator	100%	Mar. 2004	46,200
Brompton	Fund Management	45%	Aug. 2005	27,200
ESR	Insurance Brokerage	80%	Aug. 2005	56,000
Morrison Williams	Asset Management	80%	Aug. 2005	42,000
NPLP	Asset Management	100%	Aug. 2005	20,700
Hargraft	Insurance Brokerage	80%	Apr. 2006	17,800
BMI	Insurance Brokerage	78%	Apr. 2007	18,200
<b>Marketing</b>				
S & E	Advertising/Marketing	80%	Oct. 2004	5,700
Gemma	Contact Centre Operator	80%	Mar. 2005	28,000
Capital C	Marketing/Promotions	67%	Aug. 2005	23,700
IC Group	Marketing/Promotions	80%	July 2006	11,300
Armstrong	Marketing/Promotions	80%	Oct. 2006	20,000
<b>Industrial Services</b>				
NPC	Oil & Gas Services	80%	Oct. 2004	113,100
Quantum Murray	Demolition and Remediation	64%	Mar. 2006	77,900
<b>Other</b>				
Rlogistics	Electronic Wholesaler	36%	May 2006	10,000
Peerless	Garment Manufacturer	90%	June 2006	36,000
Titan	Manufacturing/Distribution	88%	Sept. 2006	25,200
Gusgo	Container Transportation	80%	Oct. 2006	12,500

The operations of the Fund’s Operating Partnership’s are discussed in further detail beginning on page 8 of this Annual Information Form along with the risks associated with these businesses beginning on page 32 of this Annual Information Form.

## **2.2 Vision and Core Business**

Investing in private businesses has the potential to deliver superior returns. However, the considerable challenges of finding and financing private investments prevent many investors from participating. These businesses are generally hard to access as stand alone investments, have few external shareholders, require large minimum investment amounts and are generally illiquid. It is also time consuming and costly to conduct proper due diligence.

The Fund was set up to provide investors with a simple 'turnkey' way to participate in the profits and growth of successful Canadian private businesses through a professionally managed, well-diversified and publicly-traded, portfolio.

Our investment philosophy is simple: We invest in successful businesses, run by proven entrepreneurs, at reasonable prices. We have two objectives for the investments we make: to generate income for the Fund through the distribution of their profits and to grow in value over the long-term.

The Fund draws on the management expertise of Newport Partners to make its private investments. Newport Partners provides capital, money management and financial advice to successful entrepreneurs through its entities including the Fund, NPLP and its subsidiaries. Established in 2001 by a group of entrepreneurs and senior financial executives, today Newport Partners has more than 600 clients for whom it manages assets, many of whom are entrepreneurs.

Newport Partners' vision is to become the capital partner and money manager of choice for Canada's successful entrepreneurs.

The Fund has a significant role in realizing this vision. Through its investment activities, the Fund provides entrepreneurs with the trusted source of capital that they need to continue building their successful businesses. For unitholders, the Fund enables individual investors to share in the achievements of these wealth creators.

## **2.3 Business Strategy**

To fulfill its role, the Fund's business strategy is focused on:

- Generating a steady flow of potential investment opportunities by tapping into Newport Partners' large, national network of contacts and relationships with successful entrepreneurs. This is a proprietary advantage Newport Partners has cultivated through its business focus on successful entrepreneurs.
- Offering a unique value proposition for proven entrepreneurs with successful private businesses such as: access to growth capital; strategic support; operational autonomy; liquidity; and diversity of personal wealth. Newport Partners' reputation as a good and supportive equity partner is also an important advantage in appealing to and earning the right to partner with the best candidates. Together, these factors allow the Fund to attract entrepreneurs who are interested in growing their businesses and enables the Fund to invest at reasonable valuations.

## **2.4 Investment strategy**

The Fund's investment strategy is based on:

- Investing in well established businesses with leading or niche positions in their respective industries, histories of profitability, growth plans and talented management teams that we know and trust. We also have a preference for businesses with low maintenance capital expenditure requirements.
- Investing a significant equity interest (typically 50–80%) and allowing management to retain an interest in the business. This helps to align management's interests with ours.
- Providing capital and strategic advice to support the growth and performance of the businesses. Day-to-day operations are capably handled by the management teams who run the businesses.
- Investing for income. The Fund seeks to invest in businesses that can distribute most of their surplus cash to unitholders and can grow organically without significant capital. With each investment we make, we expect to receive cash flow from our share of the annual profits of the business, equaling 16–20% of our invested capital. We believe this income-oriented approach reduces risk and enhances return.

- Investing for growth. As the underlying businesses grow organically, they increase in value. Some companies in the portfolio are able to accelerate this growth through acquisition – using capital from the Fund, they become consolidators in their industries to become more dominant in their markets and boost the value of our investment in them.
- Managing risk through diversification and prudent use of leverage. The Fund acts as the ‘banker’ to its holdings not just for growth capital but working capital as well. At December 31, 2007, the Fund had a net debt to LTM EBITDA ratio of 2.4 times that includes about \$93.4 million of working capital provided to the 18 operating partners. We believe this is a reasonable amount of leverage across a diversified portfolio of businesses that helps to enhance investment returns.

## 2.5 Financial Strategy

The Fund’s financial strategy is based on:

- Ensuring the Fund has access to diverse and cost-effective sources of capital with which to finance its operations and its investment program.
- Minimizing the corporate costs of the Fund.

## 2.6 Significant Divestiture

On March 27, 2007, a definitive agreement was signed whereby the Fund would sell the assets of RGC for an aggregate net consideration of \$34 million. The transaction closed on April 30, 2007. Included in the aggregate net consideration was a holdback in the amount of \$4 million the release of which was tied to achieving a target tangible net asset level and the collection of accounts receivable and net realizations of inventory of the business sold. At the time of the transaction, and because of the uncertainty regarding the release of the holdback, the Fund recorded \$24 million as its share of proceeds. The conditions to release this holdback were not met, and as part of the final settlement of the transaction, the aggregate net consideration was reduced to \$27.9 million, resulting in final proceeds to the Fund of \$23.5 million. RGC’s 45% equity investment in Rlogistics, completed in May 2006, was not sold as part of this transaction and the Fund continues to hold a 36% equity interest in Rlogistics.

## 3. Description of the Business

The Fund has continuing ownership interests in 18 Operating Partnerships. These partnerships operate in four reportable segments: financial services, marketing, industrial services, and other. The following is a description of the business of each Operating Partnership organized by business segment.

### 3.1 Description of Operating Partnerships by Business Segment of the Fund

#### Financial Services

##### 1. EZEE ATM LP (“EZEE”)

###### Business Overview

EZEE (in this Annual Information Form, references to the business of EZEE also includes references to the businesses of On-Site LP, Systemes Domotec (Dollar Monnaie Technologie) Inc. (“**Systemes Domotec**”) and 9111-5808 Quebec Inc. (o/a les Guichet STR)(“**STR**”)) is a full-service provider of automated teller machines (“**ATM**”) and provides a full range of ATM management services, from ATM deployment and maintenance to transaction processing, reporting and settlement. Since its inception in 2000, EZEE’s ATM business has grown organically and through acquisitions. EZEE’s management believes it operates the second largest network of non-financial institution ATMs in Canada. Management believes that non-financial ATMs represent approximately 60% of the 51,000 ATMs in the Canadian market for ATMs and that EZEE has approximately 13% of the non-financial ATM market share.

On January 12, 2007, EZEE purchased 100% of the ATM assets of TRM (Canada) Corporation, including approximately 1,500 ATMs. On April 30, 2007, EZEE purchased 100% of the ATM assets of Systems Electroinique Technoda Inc., including approximately 200 ATMs. Additionally, on December 19, 2007, EZEE purchased 100% of the shares of STR, which operated approximately 150 ATMs. Following these acquisitions, EZEE now operates approximately 4,400 ATMs with considerable geographic diversification. EZEE has ATMs located in every province in Canada with approximately 40% of EZEE’s ATMs located in Quebec and approximately 32% located in Ontario.

EZEE is headquartered in Toronto and has 45 employees, primarily located in Toronto and Montreal.

EZEE has been in the portfolio since March, 2004.

### Customers

EZEE contracts with retailers including convenience stores, restaurants, bars, supermarkets and gas stations to place ATMs on their premises. Locations in busy areas with potential for high turnover of end-users are targeted. Contracts with customers typically have an initial term of five years. Following the completion of the acquisitions in 2007, EZEE has one customer which represents approximately 13% of EZEE's gross revenue and 6% of EZEE's net revenue per annum.

### Suppliers

EZEE contracts with market-leading providers of telecom services, on-site ATM technical services and transaction processing/*Interac*<sup>®</sup> gateway services (switching).

### Services

While not all independent ATM service providers offer full customer service, EZEE believes that it provides the industry's most complete customer service package.

EZEE earns revenue from both transaction fees paid by users of its ATMs (which include interchange fees and surcharge revenues) and on the sale of ATMs to its customers. EZEE typically signs renewable five-year agreements with its customers for their ATM transaction processing and maintenance services.

To accommodate the needs of and to service a broad range of customers, EZEE provides its services using one of three service models:

- merchant load ATM – Merchant owns the ATM and loads the cash;
- placement ATM – EZEE owns the ATM and the merchant loads the cash; and
- vault-cash ATM – EZEE owns the ATM and EZEE loads the cash.

### Industry Trends

*Interac*<sup>®</sup> is the organization responsible for the development and operation of a national network of two shared electronic financial networks: ATMs and *Interac*<sup>®</sup> direct payment ("**Debit**").

In November 1996, the Federal Competition Bureau issued a consent order designed to increase competition in the market for electronic payment services. The consent order resulted in *Interac*<sup>®</sup> allowing non-financial organizations to participate as members of *Interac*<sup>®</sup>, and permitted surcharging at ATMs and Debit terminals in Canada. Surcharging allows the owner of an ATM or a Debit terminal to charge a fee on each transaction. These changes have enabled EZEE to enter the marketplace and to successfully grow its business.

From 1997 to 2005, the number of ATMs in Canada more than doubled to approximately 50,000. EZEE believes that ATMs that are not located on financial institution premises, nor deployed by financial institution operators, have accounted for the majority of this growth.

EZEE management believes that the ATM industry is maturing and opportunities for future growth lie more in efficient consolidation than in organic growth.

### Competition

EZEE faces competition from numerous small operators and a few large operators in the deployment of new ATM machines and the retention of existing customers. Some of the larger operators in the ATM industry, including EZEE, share the view that consolidation is the most efficient method of growth and therefore compete directly with EZEE for acquisitions. During 2007, EZEE competed for each of the 3 acquisitions it completed. EZEE management believes that it has a competitive advantage because of its history of closing and integrating acquisitions, its reputation as a credible operator, its level of customer service, its purchasing power and its ability to access capital.

EZEE also faces competition from the financial institution sector.

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<sup>®</sup> Trademark of Interac Inc.

## **2. Brompton Funds LP ("Brompton")**

### Business Overview

On February 26, 2008, NPH entered into an Acquisition Agreement with Duntroon Energy Ltd. (formerly Cymat Corp.) ("**Duntroon**") pursuant to which NPH will exchange all of its 45% equity interest in Brompton for a 41.7% equity interest in Duntroon. Immediately following the transaction, Duntroon will change its name to Brompton Corp. and will carry on business on substantially the same basis as currently carried on by Brompton with the same management team, directors and independent review committee. The Fund does not anticipate any material negative impact on its share of earnings and distributions received from Brompton as a result of this transaction.

Duntroon is an Ontario corporation which completed a plan of arrangement on August 4, 2006 following which its common shares were delisted from the Toronto Stock Exchange and the business previously carried on by the Company was transferred to an independent company, Cymat Technologies Ltd. Duntroon currently does not carry on any active business and has tax losses which may be available to shelter future income of Duntroon from tax. The transaction is expected to provide a tax-efficient platform for the possible expansion of Brompton's business.

Concurrent with the acquisition from NPH, Duntroon entered into an acquisition agreement with Brompton Group Limited ("**BGL**") to purchase of the balance of the issued units of Brompton on similar terms.

NPH's obligation to complete the sale is conditional upon, among other things, the shareholders of Duntroon approving the acquisition and related matters, the concurrent closing of the BGL acquisition by Duntroon, the consent of NPH's lending syndicate, the receipt of regulatory approvals and additional conditions typical for a transaction of this nature.

Details of the transaction are described in Duntroon's Information Circular and Proxy Statement dated February 26, 2008 and available at [www.sedar.com](http://www.sedar.com).

Brompton provides management and trustee services to 23 closed-end investment funds (all of which trade on the Toronto Stock Exchange ("**TSX**")), 6 underlying funds and 1 flow-through limited partnership (collectively, the "**Brompton Funds**") with total net assets of approximately \$2.3 billion as at December 31, 2007.

Brompton's investment fund management business operates primarily in the Canadian retail structured product market. The business consists of the structuring, marketing and management of publicly traded closed-end investment funds (formed either as trusts, corporations or flow-through limited partnerships) whose securities are distributed primarily to Canadian retail investors. These funds use the proceeds from public offerings to invest in a broad selection of marketable securities including diversified portfolios of units of income trusts, shares of public corporations, debt instruments and options. These funds are designed to provide retail investors with low-cost access to diversified portfolios of marketable securities. The funds are structured to provide investors with regular cash distributions and/or the opportunity for long-term capital appreciation. In many cases, leverage is used to enhance the level of returns.

Brompton is based in Toronto and has approximately 24 employees.

Brompton has been in the portfolio since August, 2005.

### Products and Services

Brompton manages the Brompton Funds and generally receives a fee based on the net assets under management. Of the 23 public funds managed by Brompton, thirteen focus on investing in income trusts, seven focus on investing in equity securities and three focus on investing primarily in investment grade debt instruments. For eight of the Brompton Funds, Brompton has engaged an external portfolio manager to manage the fund's investment portfolio. Brompton also provides all other fund management and administration services for some of the funds. Eleven of the Brompton Funds have indefinite terms and nine of the Brompton Funds have fixed terms which range from May 2011 to November 2026.

### Industry Overview and Trends

As noted above, Brompton's investment fund management business operates primarily in the Canadian retail structured product market. This market consists of the structuring, marketing and management of publicly traded closed-end investment funds (formed either as trusts or corporations) whose securities are distributed primarily to Canadian retail investors. These funds use the proceeds from public offerings to invest

in a broad selection of marketable securities including diversified portfolios of units of income trusts, shares of public corporations, debt instruments and options. These funds are designed to provide retail investors with low-cost access to diversified portfolios of marketable securities which would otherwise not be readily available to them. The funds are structured to provide investors with regular cash distributions and in many cases, leverage is used to increase the level of distributions.

### Competition

The business of managing structured products in Canada is highly competitive and includes independent entities as well as affiliates of major Canadian financial services corporations such as banks and mutual fund managers. Many of these competitors may have greater financial, technical, distribution and other resources than Brompton. Based on publicly available information, Brompton believes it is among the largest independent managers of closed-end investment trusts. Brompton believes it has a competitive advantage because of its significant experience in the marketplace and its strong relationships with major investment dealers.

### **3. Elliott Special Risks LP ("ESR")**

#### Business Overview

ESR is a specialty managing general agent ("**MGA**") and is one of Canada's leading independent underwriters of commercial liability insurance. ESR and its predecessor companies have been in business since 1966. MGA's represent a hybrid form of insurance broker because insurers permit MGA's to make underwriting decisions on such insurers' behalf and determine the risk of underwriting a particular policy. In essence, MGA's represent an extension of the insurer's underwriting function. Nevertheless, ESR does not assume any liability for claims, expenses or payments if an insured incurs a loss; that liability remains the responsibility of the insurer that underwrites the policy.

ESR has 75 employees located in Montreal and Toronto and has a 50% interest in All Sport Insurance Marketing Ltd. ("**All Sport**"), a Vancouver-based MGA, specializing in sport and recreation risk.

ESR has been in the portfolio since August, 2005.

#### Products and Services

ESR operates as a registered insurance broker with its revenues primarily derived from commissions earned from placing clients' insurance coverage with insurance and reinsurance companies. In addition, ESR also earns profit commission revenues from insurers based on the actual claims or loss experience of insurance written with each insurer.

ESR is registered as an insurance broker and is qualified to carry on business in every province and territory of Canada where MGA's are required to be licensed.

ESR primarily underwrites commercial general liability insurance on behalf of insurers. ESR focuses on insurance coverage in the umbrella and excess liability area, which currently represents approximately 50% of ESR's revenues.

ESR also underwrites "hard-to-place" general liability, environmental, errors and omissions, property and inland marine insurance. ESR believes it is the leading independent market in Canada for many of its product lines.

ESR recently introduced a Directors and Officers Liability (D&O) program and will shortly introduce new programs for Abuse Liability and for Pharmaceutical liability.

#### Customers

Insurers in Canada generally distribute their policies to individuals and corporations through independent insurance brokers and insurance agents. Some insurers also distribute specific policy types directly. While insurance agents represent or are employed by one insurer, independent insurance brokers represent a number of insurers and are able to offer their clients insurance policies from a variety of insurers.

ESR produces and underwrites insurance business on behalf of insurers for distribution through approximately 2,200 independent insurance brokers and insurance agents across Canada. No individual broker generates more than 25% of ESR's income.

## Suppliers

ESR underwrites special risks insurance on behalf of 12 leading insurance companies including Aviva Canada, Temple Insurance Company (a subsidiary of Munich Reinsurance Canada) and Lloyd's of London. ESR's top 3 insurers represent 72.5% of total premium volume.

## Industry Trends

The role played by MGA's is sensitive to external changes that impact the insurance industry. For example, insurance premiums increased significantly subsequent to the September 2001 terrorist attacks.

In 2005, insurers sustained record losses following hurricanes Katrina, Rita and Wilma. Although 2005 made insurers much more sensitive to weather-related risks, 2006 turned out to be a below-average year for weather catastrophes and much more profitable for insurers than the preceding year. ESR was not directly impacted by these weather-related conditions during the period as it is not a property insurer.

The insurance industry has undergone a substantial restructuring in recent years, including a significant consolidation of insurers. Because of industry consolidation, brokers have fewer standard market alternatives for commercial lines of business. Management believes that over time man-made and weather-related catastrophes and industry consolidation will result in more opportunities for specialty brokers such as ESR.

Insurance products are price-sensitive. Since 2005, insurers have recorded exceptionally profitable years resulting from strong underwriting results and investment gains. As a result, insurers are more willing to compete on price in order to retain existing business and attract new business. Accordingly, ESR has experienced negative premium volume growth and observes that premiums for commercial insurance will be flat or reducing in the short term until insurers start to experience deteriorating underwriting profit.

## Competition

The Canadian insurance industry is comprised of approximately 6,000 property and casualty insurance brokerages. ESR faces competition from large multi-national commercial insurance companies which may decide to maintain their own direct underwriting function and distribute insurance directly to brokers. ESR also faces competition from about 10 other MGA's that offer similar products. However, because of ESR's business strengths, ESR management believes that its market niche is secure.

## Specialised Skills and Knowledge

Insurance underwriting requires a high level of skill, expertise and discipline. ESR believes it has one of the best commercial lines underwriting team in Canada, as supported by its consistent level of contingent profit commissions earned over a prolonged period.

## Seasonality

Volume commissions are earned throughout the year and are not seasonal in nature.

Contingent profit commissions are typically computed and received in the first and second quarter following the year in which they were earned. An estimate for contingent profit commission is accrued during the year in which it is earned. As premium volumes decline or as underwriting results decline through the underwriting cycle, profit commissions are likely to decline.

## Changes to contracts

Many of ESR's contracts with insurers are renegotiated annually or alternatively may be cancelled or amended on 90 days written notice by either party. ESR is not aware of any unusual or adverse contract changes that may affect them in the coming financial year.

## **4. Morrison Williams Investment Management LP ("Morrison Williams")**

### Business Overview

Morrison Williams is an institutional money manager with over \$4.3 billion of funds under management as at December 31, 2007. Founded in 1992, Morrison Williams invests primarily on behalf of pension funds and mutual funds. It also invests on behalf of institutional clients and a number of high net-worth individuals. Morrison Williams' investment philosophy has generated results for its clients that Morrison Williams believes have exceeded its clients' benchmarks over the short-, medium- and long-term.

Morrison Williams' head office is in Toronto and has 13 employees and 2 consultants.

Morrison Williams has been in the portfolio since August, 2005.

### Services

Morrison Williams provides asset management services for clients on a segregated and pooled basis with mandates including fixed income, balanced, Canadian equities, and royalty and income trusts. It generally charges its clients a fee on total assets under management depending upon mandate size.

Morrison Williams takes a targeted approach to investing for each of its various asset classes. Its approach to fixed income is to select securities which have a minimum amount of credit risk, with an emphasis on quality and liquidity. Based on Morrison Williams' views on interest rate movements, the duration of its investments is adjusted to take advantage of market trends. From time to time, Morrison Williams will add unique fixed income securities to its portfolios to add yield. Morrison Williams' equities investment strategy is to take a "top-down" approach that considers the impact of worldwide economic forces and events and that blends growth and value stocks. It is an approach based on an analysis of long-term trends, acting with discipline, selecting conservative stocks, diversification and risk control. For royalty and income trusts, Morrison Williams applies its disciplined process to selecting equities and then analyzes the fundamental and relative value of these trusts.

### Customers

Morrison Williams' primary clients are pension funds and mutual funds. It also manages assets for institutional clients and a relatively small group of high net-worth individuals. Morrison Williams' largest client accounts for approximately 24% of assets under management and its eight largest clients make up approximately 60% of assets under management, as at December 31, 2007. Morrison Williams has enjoyed long-standing relationships with its eight largest clients.

Newport Investment Counsel Inc. ("**NICI**"), a subsidiary of NPLP, is a client of Morrison Williams.

### Industry Trends

In the institutional segment of the Canadian investment management industry, investment managers provide investment management services to a variety of institutional clients including pension plans, mutual funds and other investment and savings plans of corporations, government agencies, municipalities, universities, charitable foundations, endowment funds and insurance companies.

### Competition

There are numerous investment management companies operating in competition with Morrison Williams. These competitors include any asset manager seeking management of institutional and individual assets. However, institutions require a variety of asset managers with different investment philosophies and styles in order to diversify their portfolios among several managers and asset classes in an effort to manage risk and to achieve greater returns.

Management believes that Morrison Williams has a competitive advantage because of the extensive knowledge and experience of its principals, as evidenced by its portfolio performance.

## **5. NPLP**

### Business Overview

NPLP is an independent wealth management company providing investment counselling and sophisticated financial planning, management and solutions to its personal and corporate clients, with a focus on understanding and serving the needs of entrepreneurs. Since its inception in 2000, NPLP has grown its assets under management to approximately \$1.07 billion as at December 31, 2007. NPLP draws on the experience of the Newport Partners' Principals who together have over 350 years experience in investment management, corporate finance and operations.

NPLP is based in Toronto and has over 40 employees.

NPLP has been in the portfolio since August, 2005.

## Products and Services

NPLP advises its personal clients on investments in a diverse range of public and private assets. NPLP determines the appropriate asset allocation for each of its clients and engages external investment managers specializing in all asset classes to invest on behalf of clients. In addition, NPLP offers personal clients other services including estate planning, tax planning, philanthropy planning, risk management, cash management and retirement planning. NPLP offers its corporate clients a variety of services, including sourcing of capital, advising on mergers, acquisitions and divestitures and other corporate finance advisory services.

In its wealth management business, NPLP charges its clients a fee based on assets under management. NPLP's corporate clients generally pay a transaction-based fee.

## Customers

NPLP's client base is made up of approximately 600 individuals, families, and companies located throughout Canada. Its wealth management clients represent a diverse cross-section of Canadian investors. NPLP views its clients as partners, whose ideas, industry expertise and insights can greatly enrich NPLP's advice and decision-making. NPLP's corporate clients are both public and private entities and government organizations of various sizes.

## Industry Trends

The Canadian wealth management market is very large, with roughly 500,000 households with more than \$1 million of investable assets representing over \$1.5 trillion in total wealth. These figures are expected to grow by 2-3 times over the next 10 years, providing great opportunities for wealth management firms to grow.

A significant portion of the wealth that is expected to be created over the next decade comes from private business owners. Many private businesses are facing succession issues today that must be dealt with and research shows that the majority will end up being sold rather than transferred from one generation to the next. This will create additional growth opportunities for wealth management firms, especially those with a focus on the entrepreneur.

## Competition

The wealth management industry in Canada is highly competitive. Each Canadian chartered bank has a wealth management division. Numerous boutique firms also provide wealth management services but typically have a more regional focus to their client base than NPLP. Although many of these companies have financial resources significantly greater than those of NPLP, NPLP believes that it is unique because of its focus on serving the needs of entrepreneurs. Management believes that NPLP's specific knowledge of this niche, along with the extensive experience and relationships of the NPLP entrepreneurs, provides NPLP with a sustainable competitive advantage.

## **6. Hargraft Schofield LP ("Hargraft")**

### Business Overview

Founded in 1874, Hargraft is a leading participant in the Canadian insurance industry and was one of the first brokerages established in Ontario. Hargraft manages close to \$85 million of premium and customized insurance solutions for industry leaders in a number of sectors, including finance, construction, manufacturing, transportation, education and hospitality. Hargraft sells insurance products to commercial clients and high net-worth individuals.

Hargraft is a national broker with clients in all provinces of Canada and operates out of its head office in Toronto and employs 42 people.

Hargraft has been in the portfolio since April, 2006.

### Products and Services

Hargraft offers a variety of products and services for businesses and individuals. Some of the industries to which Hargraft supplies insurance products are manufacturing, construction, transportation, medical, education, finance and hospitality. The products supplied include errors and omissions, medical malpractice, environmental liability, fleet packages, surety products, and property insurance products. In addition to these

insurance products, Hargraft offers medical benefits coverage and life products such as life insurance to assist companies in attracting and retaining their work forces.

Hargraft also supplies specialty insurance products for high net-worth individuals including business owners, executives and professional athletes. The products include life, health and income protection insurance, and property and personal liability insurance.

Hargraft is one of Canada's top 15 revenue producing brokers according to the Canadian Insurance Journal, and management believes it is one of the top two Canadian brokers in the transportation segment. In 2007, transportation customers represented 55% of the premiums written by Hargraft and 60% of its commissions. In 2007, Hargraft's business mix was 88% commercial insurance lines, 6% life insurance and benefits, and 6% personal insurance.

#### Customers

Hargraft sells its insurance and benefits products to businesses and individuals throughout Canada. Hargraft has approximately 1,500 customers. Its five largest customers accounted for 20% of revenue in 2007, and its largest customer accounted for 6% of revenue in 2007.

#### Industry Trends

Strong underwriting profits and investment returns of insurance underwriters have resulted in increased capital and the ability to underwrite additional business. Certain insurers with aggressive growth targets severely reduced pricing structures to attract new business. It is expected that commission revenues will continue to be adversely affected for 2008.

#### Competition

According to the Insurance Brokers Industry Association, the Canadian insurance industry has over 25,000 property and casualty insurance brokerages. Management believes that Hargraft has differentiated itself from its competition by focusing its sales efforts on certain market segments, such as transportation, and by developing strong relationships with key customers in a concentrated geographic area, Ontario. Hargraft has further enhanced its specialized position in the industry by offering additional products within these very focused market niches.

#### Growth Strategy

*New Insurance Products* – Hargraft will consider new lines of insurance coverage that meet the needs of its existing customer base or that can expand its client base. Hargraft has selectively added new lines in the past that achieve this objective such as its benefits, life products and pension plans offering.

*Benefits Product Line* – Hargraft has recently entered the area of medical benefits coverage and life products such as life insurance, and believes that there is significant growth potential in this area. Management will continue to focus resources on growing this product line and making it an integral component of the Hargraft product mix.

*Grow Sales Force* – Hargraft will look to attract outstanding individuals who can enhance the value of its insurance sales force. Hargraft currently has a sales force of 13 people.

#### Competitive Strengths

*Experienced Management and Sales Force* —The Hargraft entrepreneurs have a combined 70 years of experience in the insurance industry. This experience and the relationships that these individuals have developed during their time in the industry provide Hargraft with a competitive advantage. In addition, Hargraft has an experienced and proven sales force who are key to the success of Hargraft.

*Focused Strategy* —Hargraft has developed a focused strategy around certain specialized insurance products and customers. This strategy has allowed Hargraft to build its reputation in these areas and develop strong relationships with insurers and customers.

*Excellent Reputation* — During its 132 year history, Hargraft has developed a reputation in the insurance brokerage industry for accountability, consistency, innovation and excellence.

## **7. Baird MacGregor Insurance Brokers LP ("BMI")**

### Business Overview

Founded in 1979, BMI is an established and respected Ontario based Canadian owned insurance brokerage offering a full range of insurance products and services. BMI's head office is situated in Toronto and it operates a satellite Mississauga branch.

BMI serves a variety of both commercial and personal clientele. The portfolio is a mix of local and national accounts. The brokerage is a recognized specialty insurance provider to the transportation industry.

BMI employs 65 people many of whom have tenures in excess of a decade. BMI is structured with dedicated and knowledgeable teams of insurance professionals serving each of its business segments. The business portfolio is approximately \$60 million in annual premium volume.

BMI has been in the portfolio since April, 2007. The operating partner, who has been with the company since 1980, continues as President & CEO of BMI.

### Products and Services

BMI offers a full range of insurance products and services including commercial property, business interruption, liability, fleet, umbrella liability, crime, surety, directors' and officers' liability, errors and omissions, environmental liability, boiler and machinery, cargo, builders risk, life, group benefits and various ancillary products. In addition to its commercial product offerings, the brokerage provides a full array of personal insurance products and services including personal home, auto and umbrella for both individuals and employee groups.

BMI provides detailed risk analysis, program design and statistical data management services to its clientele. The brokerage is experienced in the design, implementation and management of self insured retention programs.

BMI has successfully penetrated its niche markets by developing risk management solutions tailored to the unique needs of their customers. BMI works closely with associations, industry groups and franchise systems in their niche markets to ensure that their needs are adequately served.

The breakdown of written premium by business segment is 35% Taxis, 34% Daily Car Rental, 12% Trucking, 12% Used Car Dealers, 4% Personal Lines and Life, and 3% Commercial.

### Customers

BMI's portfolio is comprised of 96% commercial clientele and the remaining 4% is personal lines clients. The portfolio consists of 4,800 clients, many of which are long standing relationships.

### Industry Trends

The insurance marketplace has cycled through competitive 'soft' markets where underwriting capacity is plentiful and 'hard' markets where this capacity shrinks. During soft cycles, insurers' pricing levels reduce as they compete for market share. During hard market cycles, pricing levels rise. Brokerage income is directly affected by these market cycles as the commissions earned are predicated on the premiums charged. Hard markets are typically triggered following natural disasters, increased loss frequency, severity or significant adverse development on outstanding claims case loads. The Canadian insurance market is in the midst of a competitive market which is expected to persist during 2008. Most insurers have aggressive growth targets and there is little indication of tightening capacity. Certain industry auto results are showing some signs of deteriorating underwriting performance. Some insurers are seeking rate increases in their auto book of business. Small pockets of tightening in the auto market might manifest in the latter part of 2008 but overall market conditions are expected to remain soft with resultant reduction in broker commissions.

### Competition

While the Canadian market place is competitive, BMI has been successful in developing long term client relationships by providing good advice, product designs that meet client needs and through dedicating knowledgeable specialists to each account. The brokerage has access to a wide range of insurers with which they have cultivated solid relationships. This enables BMI to negotiate the right coverage solution for each and every client.

BMI provides value added services including lobbying for legislative change on insurance related issues that affect their client base. The brokerage offers seminars tailored to their client needs and accurate statistical analysis and data management services that help clients manage their risk.

BMI makes an effort to understand the business environment within which their clients operate and adapts their approach to insurance solutions and risk management as the need arises.

#### Growth Strategy

BMI intends to aggressively cross sell additional products to its existing clientele and to continue to promote its services to prospects in their respective target markets. BMI has recently recruited new sales staff to help expand their penetration into existing niche markets. Some growth is anticipated as pricing levels rise on certain auto segments. BMI is presently exploring marketing new product lines during 2008. BMI will explore acquiring portfolios that would integrate well with the existing business mix.

#### Competitive Strength

BMI's unique culture is its key strength having attracted a dedicated and loyal group of client focused employees. The coordination of service through well managed business processes has enabled BMI to seamlessly fulfill high volume client requirements and provide client specialized services. BMI is skilled at matching clients to the right products and negotiating placements with insurers that are uniquely suited to their needs. This approach has enabled BMI to develop and maintain a loyal client following.

### **Marketing**

#### **8. Sports and Entertainment Limited Partnership ("S&E")**

##### Business Overview

S&E provides a consultancy service focused on corporate marketing in the sports and entertainment sectors. S&E creates, negotiates, manages and measures sports and entertainment sponsorships for some of Canada's largest corporations.

S&E is located in Toronto and has 7 employees.

S&E has been in the portfolio since September, 2004.

##### Products and Services

S&E has expertise in strategic partnering and packaging comprehensive marketing programs for its clients. S&E's services include:

- Sponsorship strategy development;
- Sponsorship assessment, evaluation, and analysis;
- Rights negotiation and sponsorship agreements;
- Sponsorship agreement administration; and
- Non-traditional media strategy, planning and buying.

Its experienced in-house team performs all design, production activities, and television production. S&E's primary products in terms of revenue generation are:

1. *Sponsorship Consultation Fees.* S&E acts as the exclusive sponsorship agency for corporate clients that utilize sport and entertainment as part of their overall marketing mix. S&E develops an overall strategy and tactics in these areas for the clients and then monitors the activation and provides analysis of the results. S&E receives monthly /annual retainer fees for this service.
2. *Arena and Stadium Packages.* S&E acquires various advertising rights from professional sports teams across Canada. These rights often include advertising rights for fixed billboards, electronic scoreboards, signs and video monitors in concourse and concession areas as well as hospitality suites. S&E purchases these rights from the teams, packages various rights together, and sells these packaged rights to its clients.

3. *Mobile Media.* Mobile media is the placement of billboard-sized outdoor advertisements on cube vans, trucks, transport trailers, buses, streetcars and trains.
4. *Video Billboards.* Indoor and outdoor video billboards can accommodate a still photo, an animated graphic or a full television spot.

S&E also offers its clients products such as interactive television promotions, closed circuit video advertising, closed captioning sponsorship, and informational and/or editorial television broadcast content that runs outside of traditional commercial breaks.

#### Customers

S&E provides advertising services for more than 15 clients. Its top four clients, three of which are long-standing relationships of between 10 and 20 years, account for approximately 80% of its business.

S&E employs a "cost plus" revenue model on the advertising products it sells to clients, a retainer fee for its consultancy services, and charges an hourly rate for design services.

#### Suppliers

S&E typically enters into three-to-five-year contracts with its clients and suppliers. These suppliers include professional hockey, basketball, football, baseball and lacrosse teams, arena owners, outdoor advertising companies, and television and radio broadcasters. S&E has long-standing relationships with all its suppliers. S&E owns the following trade marks: PlayBook™, The Golf Report™ and Tune-In-ToWin™.

#### Industry Trends

A study prepared by PricewaterhouseCoopers LLP noted that a large source of the growth in the advertising industry is as a result of advertisers using integrated, multi-media strategies. This trend is significant for S&E which has an integrated approach to the marketing campaigns that it develops for clients.

Another significant trend is the continued growth of corporate spending in the sports sponsorship area as well as the growth in advertising spending on specialty television channels, which now represents approximately 21% of all advertising spending in Canada and is expected to grow to approximately 27% by 2008. Management believes that this trend provides a strong indication that advertisers are moving towards media that more closely targets their desired audience.

#### Competition

Although S&E management believes that its product offering is unique, there is significant competition from other media channels and products, and from other advertising agencies. However, management of S&E believes that its focused product offering and its long term relationships with its customers and suppliers provide it with a competitive advantage.

### **9. Gemma Communications LP ("Gemma")**

#### Business Overview

Gemma is a Canadian outsourced contact centre operator. The primary business of Gemma is providing outbound telephone revenue-generating campaigns targeted at individuals who are customers of Gemma's clients. Gemma's clients are companies in the financial services and telecommunications industries. A growing component of Gemma's business is inbound contracts whereby Gemma's agents field incoming calls for service from the customers of Gemma's clients.

Gemma has approximately 1,150 associates (also called agents) in offices in Toronto (800 agents) and Montreal (350 agents).

Gemma has been in the portfolio since March, 2005.

#### Services

Gemma provides outbound revenue generation and inbound customer care for its clients.

*Outbound Revenue Generation* — Approximately 90% of Gemma's business is revenue generation for its clients. Gemma operates revenue-generating customer campaigns primarily for 10 clients, all of which are in

the financial services and telecommunications industries. Gemma enjoys a 100% repeat business rate with these clients and, in most cases, the level of business volume has grown year-over-year.

*Inbound Customer Care* — A growing part of Gemma's business is inbound customer care. Management believes that companies are generally hesitant to outsource ongoing and regular customer contact to a third party, however, because of Gemma's reputation and the trust it has developed with its clients, its clients are now starting to request that Gemma handle this function on their behalf. Inbound customer care represents an attractive growth area for Gemma.

### Customers

Gemma primarily serves 10 established customers, all of which provide it with regular repeat business. Gemma's largest customer represents approximately 30% of Gemma's revenue, with revenue from its nine other primary customers being relatively balanced. Gemma charges its clients an hourly rate for providing its services.

### Industry Overview and Trends

The Canadian contact centre industry is a multi-billion dollar industry that includes in-house and outsource services providers. A contact centre (or call centre) refers to reservations centres, help desks, information lines or customer service centres, regardless of how they are organized or the types of transactions they handle. In its most sophisticated form, the term refers to a voice operations environment that provides a full range of high-volume, inbound or outbound call-handling services, including customer support, operator services, directory assistance, multilingual customer support, credit services, card services, inbound and outbound telemarketing, interactive voice response and web-based services.

The single biggest trend impacting the contact centre industry today is the trend to outsourcing. Several key factors underlie this trend including technological advancements that allow for encrypted data exchange and direct connectivity between the service provider and the outsourcer as well as decreasing telecommunications costs because of widespread deregulation of voice over Internet protocol (VoIP). In management's view, perhaps the most significant impetus is the overall sophistication of contact centre service providers who, like Gemma, have enhanced their operations so that they are now able to provide a virtually seamless and transparent alternative to in-house operations.

Another trend impacting the industry is the ability of large companies to take advantage of ready access to skilled labour at lower costs, both offshore and near shore. Nevertheless, this trend has recently been tempered through bottom-line results analysis (i.e., actual customer retention and satisfaction results), and a growing trend towards quality first, cost savings second, and the outsourcer's desire to be in relatively close proximity to its service providers. Despite the strengthening of the Canadian dollar as compared to the U.S. dollar, Gemma management believes that Canada still offers U.S. based outsourcers advantages in locating their contact service centres in Canada as opposed to the United States.

### Competition

Gemma's competitors include large U.S. based outsource service providers that have set up operations in Canada and abroad. During recent years, many contact centre outsource providers have been establishing a presence offshore in countries such as India and the Philippines and in the Caribbean to take advantage of lower labour costs which have created an environment with increasing pricing pressure from clients. The management of Gemma has monitored this trend, evaluated opportunities in these markets, and is able to execute an offshore strategy if they feel it is necessary. This decision will ultimately be driven by client demand. To date, Gemma's customers have shown little desire for Gemma to establish such a facility. In addition, within Canada there are a handful of domestic service providers that offer essentially the same services as Gemma. Furthermore, in-house contact centres continue to represent an alternative to outsourcing, particularly where core-business applications such as customer care are concerned. Program scale and sophistication and more stringent adherence to regulations and conduct standards that govern contact centre activities have reduced competition from smaller operators. Gemma has also added Craig Meilleur as President, Business Services, whose mandate is to identify and develop new and value-added service offerings, including inbound client servicing.

## **10. Capital C Communications LP ("Capital C")**

### Business Overview

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. Capital C's approach is embodied in its philosophy — BIG IDEAS THAT WORK™, which involves developing a single idea and concept with its clients and translating that message across all consumer touch points and outlets.

Capital C was selected Agency of the Year in 2006 by Marketing Magazine and its CEO, Tony Chapman was inducted into the Marketing Hall of Legends in 2007. Capital C's 2006 merger with Kenna Group LP and its acquisition of Adeo Communications Corporation, a digital marketing company with strengths in the area of strategic planning, web site design and development, online application development and internet marketing, have solidified its position as a leader in the rapidly-growing direct to consumer marketing industry.

Capital C is based in Toronto, Mississauga and Winnipeg and has approximately 200 employees.

Capital C has been in the portfolio since August 2005.

### Services

Capital C provides full in-house capabilities in the following primary service areas:

*Big Ideas Group* – Clients hire Capital C's Big Ideas Group to launch new products and services and to help develop strategies to revitalize brands and leverage sales channel opportunities. The process includes analyzing the particular product, service or brand, developing the applicable marketing strategy in "brainstorming" sessions with its clients, implementing that strategy and measuring its results.

*Retail Marketing* – This focused service area helps clients develop promotional marketing and channel strategies for point-of-sale.

*New Media* – New media services involve the creation of web-based, interactive and text messaging marketing strategies. Services under this area include online branding, online promotion, "webvertising" and program measurement.

*Experience Marketing* – This service area closely targets the clients' desired market and includes event marketing and sampling, which management believes are important elements of any consumer product marketing strategy.

Capital C's Big Ideas Group charges a fee based on the value brought to its clients. For its other three primary service areas, Capital C charges its clients under one of three models: (i) an hourly rate; (ii) a guaranteed spend program whereby Capital C's clients have access to Capital C's staff at preferred rates up to the limit of the guaranteed spend; and (iii) a retainer model (usually one year in duration) whereby Capital C determines the needs of the client and provides it with a monthly price guarantee against a scope of work.

### Customers

Capital C has approximately 40 clients many of which are large multi-national companies. Capital C's largest customer accounted for approximately 23% of sales in 2007 and its top five customers accounted for approximately 54% of sales in 2007. Capital C has enjoyed at least a five-year business relationship with four of its top five customers.

### Industry Trends

The marketing landscape has changed over the past 10 years. There are various media that are available to consumers from digital and specialty cable networks, to cell phones and text messaging, to the Internet and innovative point-of-sale displays. Marketers are faced with the challenge of how to most effectively deploy their resources. At one time, large advertising agencies dominated the \$200 billion advertising/promotions market, primarily by buying and selling cable television advertising segments. While still important, the influence of cable television advertising on consumers has decreased, making the market more amenable to integrated marketing than it has been in the past. As clients continue to manage their business based on results, increased market share and profitability, management believes that the role that niche marketing businesses can play in achieving those rewards will expand. Management believes that programs that are measured by an ability to change behaviour and drive results will be given a higher value by clients.

Ten years ago, the promotional marketing industry was seen primarily as a business linked to prizes, contests and coupons. Management believes that today this industry is seen as the most measurable way for marketers to work with customers and retailers to increase sales. Many larger organizations now have specific promotional marketing and customer marketing employees on staff. Marketers are having to take a more regional and personalized approach to their strategies because of "clutter" in the marketplace and because generic programs no longer have a strong impact on consumers. Management believes that promotional marketing is a solution to this problem.

### Competition

Management believes that there are only a few successful promotional marketing agencies in Canada that can offer integrated solutions to clients. It is believed that this integrated solutions approach, along with Capital C's creativity, ability to execute and strong relationships, provides it with a sustainable competitive advantage in the industry. However, Capital C faces competition from other niche agencies and from other larger marketing agencies.

## **11. IC Group LP ("IC Group")**

### Business Overview

Established in 1989, IC Group has operating companies based in Canada, Australia and the United States. IC Group develops, markets, and manages programs in the sales promotion industry. IC Group's primary products and services are: internet technology platform (branded IC Modus®), prize insurance, and promotional risk management.

IC Group is headquartered in Winnipeg and has approximately 70 employees.

IC Group has been in the portfolio since July, 2006.

### Products and Services

*On-Line Technology Platform* – IC Modus® is a web-based technology platform that integrates consumer promotions with a variety of web infrastructures including websites, mobile devices, extranets, customer relationship management and e-commerce applications. IC Group has invested heavily in this product line over the past three years and won contracts with major brands.

*Promotion Insurance* – The product on which IC Group was founded is promotion insurance. IC Group is a broker in this niche area. Examples of the types of risk that IC Group underwrites are event cancellation and non-appearance insurance, contractual bonus insurance, prize insurance and over-redemption insurance.

*Promotional Risk Management* – IC Group consultants analyze, identify, communicate and manage the risks for traditional and online games, contests, sweepstakes, consumer offers and other unique promotions. They counsel clients through critical phases of planning and execution to prevent unnecessary and costly risks.

### Customers

IC Group's customers are leading consumer brands, promotion agencies and insurance brokers.

### Industry Trends

In October 2007, the Canadian Marketing Association reported that 2006 Canadian Online Advertising Spending had risen by 80% over 2005 levels to surpass the CDN \$1 billion mark for the first time. eMarketer projects that online advertising spending will pass CDN \$3 billion by 2011, roughly tripling online advertising spending from 2006.

Marketing Magazine's 2008 Agency Outlook Survey (conducted among 103 North American agency principals) found that 38% of those surveyed feel that specialty/focused agencies will have the most success in 2008.

In September of 2007, Promo Magazine reported results of a poll that included 152 media advertising executives. The poll reported that 42% said they expected to increase their consumer promotion budgets in 2007 over 2006; 51% were keeping them flat and 7% said they expected to decrease.

According to Promo Magazine's 2007 Industry Trends Report, 66% of those surveyed use interactive promotions including, games, and sweepstakes.

Promo Magazine has found that the Internet continues to dominate the field as marketers prefer cyberspace largely for its cost efficiency, immediate data collection capabilities and ability to keep consumers engaged.

IC Group's comprehensive services are poised to service increasing online demands. With a strong foundation in promotion risk management and specialty insurance, as well as a proven track record in online promotions security, IC Group is able to respond to the increasing security concerns of leading brands that are seeking ways to gain more personal, one-to-one connections with their loyal customers.

### Competition

IC Group represents the unique integration of promotion, technology, insurance and promotion risk management. No single company has yet challenged IC Group in all areas of its core competencies and no other company has positioned itself as a full service promotional company that includes insurance, risk management and technology elements. Competition to date therefore has been primarily distinct in each of the IC Group service areas: i.e. different competitors in prize insurance and different competitors in online promotion delivery.

## **12. Armstrong Partnership LP ("Armstrong")**

### Business Overview

Armstrong is a leading North American promotional marketing company with particular expertise in the financial services, credit card marketing and animal pharmaceutical segments. Armstrong works with its clients to develop innovative marketing programs, products and services. Approximately 80% of Armstrong's revenues are generated in Canada, and 20% are generated in the United States, Sweden, Switzerland, Poland, United Kingdom and Puerto Rico.

Armstrong employs approximately 55 people at its offices in Toronto and 65 part time field marketing staff in Canada.

Armstrong has been in the portfolio since October 4, 2006.

### Products and Services

Armstrong specializes in interactive, in-store and direct marketing promotions. It develops promotional marketing services by working closely with clients to understand their needs and to make sure extensive value is added. Armstrong's excellent reputation and innovative product development ensures a long-standing relationship with their clients.

Armstrong's core capabilities include promotional, direct, event and interactive marketing, in addition to sponsorship consulting, strategic consulting and design work.

### Customers

Armstrong is an agency of record in North America for MasterCard, TD Bank, Heineken and Merck Animal Health, and is agent for TD Bank, Levi's, Colgate-Palmolive, Con Agra Foods, Hills Pet Nutrition, Vincor and Whirlpool/Kitchenaid and Cold FX.

The customer base of Armstrong is highly concentrated, with their five largest clients representing approximately 87% of its revenues. However, relationships with these customers continue to be very strong.

### Industry Trends

Armstrong faces similar industry trends to that of Capital C: the marketing landscape is changing which is forcing promotional marketing companies to migrate away from the traditional forms of mass marketing towards integrated promotions geared to programs that are measured by an ability to change behaviour and drive results. Promotional marketers are taking a more regional and personalized approach because these large, generic programs no longer have an impact on the consumer.

### Competition

Armstrong faces competition from large marketing agencies in addition to the smaller, niche agencies that offer similar integrated solutions. However, Armstrong management believes that very few of these

organizations can compete due to Armstrong's excellent relationship with its clients; its creative, dynamic and cutting-edge promotional solutions; and its long history of successful idea generation and execution.

## **Industrial Services**

### **13. NPC Integrity Energy Services Limited Partnership ("NPC")**

#### Business Overview

NPC is a fully integrated provider of midstream production services to the energy industry in western Canada. NPC provides construction, maintenance and operation services primarily to the oil and gas industry and also to the pulp and paper and timber industries. A majority of NPC's revenues are from maintenance and operations of existing oil and gas facilities as opposed to construction. As a result, NPC is less dependent on the oil cycle.

On July 31, 2007 NPC acquired an 80% interest in The Golosky Group of Companies. With operations in Fort McMurray and Edmonton, Golosky is a diversified group of well-established companies that provide products and services to a broad range of customers in the oil sands, oil & gas, pulp & paper and construction industries in northern Alberta. Golosky is a diversified group of eight companies that supply a range of products and services including plant shut down maintenance, field maintenance, pipe fabrication and assembly, pressure vessel manufacturing, modular fabrication, highly-skilled welding, chromium carbide overlay, wear resistance plates, machining and repair and transportation supply services to a broad customer base of major energy producers.

NPC's maintenance contracts generally have terms of two years and are renegotiated and often extended at the end of each two-year term.

NPC (or its predecessor companies) has been in business since 1988. It has several office and warehouse locations throughout Alberta, with most of its management team located in its Cochrane, Edmonton, Edson, Brooks, Fort McMurray and Peace River, Alberta offices. NPC also has regional offices throughout Alberta and north-eastern British Columbia.

NPC has over 100 full-time employees that are working out of its offices located in Alberta. The number of employees in the field varies from approximately 2,500 to over 3,000, depending on the level of business activity.

NPC has been in the portfolio since October, 2004.

#### Services

NPC provides industrial maintenance and facility infrastructure services for the oil and gas industries, including the following:

*Production and Maintenance* — These services include providing complete plant and field support, quality control, field operations and safety management systems personnel. The maintenance services business segment also performs plant turnarounds whereby a facility is shut down for a period of time for service and repair. NPC is typically involved from the start of shutdown planning to the completion of the shutdown.

*Facility Construction* — NPC provides a full range of facility construction services, including estimation, scheduling, inspection, procurement, project management and construction execution. The facility construction segment of NPC's business typically leads to its maintenance services being retained after the completion of construction.

*Pipeline Integrity* — This business line includes the procurement of personnel, services, materials, planning, scheduling and executing of pipeline integrity and repair in Western Canada.

NPC's services include the procurement of personnel, materials and equipment required by NPC's clients to execute their day-to-day maintenance services, operational requirements and turnaround activities. In addition to maintenance and operations services, NPC undertakes all aspects of new project development including cost estimates, procurement, expediting, shop inspection, project and construction management, field inspection, commissioning and start-up.

## Customers

NPC's client base includes some of the largest and most recognized names in the oil and gas industry. One of Canada's largest integrated oil companies represents approximately 12% of its revenues.

Notwithstanding that NPC operates in a dynamic marketplace that is constantly changing because of mergers and acquisitions activity within the oil and gas industry, NPC has been successful in fostering long-standing relationships with its clients.

## Industry Trends

The oil and gas industry in general is highly cyclical. The financial health of exploration and production companies, and the level of activity in this sector is directly correlated with the price of oil and gas. In late 2006 gas prices began to drop off and have resulted in reduced activity.

Certain segments of the oil and gas services industry run in a parallel cycle to exploration and production. Other segments, however, including those related to annual maintenance, construction and repair, are much more insulated from industry cyclical. NPC made the strategic decision to focus on these less cyclical service areas in an effort to achieve operational and financial stability.

## Competition

NPC's principal competitors are Flint Energy Services Ltd., Ledcor Group of Companies, Triton Projects Inc. (a subsidiary of The Churchill Corporation), and Steeplejack Services Group. NPC management believes that its focus on core values of safety, teamwork, integrity and respect, along with the strong relationships NPC has with its customers, has made it a market leader in its field and represents a strong competitive advantage.

### **14. Quantum Murray LP ("Quantum Murray")**

#### Business Overview

On March 16, 2006, the Fund, through a newly created limited partnership, Murray Demolition LP ("**Murray**"), acquired its interest in the assets and business operations of Murray Demolition Corp., one of Canada's largest demolition contractors.

On January 3, 2007, it was announced that Murray had purchased substantially all of the assets of Quantum Environmental Group Inc. ("**Quantum**"), a provider of a wide range of services including site remediation, hazardous materials abatement and treatment and disposal of waste materials. Subsequent to the purchase, Murray was re-named "Quantum Murray LP".

On May 30, 2007, Quantum Murray, through two newly created subsidiary limited partnerships, acquired substantially all of the assets and business operations of Thomson, which provides a full spectrum of integrated metal and recycling services from demolition to collection, processing, management, transportation and sales.

On November 1, 2007, Quantum Murray acquired substantially all of the assets of Echelon Emergency Response and Training Inc., a provider of emergency response and training services to companies based primarily in Ontario. The combined entity is one of the largest, full-service, national decommissioning and environmental remediation firms in Canada.

Quantum Murray employs over 600 people and performs over 400 projects annually.

#### Products and Services

Quantum Murray provides its clients with a wide range of services, including demolition, abatement, remediation, treatment and disposal of contaminated soil, and investment recovery services. Demolition services include the dismantling of complex industrial and commercial projects requiring significant planning and engineering. Abatement services include the removal of environmentally sensitive substances such as asbestos, mold, lead and PCBs. Remediation services include the removal of contaminated soils and Quantum Murray has facilities to treat the contaminated soil. Investment recovery services include equipment and scrap metal salvage, recycling and marketing. Quantum Murray often combine these services into a single decommissioning project and acts as a single project manager which leads to better utilization of resources and better co-ordination resulting in lower costs for the client.

## Customers

Quantum Murray serves many large commercial and industrial customers. Quantum Murray derives a significant portion of its business from repeat customers and its excellent track record and reputation.

## Industry Trends

The industrial demolition business is relatively stable. In periods of economic growth, companies are dismantling facilities in order to make way for larger and/or more efficient facilities and processes. In economic downturns, facilities are decommissioned as manufacturing capacity is rationalized and companies focus on reducing costs. The commercial demolition business is typically driven by real estate development and property values within key urban areas.

The demolition and remediation businesses also benefit from a number of ongoing trends within North America including "de-industrialization", increasing urban density and increased spending on infrastructure and the environment. The scrap metal marketing business is expected to benefit from the continuing global demand for metals and raw materials.

## Competition

Quantum Murray faces competition in its demolition, remediation and scrap metal marketing businesses from large competitors and smaller niche companies that offer similar services. There are many barriers to entry in competing for the larger industrial and commercial projects including size and financial stability, availability of performance bonding facilities, access to heavy and specialized equipment, project management and systems expertise, engineering and operating skill level and experience, and health and safety track record.

## Growth Strategy

Quantum Murray is focused on growing organically by expanding its market presence through significant repeat customers, developing new customer relationships in Ontario and strengthening its presence in Western Canada. The combined operations of Murray, Quantum and Thomson provide significant cross selling opportunities and expands the geographic diversification for the company. With access to a larger market and a broader customer base, there is significant room for organic growth. Quantum Murray will also look to make smaller, add-on acquisitions to fill in its service offering in selected geographic markets.

## Competitive Strengths

Management believes that Quantum Murray is well positioned for success as a result of what management believes is its market share leadership in Canada, its excellent reputation in the Canadian marketplace and its strong relationships with clients and employees, its experienced management team, significant repeat business and its diversity of services offered and geographies and industries served. It is a relatively non-cyclical business and has opportunities for organic growth in a fragmented market.

## **Other**

### **15. Rlogistics LP ("Rlogistics")**

#### Business Overview

Rlogistics is a retail and wholesale reseller of consumer and office products and operates 13 stores in Southern Ontario under the name "factorydirect.ca". Rlogistics operates in the liquidation market, specializing in purchasing large quantities of new, used, retail returns, as-is, refurbished, new end of line, new surplus, and new closeout inventory from major manufacturers, leasing companies, retailers, liquidators and distributors worldwide.

Rlogistics' products are generally obtained at wholesale or below wholesale prices and then sold to end consumers and dealers. As a result of their changing product mix, opportunity buying and retail industry conditions, Rlogistics main source of revenue changes periodically.

Rlogistics has been in the portfolio since May, 2006.

### Supplier and Product Supply Risks

Rlogistics has multiple suppliers and one of the keys to its operational success is maintaining excellent relationships with all its suppliers. The consistent supply of liquidated products at below market prices is essential to the success of Rlogistics. The loss of several of Rlogistics' suppliers or a decrease in the availability of liquidated merchandise (i.e., product purchased at attractive prices) could have a material adverse ongoing effect on Rlogistics' total product supply and consequently on the short and long term revenues and profitability of Rlogistics. Due to the nature of the business, there is also increased risk associated with the quantity of purchases by Rlogistics that require prepayment (in advance of the receipt of goods) and the limited warranty provided by suppliers on certain merchandise.

### Industry Trends

Rlogistics has been broadening its product and category selections to an attempt to limit its exposure to periodic weaknesses in the supply of certain products and/or categories.

Rlogistics is continuing to develop and enhance relationships with its suppliers.

### Competition

Rlogistics competes with other discount retailers, wholesale clubs and other wholesale liquidators. Rlogistics also competes with first-to-market retailers, however, Rlogistics' marketing efforts are focused more towards cost conscious consumers. Competition within the retail market has increased significantly over the last few years resulting in lower margins across the board.

## **16. Peerless Garments LP ("Peerless")**

### Business Overview

Peerless, based in Winnipeg Manitoba, is Canada's leading manufacturer of protective harsh weather outerwear for military personnel. Founded in 1940 as a supplier of basic parkas, Peerless has evolved over the years to specialize in the production of highly technical protective garments designed to provide water-resistance, wind proofing and warmth. Peerless' line of military operational clothing aims to reduce detection through camouflage and concealment while ensuring that soldiers are kept warm, dry and comfortable when exposed to extreme weather conditions.

Peerless employs approximately 135 people.

Peerless has been in the portfolio since June, 2006.

### Products

The primary business of Peerless is manufacturing highly technical protective garments for the Canadian Forces (Army, Military and Air Force). Peerless also manufactures other technical and harsh weather garments for customers in other industries, primarily in Canada, including the oil & gas industry. The Canadian Forces goods are distributed directly to Canadian government agencies by Peerless or authorized subcontractors. Non-Canadian Forces garments are distributed to wholesalers, retailers and/or distributors.

### Customers

The Canadian Forces and RCMP business represented 89% of revenue in 2007. The remaining 11% of revenue was from sales to other Canadian government agencies, retailers, and other smaller customers including customers in the oil & gas industry.

### Industry Overview and Trends

With the gradual lowering of tariffs and the elimination of quotas on international imports during the 1990s, the Canadian garment industry has restructured. A significant portion of garment production in Canada has now evolved into small contracting operations or home-based sewing. It is estimated that approximately 75% of Canadian garment manufacturers employ fewer than 20 workers. Larger manufacturers, like Peerless, have captured market niches requiring a high level of technical specialization or product branding.

Specializing in government contracts provides Peerless with a protected niche. There is a "Canadian content" requirement for government suppliers which protect Peerless from non-Canadian competitors.

Peerless' niche is further protected because the Canadian Forces stipulates that its suppliers cannot be, or rely on, foreign supply sources to ensure uninterrupted supply.

### Competition

The government of Canada typically requires that operational clothing contracts for branches of the government have Canadian content certification. This certification requires that clothing purchased by the government of Canada be manufactured in Canada using only Canadian-made textiles. As a result of this certification requirement, offshore garment manufacturers in lower-cost countries cannot operate in this market. The Canadian content certification does not impose any foreign ownership restrictions.

Peerless is the primary supplier in its segment and is the largest single supplier of protective garments to the Canadian government. Peerless is estimated to be three times larger than its next largest competitor in terms of sales to the government of Canada. Peerless' main competitors are: Able Clothing Gear Inc., Protexion Products Inc., Apparel Trimmings Inc., Wing Son Garments Ltd., and Pacific Safety Products Inc.

### Competitive Strengths

Peerless has been a supplier to the Canadian Forces since the early 1950s. Through this long relationship, Peerless has developed strong expertise in working with highly technical fabrics and manufacturing garments to rigid specifications. A civilian employee of the Department of National Defence ("**DND**") has maintained a quality control office at the Peerless facility since the early 1990s. Peerless regularly participates in developing product prototypes for the DND.

Peerless is recognized as the leader in its field and is often involved with DND in the research and development of new operational garments for the military. Peerless typically wins 90% of the request for proposals issued by the DND. While its relationship with DND is strong and important, Peerless wins these contracts because of its competitive prices, ability to deliver on time meeting stringent criteria, and its reputation for consistently manufacturing garments of excellent quality. The "Canadian Content" requirement, along with Peerless' longstanding reputation for manufacturing high quality product, represents a high barrier to entry for potential competitors.

Peerless has developed an infrastructure to successfully bid on, win and retain business from the Canadian Forces. To manage the administrative requirements of the DND business, Peerless has a creative dedicated team to comply with delivery schedules, billing, monthly progress reporting, shipment reporting, production reporting, and lot test data reporting. Peerless manages all aspects of administration on behalf of its subcontractors. Management believes that Peerless' competitors lack the financial resources and substantial administrative co-ordination to build this infrastructure.

## **17. Titan Supply LP ("Titan")**

### Business Overview

Titan is a distributor and manufacturer of heavy industry equipment such as wire rope, rigging/traction products, ground engaging tools and wear products. Titan has a unique and diverse product base, with most products being expendable in nature. Approximately 75% of its business is purely distribution and 25% is manufactured in-house. Titan began operations 37 years ago and operates primarily in Alberta.

Titan has offices in Edmonton (head office), Leduc, Calgary, Red Deer and Grand Prairie and has 165 employees.

Titan has been in the portfolio since September, 2006.

### Products

Titan's product lines fall into the following commodity groupings: ground engaging tools ("GET") and wear products (27% of sales); and wire rope and rigging/traction and tire chains (73% of sales).

Titan is the only supplier in the industry capable of providing a full range of wire rope products, the customized fabrication of rigging and synthetic slings, expertise in tire chains, and the ability to service a complementary demand within the customer base for ground engaging tools. All of its products are used in harsh operating conditions and are consumable in nature. Titan carries a complete range of accessories in each of these product areas.

GET and rigging products are in demand by a large proportion of Titan's customers who are involved in oil and gas, construction, forestry, mining and the oil sands.

The rigging products must meet compliance standards. This leads to value added custom fabrication and inspection services. Approximately 20% of sales are fabricated in-house.

### Customers

Titan has a well-diversified customer base of approximately 3,700 active customers on a monthly basis. The top 100 customers represent 45% of sales, and the largest customer represents 4% of sales with the top five customers representing 10% of sales. The customers operate primarily in the oil & gas services business in Alberta. Titan distributes product for approximately 65 manufacturers with which it has excellent relationships.

Rigging and GET products are particularly well suited to the industrial sector in western Canada. Product applications involve the full scope of activity in this region: construction, maintenance and operations which is a balanced and stable market base.

### Suppliers

Titan represents approximately 65 suppliers. Titan's customers prefer and buy brand name products. Accordingly, Titan has consciously aligned itself, and established strong relationships, with a leading brand name in each of the major product categories distributed.

### Industry Overview and Trends

The economies of western Canada are largely based upon resource production. Management believes that Alberta has 66% of Canada's proven conventional oil reserves, 81% of its natural gas, 46% of its coal and all of its oil sands reserves. The areas of British Columbia that Titan services are strong in coal and natural gas. Over the past 20 years, the average real rate of economic growth in the province has been 3.7% per year.

A 'boom' industry has been created in oil sands and heavy oil development. Over \$70 billion in investment is planned over the next five years. This activity has a huge spin-off effect on Titan's market. It impacts earth moving, erection, transportation and industrial fabrication. The ongoing operation of oil and gas facilities creates a large base market in production and maintenance requirements.

Natural gas, coal bed methane, and infrastructure projects are all areas that Titan is looking to for future growth opportunities. Natural gas in particular normally accounts for over 70% of drilling activity. Approximately 65% of Alberta gas is exported to the United States. There has been a constant export demand over the past ten years for all available production. The market demand is thus stable and growing.

Finally, forestry is a cyclical business in the province and is currently at the low end of its cycle. It is still a significant market. Management believes that the industry will have a strong upside as pulp and timber pricing improves.

The core business of Titan is derived from the development, maintenance and operation of the infrastructure surrounding this range of industrial activity. Lifting and digging fit well into the scope of activity outlined above. Management believes that Titan can be expected to earn a high share of the market and growth available from this activity.

### Competition

Titan competes with a fragmented base of competitors. Management believes that there are no other businesses in Titan's market areas with the same product mix and geographic scope. Competitors include various equipment dealers for GET products and a number of industrial product suppliers of varying size, market focus and product capability for rigging. The estimated market share in rigging is 60%. In GET, Titan competes primarily with original equipment manufacturers, but is the largest independent distributor of GET products in the market.

### Competitive Strengths

Titan's core strategy is to develop a sustainable, loyal and diverse customer base for this specialized product mix. Although the product offering is unique, Titan does not simply take orders. It understands that success with customers depends upon a clear understanding of their individual needs for these products and an

ability to help them reduce application costs and meet compliance standards. Specialized product knowledge and a focus on safety and compliance set Titan apart from its competition.

Titan has superior buying power and strong supplier relationships on both domestic and import products developed over a number of years. In addition, fabrication capabilities allow Titan to operate with a very low cost base for the full range of products it provides.

None of Titan's competitors carry the full range of rigging products offered by Titan. Titan has large diameter wire rope capacities and the ability to fabricate custom orders in all products. Additionally, Titan is able to source from a variety of manufacturers and has developed primary and secondary sources of supply in all product areas.

Titan is able to lever its strong market position in both GET and rigging to generate value added sales in specialty products such as technical support for GET applications and customized synthetic and cable slings.

Titan's central warehouse capabilities and branch locations enable it to consistently and competitively service customers operating on a province-wide basis.

## **18. Gusgo Transport LP ("Gusgo")**

### Business Overview

Gusgo is in the marine container transportation business and commenced operations (through predecessor companies) in 1969. Gusgo has an excellent long term relationship with its key customers and endeavours to provide timely and efficient service to a limited number of large customers. Gusgo specializes in all aspects of marine containers, from transportation, loaded and empty storage, to container sales, leasing and repairs. Gusgo operates out of Vaughan, Ontario on a 65 acre property available for storage (including refrigerated storage). There is available land for significant future growth on site. Gusgo is licensed in Ontario, Quebec and through the United States.

Gusgo has been in the portfolio since October, 2006.

### Products and Customers

The strength of Gusgo is in providing timely service at competitive rates. Gusgo's client base includes some of the largest steamship lines and freight forwarders in the container business. Gusgo is a contracted carrier to one of Canada's largest and most recognized importers.

### Suppliers

Labour is supplied by independent contractors, many of whom have been long term contractors. By utilizing independent contractors, Gusgo is able to better manage labour costs.

Gusgo has a limited number of suppliers for major expenditures such as fuel, insurance and supplies.

### Industry Overview and Trends

The transportation industry can be highly cyclical with seasonal peaks depending on commodities carried. Gusgo made the strategic decision to focus on the intermodal transportation segment which tends to be less cyclical. This allows Gusgo much more operational and financial stability. The intermodal industry is growing as over 90% of worldwide goods move through the container business. Management believes that as customers continue to rely on a steady flow of imported goods, the business and customer base will grow.

### Competition

There is some competition in this niche of the transportation business. Gusgo continues to strive to provide quality service at competitive prices to build on its long term relationships with its customers.

### Competitive Strengths

Gusgo has been in business for many years and has an excellent relationship with its independent contractors. Gusgo's continued focus on timely service is the key to customer satisfaction. Management believes that the ability to build long term relationships with key customers in a niche market will continue to drive the business.

The Gusgo business model is designed to reduce risk and excessive capital requirements. Rather than owning all of the trucks, Gusgo hires independent drivers with their own trucks to haul containers. Although Gusgo owns five trucks, these are the exception and Gusgo does not see truck acquisition as part of its growth. By

paying drivers more than competitors, and providing them with reliable, steady work, Gusgo has successfully avoided significant driver shortage issues and has a good reputation among drivers. Gusgo maintains repair and maintenance services on site where trucks and containers may be serviced/repaired.

### 3.2 Summary Financial Table Organized by Business Segment

The following tables set out, among other things, the revenues, gross margins, net income, EBITDA and Distributable Cash generated by each reportable segment of the Fund for the years ending December 31, 2007 and December 31, 2006.

#### SUMMARY FINANCIAL TABLE – (SEGMENTED) (\$000s except per unit amounts)

Year ended December 31, 2007

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES	OTHER	CORPORATE <sup>1</sup>	TOTAL
Revenue	\$ 87,915	\$ 86,816	\$ 296,943	\$ 93,015	-	\$564,689
Gross profit	42,581	46,658	62,695	24,273	-	176,207
Income (loss) from continuing operations before non-controlling interest <sup>2</sup>	(2,174)	(3,078)	7,099	(5,022)	(36,457)	(39,632)
EBITDA	34,739	11,583	28,891	12,143	(12,967)	74,389
Loss on dilution of ownership interest	-	-	-	-	6,958	6,958
Write down of goodwill and intangibles	-	2,987	-	-	-	2,987
Adjusted EBITDA <sup>3</sup>	34,739	14,570	28,891	12,143	(6,009)	84,334
Interest (income) expense <sup>2</sup>	(176)	309	2,330	2,427	25,974	30,864
Non-cash interest expense	-	-	-	-	(2,797)	(2,797)
Income tax expense - current	6	-	-	-	4	10
Maintenance capital expenditures and reserves	954	872	2,312	505	-	4,643
Capital lease payments	2	186	3,162	77	-	3,427
Compensation expense funded by operating partner <sup>4</sup>	2,030	894	-	-	-	2,924
Priority income per partnership agreement <sup>5</sup>	213	612	2,387	486	-	3,698
Distributable cash from continuing operations	36,196	14,709	23,474	9,620	(29,190)	54,809
Cash used by discontinued operations						(4,864)
Distributable cash						\$ 49,945
<b>Distributable cash per unit from continuing operations</b>						<b>\$ 0.77</b>
Cash used per unit by discontinued operations						\$ (0.07)
Distributable cash per unit						\$ 0.70

#### SUMMARY FINANCIAL TABLE – (SEGMENTED) (\$000s except per unit amounts)

Year ended December 31, 2006

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES	OTHER	CORPORATE <sup>1</sup>	TOTAL
Revenue	\$ 69,379	69,323	186,821	40,579	-	\$ 366,102
Gross profit	38,601	33,792	39,809	10,761	-	122,963
Income (loss) from continuing operations before non-controlling interest <sup>2</sup>	18,658	5,642	9,188	3,053	(15,930)	20,611
EBITDA	34,915	13,174	19,847	6,746	(4,513)	70,169
Interest (income) expense <sup>2</sup>	(271)	238	1,681	934	7,911	10,493
Income taxes	96	-	-	-	-	96
Maintenance capital expenditures and reserves	297	390	1,017	116	388	2,208
Capital lease payments	33	138	2,821	17	-	3,009
Compensation expense funded by operating partner <sup>4</sup>	2,034	-	-	-	-	2,034
Priority income per partnership agreement <sup>5</sup>	(720)	689	-	69	-	38
Distributable cash from continuing operations	\$ 36,074	13,097	14,328	5,748	(12,812)	\$ 56,435
Cash used by discontinued operations						(2,934)
Distributable cash						\$ 53,501
<b>Distributable cash per unit from continuing operations</b>						<b>\$0.84</b>
Cash used per unit in discontinued operations						\$(0.04)
Distributable cash per unit						\$0.80

1 The results of the Corporate segment include corporate costs and corporate interest expense.

2 NPF advanced approximately \$60,000 to NPC to allow it to complete its investment in Golosky on July 31, 2007. This long term facility can be converted into equity, if certain future performance criteria are met, and in anticipation of the triggering targets being met, and also in order to remove the financing component from the operating results of NPC, interest expense of NPC, and the Industrial Services segment in this Summary Financial table has been reduced by \$2,537 and such amount has been added to the interest expense of the Corporate segment.

3 Adjusted EBITDA excludes the non-cash gain or loss on changes to ownership interest and write-down of goodwill and intangibles.

4 NPF's agreements with ESR and Gemma contemplate that certain employee bonuses are paid for by the 20% limited partners. GAAP requires that the bonuses be expensed and therefore reduces EBITDA. Since there is no cash outlay by NPF the expense is added back in arriving at distributable cash.

5 To the extent that in any reporting period, calculated on a cumulative basis, NPF's proportionate share of distributable cash is more or less than its priority amount, an adjustment to distributable cash is made to reflect the actual cash distributions payable to NPF by the operating partner.

## **4. Risk Factors**

An investment in Units of the Fund involves a number of risks. In addition to the other information contained in this Annual Information Form and the Fund's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Any of the matters highlighted in these risk factors could have a material adverse effect on the Fund's results of operations, business prospects or financial condition or on the distributions of cash to Unitholders.

### **4.1 Description of Risks Related to the Fund and the Fund's Operating Partnerships**

The Fund's financial results are impacted by the performance of each of our Operating Partnerships and various external factors influencing the environments in which they operate. While stronger performance by one of the Operating Partnerships may compensate for weaker performance by another of the Operating Partnerships, any negative effects on the financial condition or results of operations of an Operating Partnership has a negative effect on the financial condition or results of operations of the Fund.

#### ***A. The Fund and the Operating Partnerships in General***

##### Investment risk

Our strategy is to invest in successful entrepreneurs operating high-quality businesses that generate sustainable cash flows. There is risk that we could invest in either an entrepreneur or a business that fails to meet our performance expectations over the medium to long-term. We believe we mitigate this risk through the application of our investment partnership criteria and our disciplined investment process. By avoiding heavily-leveraged, capital intensive businesses, we also aim to preserve our capital. We prefer to invest with entrepreneurs who are known to us personally or through our network. In all cases, we must be convinced of management's competence and character before investing. Investment risk is also offset by diversification of our investment portfolio which reduces the impact of any one particular cash flow source. We have also been successful at negotiating a subordination feature with most of our businesses that gives the Fund a priority distribution on its cash flows for a certain period of time. In addition, while we intend to adhere to our core operating philosophy and to the partnership principles, investment criteria and investment model contemplated thereby, we retain the discretion to select and structure investments in a manner that we see fit, and the manner in which an investment is structured might involve certain other risks.

We conduct business, legal and financial due diligence investigations on all our investments and the purchase and sale agreements pursuant to which we directly or indirectly make our initial investment in an Operating Partnership generally contain customary representations and warranties (in certain cases to the knowledge of the vendors) with respect to the applicable business and related indemnities from the vendors regarding corporate matters, taxes, litigation, operations, employee matters and financial statements, among other things. Generally, the survival period for the representations and warranties and related indemnities is two years from the applicable closing date and in some cases, the maximum liability of the vendors under the indemnities is subject to limits and is subject to deductibles. However, there can be no assurance that we will uncover all risks associated with the investment in our due diligence investigations, that the representations and warranties given by such vendors will adequately protect against such risks, or of recovery by us in the event of a breach of a representation and warranty. Furthermore, the purchase and sale agreements pursuant to which we indirectly make follow up investments in an Operating Partnership do not contain any representations and warranties or related indemnities from the vendors with respect to the business and operation of the applicable Operating Partnership but do contain representations and warranties from the vendors with respect to the ownership of the limited partnership units being sold to us. A failure to uncover risks associated with an investment or to recover in the event of a breach of a representation or warranty may have a material adverse impact on the operations and financial results of the Fund.

As asset managers we may wish to divest an investment that is not meeting our targeted rate of return. Given that our investments are in private businesses which are illiquid, we may not be able to do so.

##### Failure to Realize Anticipated Benefits of Investments Made and Future Acquisitions

The Fund and a number of its Operating Partnerships intend to partner with additional entrepreneurs in the future. The ability to identify new partnership opportunities and to acquire an ownership interest in new partnerships at attractive prices is not guaranteed. Achieving the benefits of future acquisitions will depend in part on successfully consolidating functions and integrating operations, procedures and personnel of all of the

partnerships in a timely and efficient manner. The integration of these future acquisitions will require the dedication of management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the disruption of ongoing business and customer and employee relationships that may adversely affect the Fund or an Operating Partnership's ability to achieve the anticipated benefits of future acquisitions.

#### Business Valuations

Historically, we have been able to invest in excellent private businesses at prices that are accretive to Unitholders. There is no certainty that we will continue to be able to invest at the same level of attractive valuations. Market conditions, competitive factors, and the availability of suitable investments will have some impact on the prices at which we are able to acquire additional cash flows. We believe however that the sum of benefits we offer to the entrepreneur, along with our partnership style of operating, is a unique value proposition that will continue to attract high quality businesses to our fold at accretive prices.

#### Condition of Capital Markets

The condition of the capital markets represents two risks to the Fund. First, we have an ongoing investment program that requires capital. There can be no assurance that this financing will be available when required or available on terms that are favourable to the Fund. This has the potential to hamper our growth. We have replaced our short term credit facility with a longer term facility to provide financing for new investments.

Second, the condition of the capital markets also impacts the revenues and profits of our asset management businesses. We believe we have strong management teams operating these businesses, each with decades of experience in capital markets.

#### Dependence on Key Personnel

The success of the Fund and of each of its Operating Partnerships depends on their respective senior management teams and other key employees, including their ability to retain and attract skilled management and employees. The loss of the services of key personnel could have a material adverse effect on the business, financial condition, results of operations or future prospects of the Fund and its Operating Partnerships. In addition, the growth plans described in this Annual Information Form may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. The Fund and its Operating Partnerships may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that the Fund will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Fund's business, financial condition, results of operations and future prospects.

#### General Economic Factors

The Fund's business and the business of each of our Operating Partnerships is subject to changes in general economic conditions including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. We believe the risk from general economic factors is reduced by having a diverse source of cash flows from businesses that perform differently at different points in the cycle. We also moderate general economic risk by maintaining a conservative balance sheet with prudent use of debt and by investing in companies with histories of profitability through market cycles.

#### Limited Customer Bases

Some of the Operating Partnerships derive a significant portion of their revenues from a limited customer base. If one or more of the significant customers of an Operating Partnership were to cease doing business with the Operating Partnership, or significantly reduced or delayed its purchase of services, the financial condition and results of operations of such Operating Partnership could be materially adversely affected.

#### Environmental Legislation

Environmental matters are subject to regulation under a variety of federal, provincial, territorial, state and municipal laws relating to health and safety and the environment. Management believes that the Operating Partnerships are in material compliance with applicable environmental legislation; however regulation is

subject to change and, accordingly, it is impossible to predict the cost of compliance with new laws or the effects that such changes would have on the Operating Partnerships or their future operations.

Management believes that the risk of non-compliance with environmental regulation is greatest for the Operating Partnerships in the Industrial and Other Segments.

#### Labour

The success of the Fund depends on the ability of the Operating Partnerships to maintain their respective productivity and profitability. The productivity and profitability of the Operating Partnerships may be limited by their ability to employ, train and retain the skilled personnel necessary to meet their respective requirements. None of the Operating Partnerships can be certain that they will be able to maintain the adequate skilled labour force necessary to operate efficiently and to support their growth strategies. As well, none of the Operating Partnerships can be certain that their labour expenses will not increase as a result of shortage in the supply of these skilled personnel. Labour shortages or increased labour costs could impair the ability of an Operating Partnership to maintain or grow its respective Operating Partnership.

#### Interest Rate Risk

A wholly-owned subsidiary of the Fund entered into a secured credit agreement with an affiliate of Fortress Credit Corp. on December 7, 2006 ("**Credit Facility**"). This Credit Facility is referenced to the BA and LIBOR rates. Increases in rates could negatively impact our operating results.

#### Proposed Changes to the Income Tax Rules Applicable to Publicly Traded Trusts and Partnerships

On June 22, 2007, Bill C-52, which significantly modifies the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("**SIFTs**"), received Royal Assent. In particular, certain income of (and distributions made by) a SIFT will be taxed in a manner similar to income earned by (and distributions made by) a corporation. Generally, the application of these rules will not apply to income trusts which commenced public trading prior to November 1, 2006 (such as the Fund), until January 1, 2011, provided that there is no "undue expansion" of a SIFT in the intervening period.

On December 15, 2006, the Department of Finance (Canada) released the normal growth guidelines for SIFTs that qualify for the four-year transitional relief. The guidelines establish objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly-traded units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the SIFT rules. The Fund has not exceeded its growth limits as at December 31, 2007.

Bill C-52 included certain interpretative uncertainties that could subject underlying subsidiary partnerships to tax in a manner similar to the Fund. The Department of Finance issued an announcement on December 20, 2007 (the "**Announcement**") that was meant to address the uncertainties with legislation expected sometime in 2008. In its 2007 financial statements, the Fund has applied the June 2007 enacted legislation in computing future income taxes based on its interpretation of the legislation, but the Fund continues to evaluate the impact of the enacted legislation and the Announcement on its operations.

In addition, the Minister also reiterated the Government's commitment to work with any SIFTs to ensure that they can convert to taxable Canadian corporations without negative tax consequences to Unitholders. Draft legislation implementing these amendments has not yet been released.

The Fund is considering these announcements and the possible impact of the SIFT rules on the Fund. The SIFT rules (including the normal growth guidelines released on December 15, 2006) may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the SIFT rules apply to the Fund, the distributable cash of the Funds may be materially reduced.

The enactment of the SIFT rules results in the recording of future taxes at the substantively enacted tax rates in respect of temporary differences of the Fund that are expected to reverse after the date the changes take effect.

### Dependence on NPY

The Fund is an open-ended, limited purpose trust, which is, for purposes of its income, entirely dependent on NPY's interests in the Operating Partnerships. Although the Fund intends to distribute the interest on the CT Notes and distributions on the CT Units earned by the Fund, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the Fund's ability to make distributions, which remains dependent upon the ability of CT Trust to pay its interest obligations under the CT Notes and to pay distributions or other returns of capital in respect of the CT Units, which ability, in turn, is dependent upon NPY and the operations and assets of the Operating Partnerships.

NPY is entirely dependent on the operations and assets of the Operating Partnerships through its indirect ownership interests. The Fund's ability to make regular distributions to Unitholders is dependent on the cashflow generated by the Operating Partnerships. This is affected by the profitability, fluctuations in working capital, margin sustainability and capital expenditures of the Operating Partnerships. Although the Operating Partnerships intend to distribute their cash available for distribution, there can be no assurance regarding the amounts of income to be generated by the Operating Partnerships and amounts paid to NPY. The failure of any Operating Partnership to make its anticipated distributions could adversely impact the Fund's financial condition and cash flows and therefore the Fund's distributions to Unitholders.

### Regulation

The Fund and its Operating Partnerships are subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on the Fund's and its Operating Partnerships' business, financial condition, results of operations and cash flows. Although such expenditures historically have not been material, such laws and regulations are subject to change. Accordingly, it is impossible for the Fund or the Operating Partnerships to predict the cost or impact of such laws and regulations on their respective future operations.

### Competition

The businesses in which the Operating Partnerships operate are highly competitive. The Operating Partnerships often compete with companies that are much larger and have greater resources than the Operating Partnerships. There can be no assurance that the Fund and the Operating Partnerships will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows and therefore the Fund's distributions to Unitholders.

### Potential Unknown Liabilities

In connection with the prior formation of Operating Partnerships completed by NPY, there may be unknown liabilities assumed by NPY through its interests in the Operating Partnerships for which NPY may not be indemnified by the prior owner. The discovery of any material liabilities could have a material adverse effect on the business, financial condition, results of operations and future prospects of the Fund.

### Availability of Future Financing

The Fund's principal source of funds is cash generated from its Operating Partnerships. The Fund believes that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing business levels. Despite the Fund's expectations, however, it may require additional equity or debt financing to meet its financing requirements. There can be no assurance that this financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Fund, in which event the financial condition of the Fund may be materially adversely affected and the amount of cash available for distribution to Unitholders may be reduced.

### Restrictions on Growth of the Fund

The payout by the Fund of substantially all of its operating cash may make additional capital and operating expenditures dependent on increased cash flow or additional financings in the future. The Fund will require equity or debt financing in order to acquire interests in new Operating Partnerships. There can be no

assurance that such financing will be available when required or on commercially favourable terms, which could limit the growth of the Fund.

#### Potential Future Developments

Management of the Fund, in the ordinary course of business, regularly explores potential strategic opportunities and transactions. The public announcement of any of these or similar strategic opportunities or transactions might have a significant effect on the price of the Fund's securities. The Fund's policy is not to publicly disclose the pursuit of a potential strategic opportunity or transaction unless and until a definitive binding agreement is reached. There can be no assurance that investors who buy or sell securities of the Fund are doing so at a time when the Fund is not pursuing a particular strategic opportunity or transaction, that when announced, would have a significant effect on the price of the Fund's securities.

### ***B. Specific Operating Partnerships***

#### **i. EZEE**

##### Clients and Contracts

EZEE may be unable to maintain and expand its customer base and may not be able to renew its contracts on the same or similar terms and conditions as that which presently exist. As well, EZEE's profitability may be affected by a number of factors including the expiry or termination of existing contracts. EZEE may not be able to enforce the terms of certain of its contracts depending on the laws of the applicable jurisdiction.

##### Dependency on Counterparties for a Number of Contracts and Business Arrangements

EZEE depends on a number of counterparties in the conduct of its business. There can be no assurance that any of these counterparties will be able to continue to perform their respective obligations and contracts. An interruption in or the termination of any contract or business arrangement by any counterparty, including, in relation to EZEE's access to Interac<sup>®</sup>, the supply by banks of cash for EZEE's ATM cash loads, the use of EZEE's employees to load ATMs, and EZEE's inability to make alternative arrangements in a timely manner, or at all, could have a material adverse effect on EZEE's business, financial condition and operating results. In addition, EZEE periodically negotiates renewal terms for these contracts and business arrangements and there can be no assurance that such renewal terms will remain acceptable to EZEE or any such counterparty. An interruption in EZEE's relationship with certain of these counterparties could materially adversely affect EZEE's ability to process ATM transactions. If EZEE were to lose its access to Interac<sup>®</sup> membership, this would immediately result in a material adverse effect to its business. There can be no assurance that EZEE would be able to find alternate supplies or sources or distribution in a timely manner.

##### Interchange System

There can be no assurance that Interac<sup>®</sup> and its member financial institutions will not reduce interchange payments from the current level. Any such reduction could have an adverse impact on EZEE's revenue and profitability.

##### Network Fraud and Money Laundering

The occurrence of fraud and/or money laundering in the Interac<sup>®</sup> network or in EZEE's network could result in an adverse impact on EZEE's business as a result of the implementation of more stringent regulations or the loss of consumer confidence, each of which may result in the transaction volumes at EZEE's ATMs and EZEE's income being adversely impacted.

##### Telecommunications Infrastructure

EZEE relies on the telecommunications network of certain major telephone/telecommunication suppliers in Canada to process transactions. Any prolonged disruption of the telecommunications network would have an adverse effect on EZEE as it would be unable to process ATM transactions.

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<sup>®</sup> Trademark of Interac Inc.

### Proprietary Information

EZEE relies on a combination of copyright, trademark and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented or challenged. Despite EZEE's efforts to protect proprietary rights, unauthorized parties may attempt to obtain or use information that NPY regards as proprietary.

### Transaction Volumes

EZEE's revenues are dependent on transaction volumes at ATMs. In the event that these transaction volumes decrease with the proliferation of additional ATMs in the market, EZEE's revenues could be negatively impacted.

### Alternative Payments

Alternative payment options could be developed that change individuals' requirements to get cash from ATMs. This may adversely impact EZEE's revenues.

### Seasonality

ATM transaction volumes are subject to seasonality. Based upon historical transaction volumes, the highest transaction months are July and August followed by March, June and April. The lowest transaction volumes occur in the months of November, December, January and February.

## **ii. ESR**

### Changes in the Business, Economic and Political Environment

ESR's business and results of operations can be affected significantly by changes in the business and economic environment, including, changes in the level of demand for insurance, price competition and variation in other terms and conditions of trade, increases in the supply of insurance as a result of new capital provided by recent or future market entrants or by existing insurers, volatile and unpredictable developments (including catastrophes), changes in loss of reserves resulting from changing legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop, fluctuations in interest rates, price competition and other changes in the investment environment which affect returns on invested assets and inflationary pressures that affect the size of losses. As a result of fluctuations in pricing, ESR may be unable to obtain business that meets its underwriting standards and pricing expectations.

### Reliance on Independent Brokers

ESR does business with approximately 2,200 independent insurance brokers and/or insurance agents across Canada. ESR has no formal relationships with the brokers and cannot rely on their commitment to ESR's insurance products. Accordingly, there can be no assurance that ESR's relationships with such brokers will continue. A loss of a significant broker could have a material adverse effect on ESR's business, financial condition, results of operations and future prospects. ESR's top 10 customers generate under 40% of revenue.

In accordance with industry practice, ESR's customers often pay the premiums for their policies to brokers for payment to ESR. These premiums are considered paid when received by the broker and thereafter the customer is no longer liable to ESR for those amounts, whether or not ESR has actually received the premiums from the broker. Consequently, ESR assumes a degree of credit risk associated with its reliance on brokers in connection with the settlement of insurance balances.

### Claims Risk

The insurance business underwritten by ESR could be subject to reduced premium volume, increased claim levels or both, the result of which could be a decline in contingent profit commissions and the possibility that the existing underwriting agreements which ESR currently has with insurers may be jeopardized as insurers decide to decline the risk associated with such insurance underwriting.

### ***iii. NPLP, Morrison Williams, and Brompton***

#### Investment Performance

If, over the longer term, NPLP, Morrison Williams and Brompton (collectively, the “**Asset Management Operating Partnerships**”) are unable to achieve investment returns that are competitive with or superior to those achieved by their respective competitors, the Asset Management Operating Partnerships may not attract assets through sales and new clients, or may experience redemptions or the termination of mandates, which may have a negative impact on their respective assets under management. Accordingly, this could have a negative impact on the Asset Management Operating Partnership’s management fee revenue and profitability and consequently could have a material adverse effect on the Asset Management Operating Partnership’s business, financial condition, results of operations and cash flows.

#### Asset Growth and Retention

If market conditions change, investors may seek to modify their portfolios by transferring their investments out of the Asset Management Operating Partnerships. Should a sizeable number of clients seek to withdraw their assets or terminate their agreements with an Asset Management Services Operating Partnership or should there be a decline in sales or new clients, the Asset Management Operating Partnership’s business, results of operations, financial condition and future prospects could be materially adversely affected.

#### Condition of Capital Markets

Each Asset Management Operating Partnership’s revenues are dependent upon its management fees, which are primarily based on the market value of its assets under management. Fluctuations in the market value of these assets under management will result in fluctuations in the Asset Management Operating Partnership’s revenues. The market value of assets under management is affected by factors beyond the Asset Management Operating Partnership’s control, including economic and political conditions, as well as the policies and performance of businesses, governments and the financial community.

#### Access to Distribution Channels

Brompton’s ability to market its products is highly dependent on access to various distribution channels. The loss of access to any of Brompton’s distribution channels could lead to the loss of client accounts and could have a material adverse effect on Brompton’s business, operating results, financial condition and future prospects.

#### Securities Regulatory Environment

The ability of each Asset Management Operating Partnership to carry on its business is dependent upon its compliance with and continued registration under, applicable securities legislation. Any change in the securities regulatory framework or failure to comply with any of these laws, rules or regulations could have an adverse effect on the Asset Management Operating Partnership. The rapidly changing securities regulatory environment and the rising asset management industry standards for operational efficiencies, as well as competitive pressures towards the implementation of innovative products and services may require additional human resources. The implementation of additional reporting obligations and other procedures for investment funds may require additional expenditures which could have a material adverse effect on each Asset Management Operating Partnership’s profitability.

#### Asset Management Contracts

Generally, clients (or the Brompton Funds in the case of Brompton) may terminate their relationship with the Asset Management Operating Partnership on short notice. Any loss of a significant client or a change in the assets managed by the Asset Management Operating Partnership in respect of such client could have a material adverse effect on the Asset Management Operating Partnership.

#### Value of Assets Under Administration/Marketable Securities

Each Asset Management Operating Partnership’s fees for the services rendered to its clients is based on the value of assets under administration. Accordingly, a decrease in such value will decrease the Asset

Management Operating Partnership's fees, which could have a material adverse effect on its business, financial condition and results of operations. Additionally, a decrease in the value of the marketable securities held by the Asset Management Operating Partnership's would reduce the Asset Management Operating Partnership's revenues which could have a material adverse effect on the Asset Management Operating Partnership's business, financial condition and results of operations.

#### Changes in Law

Changes in law, including changes in the income tax rules applying to publicly traded investment funds or operating trusts or to holders of securities of these funds or trusts, may make investments in the Brompton Funds less attractive and result in holders redeeming their securities.

#### Redemptions and Issuer Bids

If investors in the Brompton Funds exercise their right to redeem their securities or securities are purchased for cancellation under issuer bids of the Brompton Funds, the amount of assets under management will be reduced which will reduce Brompton's revenue and profitability.

#### Product Risk

The ability of Brompton to maintain and grow its business is dependent upon its ability to create new funds that can be successfully marketed to investors. An adverse change in the demand for structured products or for Brompton's funds would affect Brompton's ability to increase and possibly maintain net assets under management.

### ***iv. Hargraft & BMI***

#### Changes in the Business, Economic and Political Environment

Hargraft and BMI's business and results of operations can be affected significantly by changes in the business and economic environment, including, changes in the level of demand for insurance, price competition and variation in other terms and conditions of trade, increases in the supply of insurance as a result of new capital provided by recent or future market entrants or by existing insurers, volatile and unpredictable developments (including catastrophes), changes in loss of reserves resulting from changing legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop, fluctuations in interest rates, price competition and other changes in the investment environment which affect returns on invested assets and inflationary pressures that affect the size of losses. As a result of fluctuations in pricing, Hargraft and BMI may be unable to obtain business that meets its underwriting standards and pricing expectations which could have a material adverse effect on their businesses, their financial condition and their results of operations.

#### Competitive Market Environment

The insurance brokerage industry is highly competitive. Hargraft and BMI compete, and will continue to compete, with both large and small companies in the market, some of which may have greater financial, marketing, distributions and management resources. In addition, Hargraft and BMI may not be aware of other companies that may be planning to enter the insurance market. Any new, proposed or potential legislative or industry developments could further increase competition in their markets. There can be no assurance that Hargraft and/or BMI will be able to achieve or maintain any particular level of commissions in this competitive environment.

#### Regulatory Risks

Hargraft and BMI's business is subject to various regulatory requirements imposed by legislation and regulation in Canada applicable to insurance companies. Material changes in the regulatory framework or the failure to comply with regulatory requirements could have an adverse effect on both companies. Additionally, significant tort law reform could impact the cost of litigation surrounding insurance claims. These reforms would result in insurance premiums being lowered with a corresponding reduction in commission revenue levels. To date, no meaningful efforts have been made to persuade regulators to implement tort reform except in the area of auto insurance.

## **v. Marketing Segment (S&E, Gemma, Capital C, IC Group, and Armstrong)**

### Loss of Key Clients

Clients can terminate their contracts, or terminate or reduce volumes, on relatively short notice. Additionally, most contracts do not guarantee a minimum level of revenue, and the profitability of each client program may vary depending on contract term for volume. While most client contracts are supported by long-term relationships, there is no guarantee that this business will continue in the future.

### Ability to Generate Revenue from New and Existing Clients

To increase its revenue, a marketing company needs to obtain additional clients or generate additional demand for its services from existing clients. The ability to generate initial demand for services from clients and additional demand from existing clients is subject to clients' and potential clients' requirements, pre-existing vendor relationships, financial condition, strategic plans and internal resources, as well as the quality of a marketing company's employees, services and reputation and their breadth of service. To the extent that one of the Operating Partnerships in the marketing area cannot generate new business from new and existing clients due to these limitations, it will limit that Operating Partnership's ability to grow its business and to increase revenues.

## **vi. S&E**

### Reliance on Key Suppliers

S&E is reliant upon key suppliers, including sports arenas, for the advertising products that it sells to clients. Should there be a disruption in this supply chain, S&E's performance will be adversely affected. S&E experienced a decline in its revenue and cash flow due to the impact of the NHL work stoppage during the 2004-2005 season. Should the work stoppage reoccur in the NHL or occur in other professional sports leagues, S&E's financial performance may be materially adversely affected.

### Professional Sports Franchises

The revenues of S&E are dependent on the success of sports franchises and the venues in which those franchises play.

Accordingly, a lack of success of such sport franchises could have a material adverse effect on S&E's financial condition and results of operations.

## **vii. Gemma**

### Offshore Competition

In recent years, many contact centre outsource providers have been establishing a presence offshore in countries like India, the Philippines and the Caribbean to provide service to North American and European clients and take advantage of lower labour costs in those jurisdictions. The availability of contact centre solutions from lower cost jurisdictions has created an environment with increasing pricing pressure from clients.

### Staffing Levels

The contact centre industry is characterized by high employee turnover. If Gemma is unable to maintain adequate staffing levels, it may not be able to provide the required services which could materially impact Gemma's revenues and profitability.

## **viii. Armstrong and Capital C**

### Continually Changing Marketing Industry

Armstrong and Capital C operate in a fast-paced, continuously changing marketing industry. There is no assurance that Armstrong and Capital C will continue to be able to react and adapt to changes within their industry and ultimately remain competitive.

## ***ix. IC Group***

### Changes in the Business, Economic and Political Environment

IC Group's business and results of operations can be affected significantly by changes in the business and economic environment, including, changes in the level of demand for insurance, price competition and variation in other terms and conditions of trade, increases in the supply of insurance as a result of new capital provided by recent or future market entrants or by existing insurers, volatile and unpredictable developments (including catastrophes), changes in loss of reserves resulting from changing legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop, fluctuations in interest rates, price competition and other changes in the investment environment which affect returns on invested assets and inflationary pressures that affect the size of losses. As a result of fluctuations in pricing, IC Group may be unable to obtain business that meets its underwriting standards and pricing expectations which could have a material adverse effect on IC Group's business, financial condition and results of operations.

### Competitive Market Environment

The insurance brokerage industry is highly competitive. IC Group competes, and will continue to compete, with both large and small companies in the market, some of which may have greater financial, marketing, distribution and management resources than IC Group. In addition, IC Group may not be aware of other companies that may be planning to enter the insurance market. Any new, proposed or potential legislative or industry developments could further increase competition in IC Group's markets. There can be no assurance that IC Group will be able to achieve or maintain any particular level of commissions in this competitive environment.

### Regulatory Risks

IC Group's business is subject to various regulatory requirements imposed by legislation and regulation in Canada applicable to insurance companies. Material changes in the regulatory framework or the failure to comply with regulatory requirements could have an adverse effect on IC Group. Additionally, significant tort law reform could impact the cost of litigation surrounding insurance claims. These reforms would result in insurance premiums being lowered with a corresponding reduction in commission revenue levels. To date, no meaningful efforts have been made to persuade regulators to implement tort reform except in the area of auto insurance.

### Currency Exchange Rate

Approximately 70% of IC Group's sales are in U.S. dollars which exposes the business to currency fluctuations. This could impact the business positively or negatively during any time period.

### Loss of Core Clients

IC Group's promotional business is focused around several main core clients and loss of one of these clients would expose IC Group to risk of reductions in revenues.

## ***x. NPC***

### Volatility of Industry Conditions

Conditions in the oil and gas services industry are influenced by numerous factors over which NPC has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for services to oil and gas customers. A material decline in oil or gas prices or Canadian

industry activity could have a material adverse effect on NPC's business, financial condition, results of operations and cash flows and therefore on the distributions to Unitholders.

#### Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services. The duration of this period will have a direct impact on the level of NPC's activities. Spring break-up occurs earlier in the year in south-eastern Alberta than it does in northern Alberta. The timing and duration of spring break-up is dependant on weather patterns but it generally occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, NPC may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on NPC's business, financial condition, results of operations and cash flows and therefore on the distributions to Unitholders.

#### Customer Contracts

The business operations of NPC depend on its ability to perform under the agreements with its customers and the ability to attract new business. The key factors which determine whether a client continues to use NPC are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, reputation for safety and competitive pricing. There can be no assurance that NPC's relationship with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on NPC's business, financial condition, results of operations and cash flows.

#### Sources, Pricing and Availability of Equipment and Equipment Parts

NPC sources its equipment and equipment parts from a variety of suppliers. Should any suppliers of NPC be unable to provide the necessary equipment or parts or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on NPC's business, financial condition, results of operations and cash flows.

### ***xi. Quantum Murray***

#### Large Project Risk

A substantial portion of Quantum Murray's revenues are derived from large projects. Opportunities to compete for such large projects do not occur regularly and Quantum Murray's ability to successfully compete for these large opportunities and the length of time required to execute such projects is not predictable. As a result, Quantum Murray may experience fluctuations in financial results and cash flows.

#### Access to Bonding

Most of Quantum Murray's contracts require sufficient bonding. Although Quantum Murray believes that it will be able to secure and maintain surety capacity adequate to satisfy its current requirements, if such requirements become materially greater than anticipated or should sufficient surety capacity not be available, this could have a material adverse effect on Quantum Murray's business, financial condition, future prospects and results of operations.

#### Contractual Risks

A substantial portion of Quantum Murray's revenue is derived from fixed-price contracts pursuant to which a commitment is provided to the owner of the project to complete the project for a guaranteed amount. Any errors in estimating the cost or time to complete such projects may be absorbed by Quantum Murray which may have a material adverse effect on Quantum Murray's business, financial condition and results of operations.

### Economic Risks

Quantum Murray's revenues and profitability are tied to the general state of the economy in those geographic regions in which it operates. A fluctuation in the general state of the economy in those geographic regions in which Quantum Murray operates could have a material adverse effect on Quantum Murray's business, financial condition, future prospects and results of operations.

### Environmental and Safety Risks

Quantum Murray handles hazardous substances such as asbestos, mould, lead, PCBs and contaminated soils as part of its business. While Quantum Murray has not had any incidents, emissions or spills, there can be no guarantee that there will not be any incidents, emissions or spills in the future and that such incidents will be of a non-material nature.

Quantum Murray is subject to, and materially complies with, environmental and health and safety legislation in the jurisdictions in which it operates. Management is not aware of any pending environmental or health and safety legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or incidents which could have a material adverse effect on Quantum Murray's operations, capital expenditure requirements or competitive position.

### Labour Factors

A portion of Quantum Murray's labour force is unionized and accordingly, Quantum Murray is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors.

### Scrap Metal

Quantum Murray frequently obtains the rights to the scrap metal that can be salvaged as part of a given project pursuant to the terms of the contract and in turn sells the scrap metal to various end markets. As a result, Quantum Murray's revenues and profitability are exposed to fluctuations in the market prices for such metals and any decrease in the market price of such metals could have a material adverse effect on Quantum Murray's business, financial condition and results of operations.

## **xii. Rlogistics**

### Economic Risk

The success of Rlogistics depends in large part on the extent of consumer spending and the supply of liquidated goods. Economic conditions and the level of spending on consumer and office products are generally positively correlated. Rlogistics sells discount merchandise and relative to some of its competition that operate in the first-to-market business, generally does not fare as poorly during economic downturns providing there is a large available supply of liquidated goods. It is also important to the ongoing success of Rlogistics that it attracts and retains quality personnel in all departments (especially in purchasing) at reasonable pay rates and utility rates remain reasonable (due to the number of locations Rlogistics occupies).

## **xiii. Peerless**

### Operational Risk

In the normal course of business, Peerless' operations continue to be influenced by a number of internal and external factors, and are exposed to risks and uncertainties, that can affect its business, financial condition and operating results. Peerless' activities are subject to ongoing operational risks, including the performance of key suppliers, product performance, government and other industry regulations, all of which may affect its ability to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

### Contract Timing

Peerless operates in markets subject to government purchasing patterns and large tenders that are at times unpredictable and create fluctuations in the production load throughout the year. Government

purchasing is typically tender driven and subject to competitive bidding. These buying patterns create the need to be able to quickly increase and decrease production capacity. Peerless has addressed this necessity by using a sub-contractor manufacturing model which can be scaled according to production volumes.

#### Customer Concentration/Economic Dependence

Large contracts often create a situation where a significant portion of the Peerless' revenue and accounts receivables may be from a small number of customers increasing the risks of economic dependence and concentration of credit. This risk is mitigated as Peerless' primary customer is the government of Canada. Peerless is economically dependent upon the DND as it made up 89% of its revenues for 2007.

#### Working Capital

Peerless' working capital position is dependent on the timely collection of accounts receivables, inventory management and scheduled supplier payments. A change in supplier payment terms or slow payment of accounts receivables could adversely affect their liquidity.

#### Dependence on Key Management

Peerless is dependent upon the knowledge and relationships of certain key management. These individuals have been employed by Peerless for over 30 years and have expressed no intention of leaving Peerless.

### ***xiv. Titan***

#### Economic Risks

Titan provides products to firms that operate in the natural resources industry. Natural resource prices tend to be correlated to the general state of the economy and the level of activity in natural resource industries fluctuates with the price of each respective natural resource. Since natural resource prices are correlated to the strength of the economy, Titan is exposed to general economic risks in those geographic regions in which they operate as well the general state of the economy of Canada, the United States and globally.

#### Volatility of Industry Conditions

Conditions in the oil and gas services industry are influenced by numerous factors over which Titan has no control, including: the level of oil and gas prices; drilling levels; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing. All of these factors affect the level of activity in the oil and gas industry and the inputs Titan provides for these activities.

#### Seasonality of Oil and Gas Industry

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services. The duration of this period will have a direct impact on the level of Titan's sales. Spring break-up occurs earlier in the year in south-eastern Alberta than it does in northern Alberta. The timing and duration of spring break-up is dependant on weather patterns but it generally occurs in April and May. The demand for oilfield services may also be affected by the severity of the Canadian winters. The volatility in the weather and temperature can therefore create unpredictable activity and utilization rates, which can have a material adverse effect on Titan's business, financial condition, results of operations and cash flows and therefore on the distributions to Unitholders.

## **xv. Gusgo**

### Economic Risk

The trucking industry in general is subject to the risk of a general economic slowdown. The demand for trucking services is traditionally positively correlated to the economy as a whole and a downturn in the economy could have a material adverse effect on the revenues and profitability of Gusgo.

### Fuel Prices

The price of fuel to operate the vehicles and equipment represents a large expense for Gusgo, the price of which fluctuates considerably. A large or unexpected increase in the price of fuel could materially and adversely affect the profits of Gusgo. To date, Gusgo has managed to pass on the recent fuel cost increases to customers, however, this may not always be the case.

### Economic Dependence

As a strategic decision, Gusgo has a relatively concentrated customer base. There can be no assurance that Gusgo's customers will continue to do business with Gusgo at their current levels. The loss of one or more customers, or a significant decrease in the services required could materially adversely affect the revenues and profitability of Gusgo.

## **C. Structure of the Fund**

### Dependence on NPY and the Operating Partnerships

The Fund is a limited purpose trust that is entirely dependent on the operations and assets of NPY and the Operating Partnerships. Accordingly, cash distributions to Unitholders are not guaranteed, and are dependent on the ability of NPY to pay distributions to the Fund and the Operating Partnerships to pay distributions indirectly to NPY. The ability of the Fund to pay distributions or make other payments or advances to the Fund is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness (including the Credit Facility).

### Leverage and Restrictive Covenants

The degree to which the Fund is leveraged could have important consequences to Unitholders, including the following: (i) the ability of NPY to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of NPY's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) certain of the borrowings under the Credit Facility may be at variable rates of interest, which exposes NPY to the risk of increased interest rates; and (iv) the Fund may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. NPY's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flows, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The ability of the Fund to make distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Fund and NPY (including the Debentures (as defined in appendix B) and the Credit Facility). The Credit Facility contains restrictive covenants customary for credit facilities of this nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of NPY to incur additional indebtedness, to pay distributions or make certain other payments, to sell or otherwise dispose of material assets and to make additional acquisitions. In addition, the Credit Facility contains a number of financial covenants that require NPY to meet certain financial ratios and financial tests. A failure to comply with the obligations in the Credit Facility could result in an event of default that, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the assets of NPY would be sufficient to repay in full that indebtedness.

### Potential Sales of Additional Units

The Fund may issue additional Units or securities exchangeable for or convertible into Units in the future. The Fund may issue additional Units in order to, among other things, finance the acquisitions of additional CT Notes or CT Units in order to indirectly fund NPY's capital expenditure and other cash requirements or on the direct or indirect exchange of the Exchangeable Securities. Such additional Units may be issued without the approval of Unitholders. The Unitholders will have no pre-emptive rights in connection with such additional issues. Additional issuance of Units will result in the dilution of the interests of Unitholders.

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

Upon a redemption of Units or termination of the Fund, the Trustees may distribute CT Notes and/or CT Units directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for such securities, and none is expected to develop in the future. In addition, the CT Notes will not be freely tradeable and will not be currently listed on any stock exchange. Securities so distributed may not be qualified investments for trusts governed by deferred income plans, depending upon the circumstances at the time.

### Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and that, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets.

The Declaration of Trust further provides that the Trustees shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund, or the Trustees on behalf of the Fund, a contractual provision to the effect that neither the Unitholders, nor the Trustees have any personal liability or obligations in respect thereof. There remains a risk that a Unitholder may be personally liable despite such a provision in the Declaration of Trust or other agreements made by the Fund.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the *Securities Act* (Ontario), and (ii) the trust is governed by the laws of Ontario. The Fund has been a reporting issuer under the *Securities Act* (Ontario) since July 28, 2005 and it is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

### Undiversified and Illiquid Holdings in the Trust

The Fund's holding of CT Units and CT Notes is undiversified, and such securities are illiquid, as they are not expected to be listed or quoted on any stock exchange or other market.

### Income Tax Matters

Although the Fund, the Commercial Trust, NPY, NPH, the Operating Partnerships and their subsidiaries are of the view that all expenses to be claimed by them in the determination of their respective incomes under the Tax Act is reasonable and deductible in accordance with the applicable provisions of the Tax Act, and that the allocation of partnership income for purposes of the Tax Act between the holders of LP Units and the Commercial Trust is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed or such allocation. If CRA successfully challenges the deductibility of such expenses or the allocation of such income, NPY's allocation of taxable income to the Commercial Trust, and indirectly the taxable income of the Fund and the Unitholders of the Fund, and taxable income of the Operating Partnerships and their subsidiaries, may change.

Elections have been made under the Tax Act such that the transactions under which NPH acquires its interest in the Operating Partnerships may be effected on a tax-deferred basis. The adjusted cost base of any property transferred to an Operating Partnership pursuant to such agreements may be less than its fair market value, such that a gain may be realized on the future sale of the property.

Further, interest on the CT Notes held by the Fund accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. If

sufficient cash is not available, such distributions will be in the form of Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units into their taxable income, in circumstances where they do not receive a cash distribution.

The acquisitions of Operating Partnerships involved various structuring events to complete the transactions in a tax effective manner. These transactions involved interpretations of the Tax Act which could, if interpreted differently, result in additional tax liabilities.

#### Return of Capital

Cash distributions do not represent a “yield” in the traditional sense as they may represent both return of capital and return on investment.

#### Shot-Gun Buy-Sell Rights

Certain of the limited partnership agreements of the Operating Partnerships contain shot-gun buy-sell provisions. The purpose of the shot-gun buy-sell provisions is to provide the parties with a recognized mechanism for solving any fundamental disputes which may develop. If one of the limited partners of the applicable Operating Partnership, other than NPH, initiates a shot-gun buy-sell, the general partner of NPH will have to decide whether to buy at the offered price, in which case monies may have to be raised, either by drawing on the Credit Facility in the short term or issuing more Units, or to sell at the offered price, in which case NPH will receive the proceeds of sale, and will apply the proceeds in such manner as the general partner of NPH determines at the time, subject to any required approvals from lenders or others. There is no assurance that NPH will decide to buy at the offered price or that NPH will have sufficient funds to buy at the offered price. Any decision of NPH not to buy at the offered price or its inability to buy at the offered price may have a negative impact on the Fund. Any sale by NPH pursuant to such shot-gun buy-sell provisions will require consent of the lenders under the Credit Facility. No assurance can be given that such consent will be obtained on acceptable terms or at all should NPH decide that it wishes to sell under such shot-gun buy-sell provisions.

#### Credit Facilities

The Credit Facility, with an affiliate of Fortress Finance Corp., contains a variety of financial covenants. Failure to comply with these covenants could cause a default under the facilities which could have a material adverse effect on the Fund’s financial condition, results of operations and its ability to pay distributions to unitholders. In addition, Brompton has a facility with a syndicate of Canadian chartered banks.

### ***D. Units of the Fund***

#### Unpredictability and Volatility of Unit Price

A publicly traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of the Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

#### Nature of Units

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

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent debt instruments and there is no principal amount owing to Unitholders under the Units. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. Each Unit represents an equal, undivided, beneficial interest in the Fund. The Fund’s

principal assets are CT Units and CT Notes. The price per Unit is a function of the Fund's anticipated distributable cash at any time, which is, in turn dependent on the distributable cash distributed upstream by the Operating Partnerships.

#### Cash Distributions

Cash distributions are not guaranteed and will fluctuate with the performance of each of the Operating Partnerships. Although the Fund intends to distribute the income earned by the Fund, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of cash distributions distributed upstream by the Operating Partnerships and, thus, eventually available for distribution. The actual amount of distributions paid in respect of the Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of the Fund and the Operating Partnerships. The Operating Partnerships and NPY have the discretion to establish cash reserves (including regulatory capital reserves) for the proper conduct of their business. Adding to these reserves (including regulatory capital reserves) in any year would reduce the amount of distributable cash and, hence, of cash available for distributions by the Fund.

As described under the heading, "Proposed Changes to the Income Tax Rules Applicable to Publicly Traded Trusts and Partnerships," on June 22, 2007, Bill C-52 received Royal Assent. Accordingly, certain income of (and distributions made by) a SIFT will be taxed in a manner similar to income earned by (and distributions made by) a corporation. On December 15, 2006, the Department of Finance released the normal growth guidelines for SIFTs that qualify for the four-year transitional relief. The application of the SIFT rules to the Fund may adversely affect the level of distributions received by Unitholders.

#### Restrictions on potential growth

The payout by the Operating Partnerships of a high proportion of their operating cash flow will make additional capital and operating expenditures somewhat dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Operating Partnerships and their cash flow.

#### Limitation on Non-Resident Ownership

The Declaration of Trust imposes various restrictions on Unitholders. Non-resident (as defined in the Declaration of Trust) Unitholders are prohibited from beneficially owning more than 45% of the Units (on a non-diluted and fully diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain Persons (as defined in the Declaration of Trust), including Non-residents, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for the Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

#### Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

#### Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner, which adversely affects Fund Unitholders.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time more than 50% of the aggregate fair market value of the Units were held by non-residents and

partnerships other than Canadian partnerships, the Fund may lose its mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion, which did not include these proposed changes. The Department of Finance indicated that the implementation of the proposed changes would be suspended pending further consultation with interested parties.

## **5. Distributions**

The Fund's policy is to make monthly cash distributions of its distributable cash to Unitholders of record on the last business day of each month, and to pay the distributions within 15 days following each month end.

The amount of the Fund's distributable cash is equal to the interest and principal repayments on the CT Notes owned by the Fund and the distributions (if any) on or in respect of the CT Units owned by the Fund less: (i) administrative expenses and other obligations of the Fund; (ii) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (iii) satisfaction of its debt service obligations (principal and interest) on indebtedness, if any (including the Debentures), and of its obligations pursuant to any agreements entered into in connection with the Credit Facility; and (iv) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of the Fund) and for reasonable reserves.

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

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or an annual information form or similar filing. The Declaration of Trust provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution (except where tax was required to be withheld in respect of the Unitholder's share of the distribution as described below). In this case, each certificate representing a number of Units prior to the non-cash distribution will be deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units.

Unitholders who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. The Fund will withhold from monthly distributions all amounts required to be withheld by law. In the event of a distribution in the form of additional Units, the Trustees may sell such Units to pay withholding taxes and to pay all of the Trustee's reasonable expenses with regard thereto. Any such sale will be made on any stock exchange or other market on which the Units are listed or traded. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

## 5.1 Summary of Distributions

The following table sets forth the monthly distributions per Unit paid by the Fund since the initial public offering on August 8, 2005.

	<b>\$ Per Unit</b>
<b>2005</b>	
August .....	0.06082
September .....	0.07708
October .....	0.07708
November .....	0.07917
December .....	0.07917
<b>2006</b>	
January .....	0.07917
February .....	0.07917
March .....	0.07917
April .....	0.08330
May .....	0.08330
June .....	0.08333
July .....	0.08333
August .....	0.08333
September .....	0.08333
October .....	0.08333
November .....	0.08333
December .....	0.08333
<b>2007</b>	
January .....	0.08333
February .....	0.08333
March .....	0.08333
April .....	0.08333
May .....	0.08333
June .....	0.08333
July .....	0.08333
August .....	0.08333
September .....	0.08333
October .....	0.08333
November .....	0.08333
December .....	0.05420
<b>2008</b>	
January .....	0.05420
February .....	0.05420

### Subordination

The Fund receives indirect cash distributions from NPY which, in turn, receives indirect cash distributions from the Operating Partnerships (via NPH). Subordination of cash distributions within the structure of the Fund occurs at two levels, namely, the Operating Partnership level and the NPY level.

#### Subordination of Distributions at the Operating Partnership Level

Pursuant to the applicable limited partnership agreements for each of Armstrong, Quantum Murray, BMI, and Gusgo, distributions to the entrepreneurs are subordinated to distributions to NPH until the earlier of: (i) the end of the quarter in which (a) October 4, 2008, in the case of Armstrong, (b) January 31, 2009, in the case of Quantum Murray, (c) April 17, 2009, in the case of BMI, and (d) December 31, 2010, in the case of Gusgo, occurs, and (ii) the end of the quarter in respect of which aggregate cumulative distributions to NPH exceed 2 times the yearly priority allocation allotted to NPH (4 times in the case of Gusgo), as adjusted for future acquisitions and changes in capital structure (the "**Operating Level Subordination End Date**"). Any

remaining cash available for distribution is paid proportionately to NPH and the applicable entrepreneurs in accordance with their unit holdings in the respective Operating Partnerships. In addition, if, in any month prior to the Operating Level Subordination End Date, NPH receives less than the specified priority allocation to which it is entitled, distributions of cash available for distribution from the Operating Partnership to the applicable entrepreneurs will be suspended until any deficiency is paid to NPH. The subordination provisions will cease to be effective on the Operating Level Subordination End Date.

Pursuant to the limited partnership agreement pertaining to Morrison Williams, income is not allocated, and cash available for distribution is not distributed to NPH and the entrepreneurs in accordance with their pro rata holdings of units in Morrison Williams. Instead, the allocation of income and the distribution of cash is based on a calculation of the gross revenues of Morrison Williams less commission payable to third parties on account of gross revenues ("**Net Revenues**") and the expenses of Morrison Williams (other than the commissions deducted from gross revenues for the purposes of determining gross revenues) ("**Operating Expenses**"). Before any amount is paid to the Morrison Williams entrepreneurs, NPH receives an amount equal to 72.5% of Net Revenues for the applicable month to a maximum of \$7,003,500 per annum. Before any further amount is paid to NPH, the Morrison Williams entrepreneurs receive the balance of the cash available for distribution, if any, to a maximum of that amount equal to \$9,660,000 less Operating Expenses for the fiscal year less the aggregate amount paid to NPH during the fiscal year pursuant to the previous sentence. 67.5% of any additional Net Revenues in excess of \$9,660,000 is paid to NPH and 32.5% is paid to the Morrison Williams entrepreneurs. These distribution provisions will remain in effect until NPY and the Morrison Williams entrepreneurs otherwise agree.

The subordination of cash available for distributions that had previously existed to NPH from ESR, Capital CEK LP (holding entity of Capital C), S&E, Gemma and NPC each terminated on September 30, 2007.

There is no subordination of distributions of cash available for distribution to NPH in respect of Brompton, EZEE, NPLP, Hargraft, Peerless, IC Group, or Titan. There is no subordination of distributions of cash available for distribution to NPY by NPH.

#### Subordination of Distributions at the NPY Level

The subordination of distributions of cash available for distribution that had previously existed in respect of Class B LP Units and Class C LP Units terminated on September 30, 2007, except for the subordination on the B3 series of Class B LP Units ("**B3 LP Units**") which terminated on February 29, 2008. Upon the termination of the subordination for the Class B LP Units (other than B3 LP Units) and the Class C LP Units, all of the Class B LP Units (other than the B3 LP Units) and Class C LP Units were immediately converted into A2 LP Units.

The B3 LP Units are subject to an escrow arrangement until February 2012 pursuant to which they may be partially or fully forfeit in the event S&E does not achieve certain cash distribution targets.

## **6. Consolidated Capitalization of the Fund**

The following table sets forth the consolidated capitalization of the Fund as at December 31, 2007.

	<u>Authorized</u>	<u>Issued</u>	<u>As at December 31, 2007</u> (000's)
Term Debt .....	—		\$204,862
Convertible Debentures .....	—		\$149,530
Non-Controlling Interest .....	—		\$107,466
Special Voting Units .....	Unlimited	30,501,974	
Units <sup>(1)</sup> .....	Unlimited	41,366,957	\$259,364

<sup>(1)</sup> Sufficient Units are reserved for issuance to satisfy the Fund's obligations in connection with the Exchange Rights granted under the Exchange Agreement. See "Exchange Agreement —Exchange Rights".

### **6.1 Declaration of Trust**

The Fund is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Fund qualifies as a "unit trust" and a "mutual fund trust" for the purposes of the Tax Act, although the Fund is not a mutual fund under applicable securities laws. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference is made to the

Declaration of Trust available at [www.sedar.com](http://www.sedar.com) for a complete description of the Units and the full text of its provisions.

## 6.2 Units and Special Voting Units

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

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net income, net realized capital gains or other amounts, or in the net assets of the Fund in the event of the termination or winding-up of the Fund. Special Voting Units may be issued in series and are only issued to the holders of A2 LP Units, Class B LP Units and Class C LP Units<sup>1</sup> and, if the Trustees so determine, other Exchangeable Securities, in each case, for the purpose of providing voting rights with respect to the Fund to the holders of such securities. Special Voting Units are issued to the holders of the A2 LP Units, Class B LP Units and Class C LP Units or other Exchangeable Securities to which they relate, and are evidenced only by the certificates representing such A2 LP Units, Class B LP Units and Class C LP Units or other Exchangeable Securities unless the Trustees determine otherwise in their sole discretion. Special Voting Units are not transferable separately from the A2 LP Units, Class B LP Units and Class C LP Units or other Exchangeable Securities to which they relate. 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, Class B LP Units and Class C LP Units or other Exchangeable Securities to which the Special Voting Unit is related. Upon the exchange or conversion of an A2 LP Unit, Class B LP Unit or Class C LP Unit or other Exchangeable Security, as the case may be, for Units, the Special Voting Unit that relates to such A2 LP Unit, Class B LP Unit and Class C LP Unit or other Exchangeable Security will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any rights with respect thereto.

Issued and outstanding Units may be subdivided or consolidated from time to time with the approval of a majority of Unitholders, provided that Units may also be consolidated without such approval in the event of any non-cash distribution of the Fund, as described below.

No certificates are issued for fractional Units and fractional Units do not entitle the holders thereof to vote. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. Holders of Units and Special Voting Units have substantially all of the same protections, rights and remedies as a shareholder would have under the *Canada Business Corporations Act*. These protections, rights and remedies are contained in the Declaration of Trust.

### Issuance of Units

The Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan, or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis. The Declaration of Trust provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution (except where tax was required to be withheld in respect of the Unitholder’s share of the distribution as described below). In this case, each certificate representing a number of Units prior to the non-cash distribution will be deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders

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<sup>1</sup> As of September 30, 2007, all Class B LP Units (except B3 LP Units) and Class C LP Units were converted into A2 LP Units.

will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units.

#### Redemption at the Option of Unitholders

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

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

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

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

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

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the Monthly Limit, then the Redemption Price for each Unit tendered for redemption will, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of the assets of the Fund. If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the other specified limitations, then each redeeming Unitholder will be entitled to receive a price per Unit (the "**In Specie**")

**Redemption Price**) equal to the fair market value thereof as determined by the Trustees, which may be satisfied by way of a distribution in specie of the assets of the Fund. In each such case, a proportionate amount of the CT Units and Series 1 Notes held by the Fund having an aggregate value equal to the Redemption Price (or, as applicable, the In Specie Redemption Price) will be redeemed in consideration of the issuance to the Fund of Series 2 Notes and Series 3 Notes, respectively. The Series 2 Notes and Series 3 Notes will then be distributed to the redeeming Unitholder in full satisfaction of the Redemption Price (or, as applicable, the In Specie Redemption Price). Series 2 Notes and Series 3 Notes will be issued only in integral multiples of \$100. Where the principal amount of Series 2 Notes or Series 3 Notes to be received by a Unitholder includes a multiple of less than \$100, that number will be rounded to the next lowest integral multiple of \$100. The Fund will be entitled to all interest paid on the CT Notes and distributions paid on the CT Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of securities on the redemption of Units, the Fund currently intends to allocate to the redeeming Unitholder any capital gain or income realized by the Fund as a result of the redemption of the CT Units and Series 1 Notes and the distribution of securities to the Unitholder on the redemption of such Units.

Despite the foregoing, in the event the Fund has granted security on any of its assets (including, if applicable, CT Units and CT Notes) then, in the event of in specie distributions, such assets may be distributed directly or indirectly (including through another entity) in such manner as is considered appropriate by the Trustee so as to preserve such security interest while giving redeeming Unitholders directly or indirectly, the pro rata interests to which they are entitled.

#### Repurchase of Units

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities laws and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases may constitute an "issuer bid" under applicable Canadian securities laws and must be conducted in accordance with the applicable requirements thereof.

#### Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a "mutual fund trust" under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act (referred to herein as "**Non-Resident Holders**"). Accordingly, the Declaration of Trust provides that at no time may Non-Resident Holders be the beneficial owners of more than 45% of the Units then outstanding. This 45% limitation is applied with respect to the issued and outstanding Units of the Fund on both a non-diluted basis and a fully diluted basis. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware that the beneficial owners of at least 40% of the Units then outstanding are, or may be, Non-Resident Holders, or that such a situation is imminent, the Trustees will make a public announcement thereof and thereafter the Trustees will not accept a subscription for Units from or issue or register a transfer of such Units to a person unless the person provides a declaration that he or she is not a Non-Resident Holder. If, notwithstanding the foregoing, the Trustees determine that 45% or more of the Units are held by Non-Resident Holders, the Trustees may send or cause the sending of a notice to Non-Resident Holders chosen (to the extent possible) in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-Resident Holders, the Trustees may, on behalf of such persons, sell such Units and, in the interim, shall suspend the voting and distribution rights, if any, attached to such Units. Upon such sale, the affected holders shall cease to be holders of the Units so sold and their rights shall be limited to receiving the net proceeds of such sale.

#### Book-Entry Only System

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

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

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

### **6.3 Exchange Agreement**

#### Exchange Rights

Under the Exchange Agreement, the Fund granted to holders of A2 LP Units the right to require the Fund at any time to indirectly exchange each A2 LP Unit for Units of the Fund on a one-for-one basis, subject to customary anti-dilution protection and provided that the exchange will not jeopardize the Fund's status as a "mutual fund trust" under the Tax Act. The exchange rights granted by the Fund are referred to herein as the "Exchange Rights".

#### Dilution Rights and Economic Equivalence

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

#### Reclassification of Units

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

If any such reclassification of the outstanding Units, change of the Units into other units or securities or other capital reorganization of the Fund is the result of any consolidation, amalgamation, arrangement, merger or other form of business combination of the Fund with or into any other entity (other than any such reclassification, reorganization or transaction initiated or requested by a holder of the LP Units, any person not acting at arm's-length to a holder of LP Units or any associate or affiliate thereof), and such transaction is approved by a resolution passed by more than 66⅔% of the votes cast at a meeting of Unitholders, then notwithstanding the terms and conditions of the LP Units, the Exchange Agreement, and any other provision of the Declaration of Trust or the Limited Partnership Agreement, the outstanding LP Units will automatically become exchangeable for, in lieu of the number of Units which they would otherwise have been exchangeable for upon the exercise of the Exchange Rights, the kind and number or amount of securities that the holders of such LP Units would have been entitled to receive as a result of such event if, on the effective date thereof, they had been the registered holders of the number of Units which they would have received had they exercised the Exchange Rights immediately before the effective date of any such transaction.

### **6.4 Convertible Debentures**

#### Series 2005 Debentures

On December 12, 2005, the Fund issued \$85,000,000 aggregate principal amount of subordinated unsecured convertible debentures maturing December 31, 2010 (the "**Series 2005 Debentures**") pursuant to a Trust Indenture dated December 12, 2005 (the "**Trust Indenture**"). The Series 2005 Debentures bear interest at a rate of 7.50% per annum payable semi-annually in arrears on June 30 and December 31 of each year and are listed for trading on the TSX under the symbol NPF.DB.

The Trust Indenture provides that the Series 2005 Debentures are convertible, at the option of the holder at any time prior to maturity, in to a maximum of 8,947,369 Units based on a conversion price of \$9.50 per Unit. The Series 2005 Debentures are redeemable by the Fund after December 31, 2008 and on or prior to December 31, 2009 at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units of the Fund for the 20 consecutive trading days ending five trading days prior to the date on which the notice of redemption is given is at least 125% of the conversion price. The Series 2005 Debentures are redeemable by the Fund after December 31, 2009 and on or prior to the maturity date at a price equal to their principal amount plus accrued and unpaid interest. In addition, subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Series 2005 Debentures on maturity or redemption by issuing the number of Units obtained by dividing \$1,000 by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as applicable.

#### Series 2007 Debentures

On July 12, 2007, the Fund issued \$79,966,000 aggregate principal amount of subordinated unsecured convertible debentures maturing December 31, 2012 (the "**Series 2007 Debentures**") pursuant to a First Supplemental Indenture to the Trust Indenture dated July 12, 2007 (the "**First Supplemental Indenture**"). The Series 2007 Debentures bear interest at a rate of 7.00% per annum payable semi-annually in arrears on June 30 and December 31 of each year and are listed for trading on the TSX under the symbol NPF.DB.A.

The First Supplemental Indenture provides that the Series 2007 Debentures are convertible, at the option of the holder at any time prior to maturity, in to a maximum of 12,500,000 Units based on a conversion price of \$6.90 per Unit. The Series 2007 Debentures are redeemable by the Fund after December 31, 2010 and on or prior to December 31, 2011 at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units of the Fund for the 20 consecutive trading days ending five trading days prior to the date on which the notice of redemption is given is at least 125% of the conversion price. The Series 2007 Debentures are redeemable by the Fund after December 31, 2011 and on or prior to the maturity date at a price equal to their principal amount plus accrued and unpaid interest. In addition, subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the Series 2007 Debentures on maturity or redemption by issuing the number of Units obtained by dividing \$1,000 by 95% of the volume-weighted average trading price of the Units on TSX for the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as applicable.

## **7. Market for Securities**

### **7.1 Newport Partners Income Fund Units**

The Units are listed for trading on the TSX under the symbol "NPF.UN".

#### Trading Price and Volume

The following table sets out the high and low trading prices, closing prices and trading volumes of the Units for the period from January 1, 2007 to December 31, 2007.

<b>2007</b>	<b>Price Data</b>			<b>Monthly Volume</b>
	<b>High</b>	<b>Low</b>	<b>Close</b>	
January .....	\$ 6.50	\$ 5.71	\$ 6.35	4,162,945
February .....	\$ 6.90	\$ 6.31	\$ 6.55	3,127,004
March .....	\$ 6.40	\$ 6.05	\$ 6.05	1,346,034
April .....	\$ 5.99	\$ 5.75	\$ 5.85	1,856,749
May .....	\$ 6.20	\$ 5.70	\$ 5.98	1,761,142
June .....	\$ 6.05	\$ 5.85	\$ 5.94	892,959
July .....	\$ 6.55	\$ 5.95	\$ 6.40	1,394,241
August .....	\$ 6.18	\$ 5.77	\$ 5.95	1,496,581
September .....	\$ 5.99	\$ 5.55	\$ 5.61	2,635,550
October .....	\$ 5.75	\$ 5.35	\$ 5.35	2,083,163
November .....	\$ 5.31	\$ 4.35	\$ 4.40	2,724,267
December .....	\$ 4.40	\$ 3.80	\$ 4.38	2,771,487

## Normal Course Issuer Bid

On December 18, 2007, the Fund announced that it had received approval from the TSX to purchase for cancellation, through the facilities of the TSX, up to 2,070,348 Units. The normal course issuer bid came into effect on December 20, 2007 and will terminate on December 19, 2008. As of March 25, 2008, the Fund had bought back and cancelled 40,000 Units at an average price of \$4.32 under this normal course issuer bid. Management and the Trustees of the Fund are of the view that purchases of Units of the Fund from time to time at the prevailing market price are a worthwhile investment and in the best interests of the Fund and its Unitholders.

The Fund previously had a normal course issuer bid in place which commenced on December 8, 2006 and expired on December 7, 2007. Under this normal course issuer bid, the Fund received approval to purchase for cancellation, through the facilities of the TSX, up to 1,924,572 Units. Throughout 2007, the Fund bought back and cancelled 1,924,572 Units at an average price of \$6.04 under this normal course issuer bid.

A copy of the normal course issuer bid notices can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Fund.

## 7.2 Newport Partners Income Fund Debentures

The Fund has two issues of convertible debentures outstanding, both of which are listed for trading on the TSX. The Series 2005 Debentures were issued in December 2005, trade under the symbol "NPF.DB" and began trading on April 13, 2006. The Series 2007 Convertible Debentures were issued in July 2007, trade under the symbol "NPF.DB.A" and began trading on July 12, 2007.

### Trading Price and Volume

The following table sets out the high and low trading prices, closing prices and trading volumes of the Series 2005 Debentures for the period from January 1, 2007 to December 31, 2007.

2007	Price Data			Monthly Volume
	High	Low	Close	
January	\$98.00	\$94.12	\$97.50	1,899,930
February	\$100.00	\$96.75	\$100.00	12,221,000
March	\$100.79	\$98.00	\$98.00	1,145,000
April	\$100.00	\$97.50	\$98.00	4,726,000
May	\$101.00	\$98.00	\$101.00	3,035,000
June	\$100.50	\$94.50	\$98.00	3,161,000
July	\$100.00	\$97.00	\$99.00	1,770,000
August	\$99.00	\$93.00	\$95.00	577,000
September	\$95.00	\$87.00	\$90.00	2,546,890
October	\$92.00	\$89.50	\$90.00	2,320,070
November	\$90.00	\$80.00	\$80.00	1,533,000
December	\$85.50	\$75.00	\$86.50	6,996,000

The following table sets out the high and low trading prices, closing prices and trading volumes of the Series 2007 Debentures for the period from July 12, 2007 to December 31, 2007.

2007	Price Data			Monthly Volume
	High	Low	Close	
July	\$100.50	\$97.50	\$97.50	8,524,000
August	\$98.75	\$93.00	\$96.00	3,688,000
September	\$96.00	\$89.00	\$89.00	778,000
October	\$93.00	\$86.00	\$89.00	2,724,000
November	\$92.00	\$72.00	\$76.00	1,470,000
December	\$90.00	\$67.00	\$90.00	1,898,000

## 8. Trustees and Officers

### Newport Partners Income Fund

#### 8.1 Trustees

The Trustees are to supervise the activities and manage the affairs of the Fund. The Trustees of the Fund are Paul Beeston, John K. Bell, K. Michael Edwards, Richard W. Ivey, Gerry Smith and David A. Williams. Under the Declaration of Trust, all of the Trustees are required at all times to be “independent” within the meaning of Multilateral Instrument 52-110 – *Audit Committees*.

The names, municipalities of residence and principal occupation of the Trustees are set out in the table below:

<b>Name and Municipality of Residence</b>	<b>Position with the Fund</b>	<b>Date First Became a Trustee</b>	<b>Principal Occupation</b>
Paul Beeston . . . . . Toronto, Ontario	Trustee	August 8, 2005	Executive Director
John K. Bell . . . . . Cambridge, Ontario	Trustee	August 8, 2005	Chairman, The Onbelay Group of Companies
K. Michael Edwards . . . . . Toronto, Ontario	Trustee	August 8, 2005	Chairman and Chief Executive Officer, FieldWorker Products Limited
Richard W. Ivey . . . . . Toronto, Ontario	Trustee	August 8, 2005	Chairman, Ivest Properties Limited
Gerry Smith . . . . . Orillia, Ontario	Trustee	August 8, 2005	President, Huron Investments Inc.
David A. Williams . . . . . Toronto, Ontario	Trustee	August 8, 2005	President, Roxborough Holdings Limited

The following is a brief profile of the Trustees of the Fund:

*Paul Beeston.* Mr. Beeston was president and chief operating officer of Major League Baseball from 1997 to 2002. Prior to this, he held senior offices with the Toronto Blue Jays from 1976, including president and chief executive officer in 1991. Mr. Beeston is a member of the Board of Directors of Loblaw Companies Limited, the Chairman on the Board of Trustees of the Centre for Addiction and Mental Health, and a member of the Executive Committee of the Baseball Hall of Fame in Cooperstown, New York. Mr. Beeston holds a B.A. in economics and political science and an honorary Doctor of Laws from the University of Western Ontario, an honorary Doctor of Social Sciences from Niagara University, and is a Fellow of the Institute of Chartered Accountants. In 1998, Mr. Beeston was appointed a Member of the Order of Canada.

*John K. Bell.* Mr. Bell is Chairman of The Onbelay Group of Companies, a Cambridge based Private Equity Corporation with investments in automotive, telematics and technology. He is past Chairman of The Polymer Plainfield Companies, a Tier 2 automotive parts manufacturer and past Chairman and Founder of Shred-Tech Ltd., a world leader in recycling technology and equipment. He is a director of ATS Automation Tooling Systems and BSM Wireless and is currently Chairman of Cambridge Memorial Hospital, and Co-chair of the Prosperity Council of Waterloo Region. Mr. Bell is a graduate of The Ivey School of Business, and a Fellow of The Institute of Chartered Accountants of Ontario.

*K. Michael Edwards.* Mr. Edwards became the chairman and chief executive officer of FieldWorker Products Limited, a mobile data solutions development company after retiring from the position of president and chief executive officer of RT Investment Management Holdings Inc., a money manager, in February 2002. Mr. Edwards has a long history in the investment business, having held senior positions within RBC Financial Group and Richardson Greenshields prior to its acquisition by RBC, Gardiner Watson/Dean Witter, and McLeod Young Weir. Mr. Edwards served as a member of the Executive Committee of the Investment Dealers Association, was the Chairman of the Joint Industry Committee on Pension Reform, was a Director and member of the Executive Committee of the Mutual Fund Dealers Association, and a was a member of the Dey Commission on Corporate Governance. He became a member of the Board of Governors of the TSX in 1985, and has served as both the Vice Chairman and Chairman. Mr. Edwards is also an active community member,

having held the position of Director of the Children's Aid Society Foundation of Metropolitan Toronto, Governor of the Banff Centre, and Director of the Stratford Festival Foundation. Mr. Edwards is currently a Director of the Mount Pleasant Group, a Director of Fundserve and a Director of Energy Split Corp Inc. and Energy Split Corp II Inc. He is also a member and past-Chair of the Business Advisory Council of the University of Alberta, and a Founding Director and Chairman of the Invest in Kids Corporation and Foundation. Mr. Edwards holds a Bachelor of Commerce degree from the University of Alberta.

*Richard W. Ivey.* Mr. Ivey is chairman of Ivest Properties Limited, a real estate development and management company. For many years he was an executive in the packaging and logistics industries. Prior to this, Mr. Ivey practiced law at Torys LLP until 1982. Mr. Ivey serves as a member of the Board of Directors of Canada Colors and Chemicals Limited, and is a past-director of several companies across a variety of industries. His charitable and community involvement is extensive. Mr. Ivey currently holds the positions of chairman of the Canadian Institute for Advanced Research, secretary and treasurer of the Ivey Foundation, vice chairman of the Board of Trustees of University Health Network, member of the Advisory Board of the Richard Ivey School of Business, member of the Board of Directors of the Toronto Community Foundation and Pearson College of the Pacific Foundation, and member of the Advisory Board of Social Capital Partners. Mr. Ivey holds a degree in Business Administration from the University of Western Ontario, and a Law degree from the University of Toronto.

*Gerry Smith.* Mr. Smith is owner and president of Huronia Investments Inc., a private investment holding company. He is also an owner and executive with Point To Point Communications Limited and Sitecom Services Limited, both companies involved in the supply of wireless communication products and services and the development of wireless broadband solutions. Previously, Mr. Smith was an owner and executive of Seeburn Metal Products Limited, an automotive parts manufacturing company. His past Board experience includes positions with Huronia Trust, Merchant Private Trust, and Connor Clark Limited. Mr. Smith has been actively involved in several charitable endeavours in his home town of Orillia, Ontario. Mr. Smith holds a Bachelor of Commerce degree and an M.B.A. from McMaster University and is a Chartered Accountant.

*David A. Williams.* Mr. Williams has served as president of his investment company, Roxborough Holdings Limited, since 1995. From 1969 to 1994, he held senior management positions with Beutel Goodman Company, one of Canada's largest institutional money managers. He also has extensive board experience. He is a director of Western Copper, Calvalley Petroleum, Atlantis Systems Corp., Resin Systems Inc. and RoaDor Industries Ltd. Mr. Williams is a director of Bishop's University Foundation and is involved with a number of community related projects. Mr. Williams holds a Bachelors degree in Business from Bishop's University, and an M.B.A. from Queen's University.

The term of office for each of the Trustees will expire at the time of the next annual meeting of Unitholders of the Fund.

As at February 29, 2008, the Trustees of the Fund as a group beneficially owned, or controlled or directed, directly or indirectly, 783,160 Units and 711,642 LP Units, representing approximately 2.08% of the fully diluted outstanding Units.

## **8.2 Committees**

The Trustees have appointed an Audit Committee consisting of John Bell (Chairman), Paul Beeston and David Williams all of whom are independent and financially literate within the meaning of Multilateral Instrument 52-110 – *Audit Committees*. The Audit Committee is responsible for the oversight and supervision of: (i) the accounting and financial reporting practices and procedures of the Fund; (ii) the adequacy of the internal accounting controls and procedures of the Fund; and (iii) the quality and integrity of the financial statements of the Fund. In addition, the Audit Committee is responsible for the appointment, compensation, retention and oversight of the external auditor, as well as the pre-approval of all non-audit services to be provided by the external auditor, and for directing the auditor's examination into specific areas of the business of the Fund. The Audit Committee has a written charter (attached as Appendix A) and has established procedures to deal with complaints regarding accounting, internal accounting controls or auditing matters and to deal with confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

The Compensation and Corporate Governance Committee is composed of Michael Edwards (Chairman), Richard Ivey and Gerry Smith, each of whom is independent, within the meaning of multilateral instrument 52-110 - *Audit Committees*. Each member of the Compensation and Corporate Governance Committee will serve only at the pleasure of the board of directors of GP Trustee and, in any event, only so long as he or she shall be an independent director. The Compensation and Corporate Governance Committee has the responsibility to

review and monitor the corporate governance practices and senior officer compensation of the Fund. While corporate governance and compensation ultimately remains the responsibility of the board of directors, the Committee shall review and monitor the corporate governance practices and compensation of GP Trustee and NPY. The Compensation and Corporate Governance Committee will primarily fulfill its responsibilities by carrying out the activities outlined in its charter. The Compensation and Corporate Governance Committee is given full access to management and records and as necessary to carry out these responsibilities.

### **8.3 Trustees and Directors of Related Entities**

The sole trustee of the Commercial Trust is Newport Partners Trustee Inc. (“CT Trustee”), a corporation incorporated under the laws of the Province of Ontario and a wholly-owned subsidiary of the Fund. The directors of CT Trustee are the six Trustees of the Fund.

The general partner of NPY is GP Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario. The sole trustee of the GP Trust is GP Trustee, a corporation incorporated under the laws of the Province of Ontario and a wholly-owned subsidiary of the Commercial Trust.

The board of directors of GP Trustee are the six Trustees of the Fund and the following individuals:

*Aubrey W. Baillie.* Mr. Baillie is executive chairman of the Fund and one of the founders of NPLP, with over 35 years experience in the investment industry. He retired in 1999 as deputy chairman and chief operating officer of Nesbitt Burns Inc., having joined a predecessor firm in 1977. Aubrey Baillie is a member of the board of directors of each of Ausnoram Holdings Ltd. and Welton Energy Corporation. He is a past chair of the Board of Trustees of the United Way of Greater Toronto, chair of the Board of the Juvenile Diabetes Research Foundation, Canada, Appleby College Foundation and a member of the Wellspring board of directors. Mr. Baillie holds a degree in Business Administration from the University of Western Ontario, and is a chartered accountant.

*Douglas C. Brown.* Mr. Brown is one of the founders of NPLP with more than 20 years experience advising individuals and families on wealth management. Mr. Brown was called to the Law Society of Upper Canada in 1985 and began practicing law at the firm Fasken & Calvin (now Fasken Martineau DuMoulin LLP). In 1994, he left his law practice to join Merchant Private Trust Company where he was managing director from 1996 to 1998. In 1998, Mr. Brown was appointed President of Merchant Private Trust Company and in 1999 the firm, re-named Connor Clark Private Trust, was acquired by Royal Bank of Canada and renamed RBC Private Counsel, where Mr. Brown was appointed Vice-Chairman. Mr. Brown sits on the board of directors of various private companies and charitable foundations. Mr. Brown received an Honours Bachelor of Arts from the University of Toronto, and a Bachelor of Laws from the University of Windsor.

*Mark A. Kinney.* Mr. Kinney is one of the founders of NPLP with 20 years experience in the financial industry. Prior to joining Newport Partners, he was a vice president at RBC Private Counsel. From 1992 to 1999, he was a principal with Merchant Private Trust Company and Connor Clark Private Trust, which was acquired by the Royal Bank of Canada in 1999. He started his career in the investment industry at Canada Trust in 1989. Mr. Kinney is Chair of NPLP’s Investment Committee. Mr. Kinney is the treasurer and a director of The Yellow Bus Foundation. He received an Honours Bachelor of Arts (Economics) from York University, and MBA (Finance) from McMaster University and is a CFA charterholder. He is also a current member of the Toronto Society of Financial Analysts, and is a member of the Association for Investment Management and Research.

*David T. Lloyd.* Mr. Lloyd is one of the founders of NPLP and has over 25 years of wealth management advisory experience. Prior to forming NPLP, he was a vice president at RBC Private Counsel, having co-founded its predecessor firm, Merchant Private Trust Company in 1991. From 1986 to 1991, Mr. Lloyd was a partner at one of Canada’s first fee-for-service financial planning firms. He joined Clarkson Gordon in 1980 and began specializing in personal tax and financial planning in 1983. Mr. Lloyd has written articles that have been published in a variety of financial journals, including the Canadian Institute and the Insight Conference on Investment Strategy, and he has appeared on various business television programs. Mr. Lloyd has a Bachelor of Arts (Economics) from the University of Western Ontario and is a chartered accountant.

*Peter L. Wallace.* Mr. Wallace is president and chief executive officer of the Fund. He is one of the founders of NPLP and is the lead partner in the private equity practice. Mr. Wallace has 30 years of experience in the investment industry. Prior to co-founding NPLP, Mr. Wallace was president of Wealth Management at Canada Trust Financial Services. Prior to Canada Trust, he was president of Midland Walwyn Capital Inc. (now Merrill Lynch Canada Inc.). He has been a governor of the TSX, a past chairman of Crescent School and is currently on the Board of Trustees for the Boys and Girls Clubs of Canada.

#### 8.4 Officers of GP Trustee

The following table sets out, for each of the executive officers of GP Trustee, the person's name, municipality of residence and position with GP Trustee.

<u>Name and Municipality of Residence</u>	<u>Position with GP Trustee</u>
Aubrey W. Baillie ..... Toronto, Ontario	Executive Chairman
Peter L. Wallace ..... Toronto, Ontario	President and Chief Executive Officer
Kelly A. Baird ..... Toronto, Ontario	Chief Financial Officer and Secretary
Douglas C. Brown ..... Mississauga, Ontario	Vice-President
Keith Halbert ..... Oakville, Ontario	Vice-President
Mihkel Holmberg ..... Toronto, Ontario	General Counsel
Mark A. Kinney ..... Toronto, Ontario	Vice-President
David T. Lloyd ..... Toronto, Ontario	Vice-President
Michael J. Svetkoff..... Toronto, Ontario	Vice-President
Kelly Willis..... Toronto, Ontario	Vice-President

#### 8.5 Corporate Cease Trade Orders or Bankruptcies

David A. Williams was a director of Krystal Bond Inc. from April 1996 to April 2002. Krystal Bond Inc. was subject to a cease trade order issued by the Ontario Securities Commission on April 12, 2002. Mr. Williams was a director of Octagon Industries Inc. ("**Octagon**") from November 1993 to present. Octagon was subject to cease trade orders issued by the British Columbia Securities Commission on May 29, 2001 (revoked on August 28, 2001) and on June 24, 2004, and by the Alberta Securities Commission on June 8, 2004, for failure to file its required financial statements. Octagon was delisted from the NEX (a separate exchange of the TSX Venture Exchange) for default of paying its listing fees for the third quarter of 2004. On August 12, 2001, Octagon's trustee sent a proposal to unsecured creditors of Octagon, pursuant to the *Bankruptcy and Insolvency Act* (Canada), which was approved by a majority of the unsecured creditors at the general meeting of the creditors held on August 25, 2001.

Messrs. Wallace and Baillie became directors of The NRG Group Inc. in March 2000. The NRG Group Inc. was suspended from trading on the TSX for failure to meet the minimum market capitalization listing requirements. The NRG Group Inc. was subject to cease trade orders issued by the Ontario, British Columbia, Alberta and Manitoba Securities Commissions for failure to file its audited financial statements for the year ended December 31, 2002 and for the three month period ended March 31, 2003. The financial statements were subsequently filed on SEDAR on August 7, 2003 and August 18, 2003, respectively, and the cease trade orders were revoked. On July 23, 2003, NRG was voluntarily delisted from the TSX. In August 2003, the shareholders of The NRG Group Inc. approved the acquisition of Welton Energy Corporation, a private Alberta-based oil and natural gas company, by The NRG Group Inc. It continues to carry on its business under the Welton Energy Corporation name, and Messrs. Wallace and Baillie remain directors of Welton Energy Corporation Inc.

## 9. Legal Proceedings

Management of the Fund is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Fund, the Commercial Trust, NPY or any Operating Partnership or relating to their respective businesses which would be material to the Fund's financial condition or results of operations, on a consolidated basis.

## 10. Interest of Management and Others in Material Transactions

The following table summarizes management and trustee holdings as at February 29, 2008.

	Newport Partners Income Fund	NPY	Total Owned	Total Issued and Outstanding	Percentage Owned
Newport Partners Principals	3,850,178	9,387,027	13,237,205	71,868,931	18.42%
Trustees	783,160	711,642	1,494,802	71,868,931	2.08%
Newport Partners Employees (other than Newport Partners Principals)	151,207	39,663	190,870	71,868,931	0.27%

## 11. Transfer Agent and Registrar

CIBC Mellon Trust Company, 320 Bay Street P.O. Box 1, Adelaide Street Postal Station, Toronto, Ontario, M5H 4A6, is the transfer agent and registrar for the Units.

## 12. Material Contracts

In connection with the initial public offering of the Fund, the Fund entered into a number of material contracts, which are referred to in the Fund's prospectus dated July 28, 2005 under the heading "Material Contracts". A copy of the prospectus of the Fund and the material contracts described therein are available at [www.sedar.com](http://www.sedar.com).

The Fund has entered into the following additional material contracts during its most recently completed financial year:

- (i) Underwriting Agreement dated June 25, 2007;
- (ii) First Amendment to Credit Agreement dated May 9, 2007;
- (iii) Second Amendment to Credit Agreement and Consent dated July 3, 2007; and
- (iv) First Supplemental Indenture to Trust Indenture dated July 12, 2007.

Copies of these documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 13. Interest of Experts

The Fund's independent external auditors are KPMG LLP, Yonge Corporate Centre, 4100 Yonge Street, Suite 200, Toronto, Ontario, M5H 2H3. KPMG LLP has audited the financial statements of the Fund for the period ended December 31, 2007, and has issued an audit report to the Fund with respect to such financial statements.

KPMG LLP is independent of the Fund in accordance with the requirements of the Ontario Institute of Chartered Accountants.

## 14. Additional Information

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including trustees', directors' and officers' remuneration and indebtedness and principal holders of the Fund's securities is contained in the Fund's information circular prepared in connection with the Fund's Annual Meeting of Unitholders.

Additional information is provided in the Fund's financial statements and Management's Discussion & Analysis for the financial year period ended December 31, 2007.

**Appendix A**  
**AUDIT COMMITTEE INFORMATION**

**1. Audit Committee Charter**

See Schedule 1 attached hereto.

**2. Composition of the Audit Committee**

The Audit Committee of the Fund is currently comprised of John Bell (Chairman), Paul Beeston and David Williams all of whom are independent and financially literate within the meaning of Multilateral Instrument 52-110—*Audit Committees*.

**3. Relevant Education and Experience**

Mr. Bell, who is the Chair of the Audit Committee, is Chairman of the Onbelay Group of Companies, a Cambridge based Private Equity Corporation. He is also Chairman and a significant equity holder in an automotive supplier and holds significant ownership positions in other private equity investments.

Mr. Bell is a chartered accountant and holds a degree in Business Administration from the University of Western Ontario.

Mr. Beeston is a member of the board of directors of Loblaw Companies Limited. Prior to that, Mr. Beeston was President and Chief Operating Officer of Major League Baseball from 1997 to 2002 and held senior offices with the Toronto Blue Jays from 1976, including President and Chief Executive Officer.

Mr. Beeston is a Fellow of the Institute of Chartered Accountants and holds a B.A. in economics and political science, an honorary Doctor of Laws from the University of Western Ontario and an honorary Doctor of Social Sciences from Niagara University.

Mr. Williams is President of Roxborough Holdings Limited, an investment company. He is also a director of Western Copper Corporation, Calvalley Petroleum Inc., Atlantis Systems Corp., Resin Systems Inc. and RoaDor Industries Ltd. Prior to this, he held senior management positions with Beutel Goodman Company, one of Canada's largest institutional money managers.

Mr. Williams holds a bachelor's degree in Business from Bishop's University and an M.B.A. from Queen's University.

**4. External Auditor Service Fees**

Audit Fees

KPMG LLP, the Fund's external auditor, auditor of NPY, and auditor of certain operating partnerships, charged \$1,807,658 for audit services and specified procedures relating to the quarterly reports of the Fund, services related to the 2007 fiscal period (\$1,732,700 – 2006 fiscal period).

Other auditors charged the operating partnerships \$184,186 for 2007 (\$480,973 for 2006).

Audit-Related Fees

KPMG LLP, the Fund's external auditor, charged the Fund and NPY \$303,542 for audit related services in the 2007 fiscal period. The audit-related services provided related to the convertible debenture offering (\$698,129 – for audit related service relating to the unit trust offering and Business Acquisition Reporting for 2006).

Other auditors charged the Fund and NPY \$145,913 for 2007 (\$187,756 for 2006).

Tax Fees

KPMG LLP, the Fund's external auditor, the auditor of NPY, and the auditor of certain operating partnerships, charged the Fund \$29,892 for tax services in the 2007 fiscal period. These services included advice with respect to the tax structuring of the Fund's convertible debenture offering as well as compliance reporting (\$36,775 for tax services with respect to the tax structuring of the Fund's unit trust offering as well as compliance reporting in 2006).

Other auditors charged \$24,910 for tax services in the 2007 fiscal period relating to tax compliance reporting (\$nil in the 2006 fiscal period).

**Schedule I**  
**AUDIT COMMITTEE CHARTER**

***Purpose***

The primary function of the Audit Committee is to assist the Board of Trustees ("Board") in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to unitholders and others, the systems of internal controls that management and the Board have established, and the Fund's and its subsidiaries' audit and financial reporting process.

The external auditor's ultimate responsibility is to the Board and the Audit Committee, as representatives of the Fund and its unitholders.

The Audit Committee will primarily fulfill its responsibilities by carrying out the activities outlined in this Charter. The Committee is given full access to the Fund's management and records and its external auditors as necessary to carry out these responsibilities.

The Audit Committee has the authority to engage independent counsel and other advisors as may be necessary, and to set and pay their compensation.

***Composition and Qualification***

The Audit Committee will be comprised of 3 trustees, each of whom will be an independent trustee, as contemplated by the Guidelines published by the Ontario Securities Commission.

Each member of the Audit Committee will serve only at the pleasure of the Board and, in any event, only so long as he or she shall be an independent trustee. The Board may fill vacancies in the Audit Committee by appointment, and if and whenever a vacancy shall exist in the Audit Committee, the remaining members may exercise all of its powers so long as a quorum remains in office.

All members of the Committee shall be financially literate and thus be able to read and understand a set of financial statements that have a level of complexity of accounting that is comparable to that of the Fund's financial statements. At least 1 member of the Committee will have accounting or related financial expertise. This could include past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including been or having been a chief executive officer, chief financial officer or other senior officer of an entity with financial oversight responsibilities.

***Responsibilities and Duties***

To fulfill its responsibilities and duties, the Audit Committee shall:

- a) meet at least 4 times per year and review and recommend to the Board for approval:
  - the audited financial statements of the Fund and the management discussion and analysis contained therein;
  - all financial information in any annual reports, prospectuses and other offering memoranda of the Fund;
  - interim and year end financial statements of the Fund required by regulatory authorities;
  - press releases relating to interim and year end financial results of the Fund;
  - recommendations of the auditors for strengthening internal controls to ensure that processes are in place to mitigate or eliminate risks associated with financial reporting and cash management for the Fund as well as the response of management to these recommendations;
  - ensure adequate procedures are in place for the review of the Fund's public disclosure of financial information extracted or derived from the Fund's financial statements, other than the disclosure referred to above, and periodically assess the adequacy of these procedures.
- b) review with management all significant variances between comparative reporting periods in any financial statements of the Fund, including variances in forecasted financial information from actual results which may have been included in any public documents of the Fund;

- c) meet periodically with the external auditors and at least once a year meet in confidence with the external auditors and report to the Board on such meetings including the nature of the external auditor's recommendations and assume direct responsibility for overseeing the work of the external auditors;
- d) make recommendations to the Board as to the reappointment or appointment of the auditors and the nomination and remuneration of the auditors on an annual basis. If a change in auditors is proposed, the Audit Committee will inquire as to the reasons for the change, including the response of the incumbent auditors and inquire as to the qualifications of the newly proposed auditors before making its recommendation to the Board;
- e) review the audit plans of the auditors and report to the Board any significant reservations the Audit Committee may have or the auditors have expressed with respect to such arrangements or scope. Review with the auditors the degree of coordination of those plans and inquire as to the extent the planned audit scope can be relied upon to detect weaknesses in internal controls;
- f) review management programs and policies regarding the adequacy of internal controls over the accounting and financial reporting systems within the Fund. Meet with appropriate officers of the Fund to discuss the effectiveness of the internal control and information security procedures established for the Fund. Receive reports relating to the control environment in connection with the trading activities of the Fund;
- g) receive reports relating to compliance by the Fund with the legal and regulatory obligations applicable to it;
- h) review management plans regarding any changes in accounting practices or policies and the financial impact thereof and review any major areas of management judgement and estimates that have significant effect upon the financial statements of the Fund;
- i) review with management, the auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a materially adverse effect upon the financial position or operating result of the Fund, and the manner in which these matters have been disclosed in the financial statements of the Fund;
- j) review and pre-approve any non-audit related services provided by the external auditors of the Fund and the fees related thereto. Review and confirm the independence of the external auditors by obtaining statements from such auditors on relationships between the auditors and the Fund, including non-audit services, and discussing the relationships with the auditors;
- k) review the basis and amount of the external auditor's fees in light of the number and nature of reports issued by the auditors, the quality of the internal controls, the size, complexity and financial condition of the Fund and the extent of support provided to the auditors and to review all other non-audit fees of the auditors and other accounting firms;
- l) report annually to the unitholders, describing the Audit Committee's composition, responsibilities and how they were discharged, and any other information required;
- m) perform other activities related to this charter as requested by the Board;
- n) establish procedures for (i) the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Fund of concerns regarding questionable accounting or auditing matters, including a violation of the Code of Ethics;
- o) review and assess the adequacy of the Audit Committee Charter annually, requesting Board approval for proposed changes;
- p) review and approve the Fund's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors;
- q) confirm to the Board annually that all responsibilities outlined in this Charter have been carried out; and
- r) evaluate the Audit Committee's and individual members' performance on a regular basis.

### **Meetings**

The Audit Committee will meet on a quarterly basis and will hold special meetings if circumstances require. The time of the meetings shall be determined by the Committee. The Committee may engage external

advisors as it determines necessary and will set the compensation for such advisors. A quorum for the transaction of business of the Audit Committee shall consist of two members of the Committee.

The time and place for meetings of the Audit Committee and procedures at such meetings shall be determined from time to time by the Audit Committee. The Secretary of the Fund shall, upon request of the Audit Committee Chairman, any member of the Audit Committee, the external auditors, the Chief Executive Officer or Chief Financial Officer of the Fund, call a meeting of the Audit Committee by letter, telephone, fax, telegram or other communication equipment, by giving at least 48 hours notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.

Any member of the Audit Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.

The Audit Committee shall keep minutes of its meetings which shall be submitted to the Board.

One of the members of the Audit Committee shall be elected as its Chairman by the Audit Committee or the Board and the Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.

The Audit Committee may invite such officers and employees of the Fund and the external auditors of the Fund as it may see fit, from time to time, to attend meetings of the Audit Committee.

The Board may at any time amend or rescind any of the provisions hereof or cancel them entirely with or without substitution.

**Appendix B**  
**GLOSSARY OF TERMS**

***In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated or the context otherwise requires:***

**"A1 LP Units"** and **"A2 LP Units"** mean, respectively, the Class A LP Units of NPY designated as Series 1 and Series 2;

**"All Sport"** means All Sport Insurance Marketing Ltd.;

**"Announcement"** means the Department of Finance's announcement on December 20, 2007 to address the uncertainties with Bill-C52 legislation expected sometime in 2008;

**"Armstrong"** means Armstrong Partnership LP, a limited partnership formed under the laws of the Province of Ontario;

**"Asset Management Operating Partnership"** means collectively NPLP, Morrison Williams and Brompton;

**"ATM"** means automatic teller machine;

**"B3 LP Units"** means the Class B LP Units of NPY designated as Series 3;

**"BGL"** means Brompton Group Limited;

**"BMI"** means Baird MacGregor Insurance Brokers LP, a limited partnership formed under the laws of the Province of Ontario;

**"Brompton"** means Brompton Funds LP, a limited partnership formed under the laws of the Province of Manitoba;

**"Brompton Funds"** means the public and private investment funds currently managed by Brompton;

**"Capital C"** means Capital C Communications LP, a limited partnership formed under the laws of Ontario;

**"CDS Participant"** means a broker, dealer, bank, other financial institution or other person who participates directly in the book-entry registration and book-based securities transfer system administered by CDS for the Debentures.

**"Class A1 LP Units"** means the Class A limited partnership units of NPY and includes the A1 LP Units and the A2 LP Units;

**"Class B LP Units"** means the Class B limited partnership units of NPY and includes the B1 LP Units, the B2 LP Units, the B3 LP Units and the B4 LP Units;

**"Class C LP Units"** means the Class C limited partnership units of NPY;

**"Commercial Trust"** means Newport Partners Commercial Trust, an unincorporated open-ended limited purpose trust established under the laws of Ontario in accordance with the CT Declaration of Trust;

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

**"Credit Facility"** means the secured credit agreement entered into on December 7, 2006 with an affiliate of Fortress Credit Corp.;

**"CT Declaration of Trust"** means the declaration of trust of Commercial Trust dated June 21, 2005, as amended and restated on August 8, 2005 and as further amended on March 21, 2007, as the same may be amended, supplemented or amended and restated from time to time;

**"CT Trustee"** means Newport Partners Trustee Inc., a corporation incorporated under the laws of the Province of Ontario;

**"CT Notes"** means the Notes designated as Series 1 and issued to the Fund in accordance with the Note Indenture;

**"CT Units"** means the units of the Commercial Trust, each of which represents an equal undivided interest in the Commercial Trust and any distributions from the Commercial Trust, and includes a fraction of such a unit of the Commercial Trust;

**"Debentures"** means collectively the Series 2005 Debentures and the Series 2007 Debentures;

**"Debit"** means Interac<sup>®</sup> direct payment;

**"Declaration of Trust"** means the declaration of trust dated May 13, 2005, as amended and restated on June 22, 2005 and August 8, 2005, and as further amended on March 21, 2007, as the same may be amended, supplemented or amended and restated from time to time;

**"DND"** means Department of National Defence;

**"Duntroon"** means Duntroon Energy Ltd.;

**"ESR"** means Elliott Special Risks LP, a limited partnership formed under the laws of the Province of Ontario;

**"Exchange Agreement"** means the Exchange Agreement entered into among the Fund, the Commercial Trust, NPY, the General Partner and others providing for, among other things, the Exchange Rights;

**"Exchange Rights"** means the right of a holder of LP Units to exchange one LP Unit for one Unit of the Fund by delivery of such LP Unit in exchange for a Unit;

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

**"EZEE"** means EZEE ATM LP, a limited partnership formed under the laws of the Province of Ontario;

**"Fund"** means Newport Partners Income Fund, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario;

**"FTE's"** means publicly traded flow-through-entity;

**"GAAP"** means, at any time, Canadian generally accepted accounting principles, including those set out in the Handbook of the Canadian Institute of Chartered Accountants, applied on a consistent basis;

**"Gemma"** means Gemma Communications LP, a limited partnership formed under the laws of the Province of Ontario;

**"GET"** means ground engaging tool;

**"GP Trust"** means NPY GP Trust, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario;

**"GP Trustee"** means Newport Partners GP Inc., a corporation incorporated under the laws of the Province of Ontario;

**"Gusgo"** means Gusgo Transport LP, a limited partnership formed under the laws of the Province of Ontario;

**"Hargraft"** means Hargraft Schofield LP, a limited partnership formed under the laws of the Province of Ontario;

**"In Specie Redemption Price"** means, in the case where when a Unitholder is not entitled to receive cash for the redemption of Units as a result of specified limitations, the price per unit equal to fair market value as determined by the Trustees, which may be satisfied by distribution in specie of the assets of the Fund;

**"IC Group"** means IC Group LP, a limited partnership formed under the laws of the Province of Ontario;

**"Limited Partnership Agreement"** or **"LP Agreement"** means the Second Amended and Restated Limited Partnership Agreement dated August 8, 2005 in respect of NPY, as the same may be amended, supplemented or amended and restated from time to time;

**"LP Unit"** means a limited partnership unit of NPY and **"LP Units"** means collectively all limited partnership units of NPY of every class and series including, without limitation, the Class A LP Units, the Class B LP Units and the Class C LP Units;

**"MGA"** means Managing General Agent;

**"Monthly Limit"** means, with respect to the Redemption of Units, the total amount payable in cash by the Fund, in respect of Units surrendered for redemption, in the same calendar month;

**"Morrison Williams"** means Morrison Williams Investment Management LP, a limited partnership formed under the laws of the Province of Ontario;

**"Murray"** means Murray Demolition LP., a limited partnership formed under the laws of the Province of Ontario;

**"Net Revenues"** means, in the case of determining the allocation of income and the distribution of cash of Morrison Williams, the allocation of income and the distribution of cash, based on a calculation of the gross revenues of Morrison Williams less commission payable to third parties on account of gross revenues;

**"Newport Partners"** means business carried on through NPLP and its subsidiaries.

**"Newport Partners Principals"** means, collectively, the people who manage NPY;

**"NHL"** means National Hockey League

**"NICI"** means Newport Investment Counsel Inc., a corporation incorporated under the laws of the Province of Ontario;

**"Non-Resident Holders"** means a non-resident within the meaning of the Tax Act;

**"Note Indenture"** means the indenture to be made between the Commercial Trust and the Note Trustee providing for the issuance of the Notes;

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

**"Notes"** means the notes issuable from time to time under the Note Indenture;

**"NPC"** means NPC Integrity Energy Services Limited Partnership, a limited partnership formed under the laws of the Province of Alberta;

**"NPH"** means Newport Partners Holdings LP, a limited partnership established under the laws of the Province of Ontario;

**"NPLP"** means Newport Partners LP, a limited partnership formed under the laws of the Province of Ontario;

**"NPY GP Trust"** means NPY GP Trust, the general partner of NPY and NPH;

**"NPY"** means Newport Private Yield LP;

**"On-Site"** means On-Site LP, a limited partnership formed under the laws of the Province of Ontario;

**"Operating Expenses"** means, in the case of determining the allocation of income and the distribution of cash of Morrison Williams, the expenses of Morrison Williams (other than the commissions deducted from gross revenues);

**"Operating Level Subordination End Date"** means the end of the quarter in respect of which aggregate cumulative distributions to NPH exceed 2 times the yearly priority allocation allotted to NPH (4 times in the case of Gusgo), as adjusted for future acquisitions and changes in capital structure;

**"Operating Partnership"** means a limited partnership which carries on a business in which NPY has invested or will invest, directly or indirectly, and includes subsidiary partnerships and corporations of that limited partnership;

**"Peerless"** means Peerless Garments LP, a limited partnership formed under the laws of the Province of Ontario;

**"Quantum"** means Quantum Environmental Group Inc., a corporation formed under the laws of the Province of British Columbia;

**"Quantum Murray"** means Quantum Murray LP, a limited partnership formed under the laws of the Province of Ontario;

**"Redemption Price"** means the price per Unit a Unitholder is entitled to receive on redemption;

**"Rlogistics"** means RLogistics LP, a limited partnership formed under the laws of the Province of Ontario;

**"S&E"** means Sports and Entertainment Limited Partnership, a limited partnership formed under the laws of the Province of Ontario;

**"Series 2005 Debentures"** means the \$85,000,000 aggregate principal amount of subordinated unsecured convertible debentures due December 31, 2010 issued pursuant to the Trust Indenture;

**"Series 2007 Debentures"** means the \$79,966,000 aggregate principal amount of subordinated unsecured convertible debentures due December 31, 2012 issued pursuant to the First Supplemental Indenture;

**"Special Voting Units"** means the special voting units of the Fund, each of which represents only a right to vote with respect to the Fund and does not entitle the holder to any distributions from the Fund;

**"STR"** means 9111-5808 Quebec Inc. (o/a les Guichet STR), a corporation formed under the laws of the Province of Quebec;

**"Systemes Domotec"** means Systemes Domotec (Dollar Monnaie Technologie) Inc.;

**"Tax Act"** means the *Income Tax Act* (Canada);

**"Titan"** means Titan Supply LP, a limited partnership formed under the laws of the Province of Alberta;

**"Trust Indenture"** means the Trust Indenture dated December 12, 2005;

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

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

**"Units"** means the units of the Fund, each of which represents an equal undivided interest in the Fund and any distributions from the Fund, and includes a fraction of such a unit of the Fund.



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