



## **Newport Partners Income Fund**

**ANNUAL INFORMATION FORM-REVISED**  
(for the year ended December 31, 2008)

**March 30, 2009**

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

### **Special Note Regarding Forward-Looking Information**

Certain information included in this Annual Information Form (the "AIF") 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. More particularly, and without limitation, information regarding the future operating results and economic performance of the Fund and the Operating Partnerships constitutes forward-looking information. 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, but not limited to, 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. 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 the 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, based on current information, 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 AIF, 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.

### **Non-GAAP Measures**

The terms "adjusted EBITDA", "distributable cash or adjusted distribution base", "EBITDA", "EV/EBITDA", "invested capital", and "standardized distributable cash (collectively the "Non-GAAP Measures") are financial measures used in the AIF that are not standard measures under Canadian generally accepted accounting principles ("GAAP"). 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 may not be comparable to similar measures presented by other issuers.

**Adjusted EBITDA** refers to EBITDA excluding the gain or loss on reduction of ownership interest (dilution gains or losses) and the write-down of goodwill and intangibles. The Fund has used Adjusted EBITDA as the basis for the analysis of its past operating financial performance. Adjusted EBITDA is used by the Fund and management believes it 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. Adjusted EBITDA is a measure that management believes facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors.

**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 the 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. The Fund suspended distributions to its Unitholders in October 2008 and intends to retain cash to repay debt. Management believes it is therefore a useful financial measure as an indication of the Fund's ability to generate cash and use such cash to repay debt and fund operations. Distributable cash generated by Operating Partnerships is also used by management in the calculation of yield which it uses to monitor the performance of the Fund's Operating Partnerships.

**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. 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.

**EV/EBITDA** refers to enterprise value divided by EBITDA. Enterprise value is equal to market capitalization less cash plus debt. EV/EBITDA is a widely used valuation metric of the worth of ongoing operations. Management believes that it is a useful measure because it is unaffected by a company's capital structure. Management uses the ratio as a proxy for the approximate consideration to be paid for a potential acquisition.

**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.

**Standardized distributable cash** is defined as the GAAP measure of cash from operating activities after adjusting for capacity expenditures, restrictions on distributions arising from compliance with financial covenants restrictive at the time of reporting, and minority interests. This is a measure that the CICA believes is of use to investors as a benchmark to compare investments.

#### **Date of Information**

Except as otherwise noted, the information contained herein is given as of March 30, 2009.

## **Definitions**

References in this AIF to the “Fund”, “we”, “us”, “our” or similar terms refers to Newport Partners Income Fund.

Throughout this AIF, 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.

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

### **1. Corporate Structure**

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

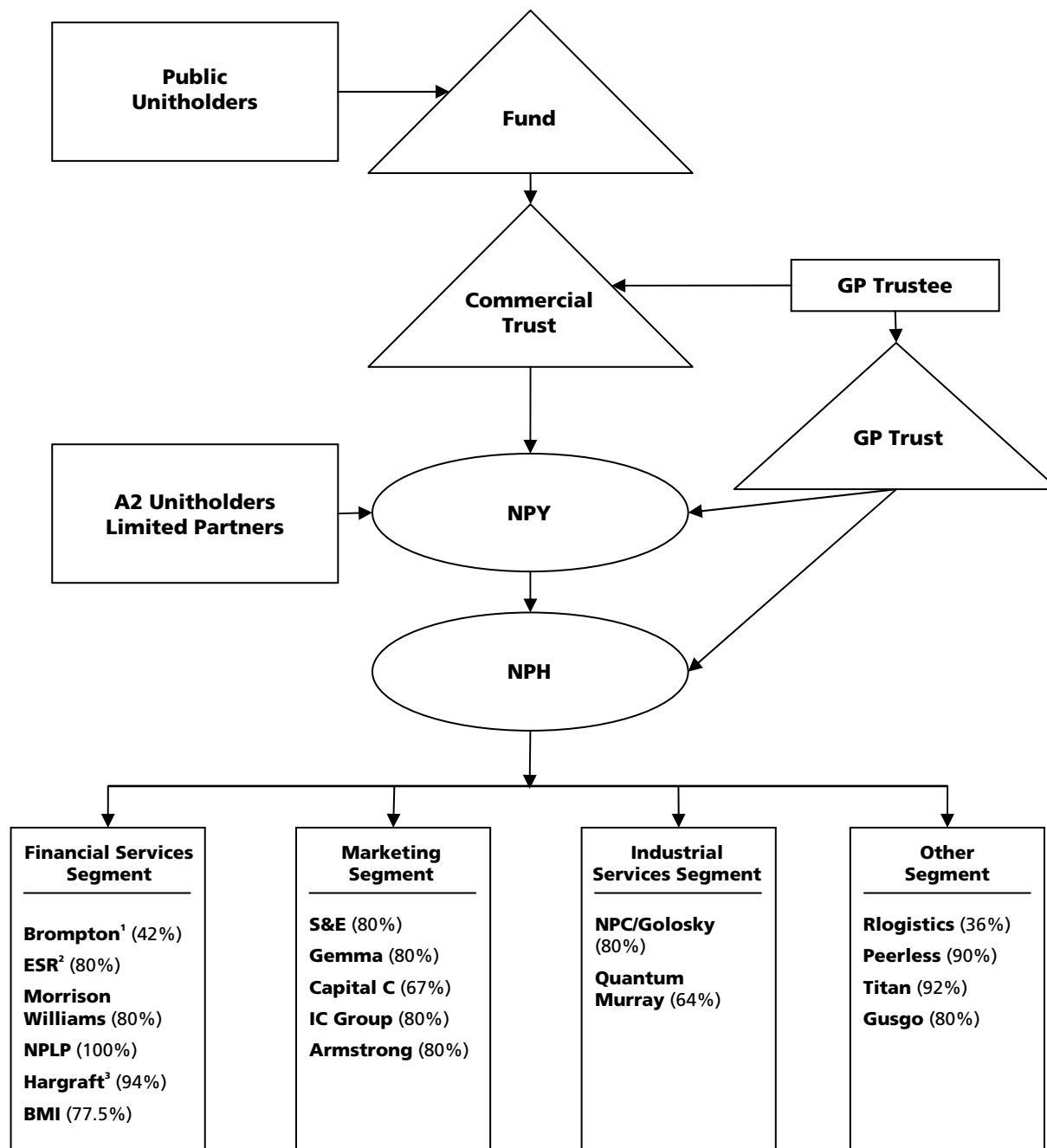
Newport Partners Income Fund (the “**Fund**”) is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated May 13, 2005, as amended and restated on June 22, 2005, and on August 8, 2005, and as further amended by an amending agreement dated March 21, 2007 (the “**Declaration of Trust**”). The head and registered 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 65% 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 AIF.



1. On April 4, 2008, the Fund completed a transaction with Duntroon pursuant to which the Fund exchanged its 45% equity interest in Brompton Funds LP to Duntroon for a 41.7% equity interest in Duntroon. Immediately following the transaction Duntroon changed its name to "Brompton Corp." See "Description of Operating Partnerships by Business Segment - Brompton".
2. The Fund, through NPH, will obtain an additional 20% interest in ESR, resulting in a 100% interest in ESR, pursuant to the planned closing, set for March 31, 2009, of a shotgun buy-sell transaction. See "General Development of the Business – Significant Acquisitions".
3. On November 19, 2008, the Fund, through NPH acquired an additional 14% interest in Hargraft. See "General Development of the Business – Significant Acquisitions".

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

NPC/Golosky and Titan have been established under the laws of the Province of Alberta.

## **2. General Development of the Business**

### **2.1 History**

NPY was formed on February 27, 2004 with capital provided by personal and corporate clients of NPLP and prior to the initial public offering (“**IPO**”) of the Fund on August 8, 2005 raised over \$100 million from these 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 IPO. Since the Fund’s IPO, nine new Operating Partnerships have been formed, numerous investments have been made directly by the Operating Partnerships and the Fund has sold two investments, RGC LP and Ezee<sup>1</sup>.

As of December 31, 2008, the Fund had ownership interests in 17 Operating Partnerships operating 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.

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<sup>1</sup> See “2.3 – Significant Dispositions”.



The following table identifies the 17 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.

<b>Operating Partner</b>	<b>Business</b>	<b>Ownership Interest</b>	<b>Date of Initial Investment</b>	<b>Invested Capital (000s)</b>
<b>Financial Services</b>				
Brompton <sup>1</sup>	Fund Management	42%	Aug. 2005	27,200
ESR <sup>2</sup>	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 <sup>3</sup>	Insurance Brokerage	94%	Apr. 2006	19,500
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	8,500
Armstrong	Marketing/Promotions	80%	Oct. 2006	20,000
<b>Industrial Services</b>				
NPC/Golosky	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	92%	Sept. 2006	25,200
Gusgo	Container Transportation	80%	Oct. 2006	12,500

1. See Note 1 to "Corporate Structure - Simplified Structure of the Fund" and see "Description of Operating Partnerships by Business Segment - Brompton"
2. See Note 2 to "Corporate Structure - Simplified Structure of the Fund" and see "General Development of the Business - Significant Acquisitions"
3. See Note 3 to "Corporate Structure - Simplified Structure of the Fund" and see "General Development of the Business - Significant Acquisitions"

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

## **2.2 Planned Corporate Conversion**

Management of the Fund expects to recommend to the Trustees in 2009 that they consider a conversion from an income trust to a corporation. Management believes that a change in structure of the Fund in advance of 2011 when the SIFT Rules come into effect will address the limits placed on growth by the SIFT Rules and will allow for the use of strategies to reduce overall taxes. Information on this initiative will be communicated as required.

## **2.3 Credit Facility and Covenant Violations**

The Fund has recently had to seek waivers from its lenders relating to covenant violations on its long term debt and revolving credit facility as at December 31, 2008. The Fund has been negotiating and actively pursuing various options with the lenders which, if accepted, will, in management's view, enable the Fund to continue to grow and provide financial support to the Operating Partnerships. The Fund and the lenders are in active and cooperative negotiations and no adverse action has been taken by the lenders nor have they indicated their intent to demand payment of the term debt prior to its maturity date. The Fund is pursuing options including portfolio sales, stand alone credit facilities at selected Operating Partnerships and operational changes to improve cash management performance at the operating partnerships to generate cash that could be used to reduce the debt levels. All options will require the consent of the lenders in order to execute. To date, no agreements with the lenders have been reached, and there can be no assurance that such agreements will be reached.

## 2.4 Significant Acquisitions

The Fund did not make any significant acquisitions during the financial year ended December 31, 2008. The Fund did, however, complete the following transactions:

On January 1, 2008 Titan paid \$1,235,000 to acquire and cancel 4.3% of its units. As a consequence, the Fund's ownership percentage of Titan increased to 91.9%.

On April 4, 2008, the Fund completed a transaction with Duntroon Energy Ltd. ("**Duntroon**") pursuant to which the Fund, indirectly, exchanged all of its 45% equity interest in Brompton Funds LP ("**Brompton LP**") with Duntroon for a 41.7% equity interest in Duntroon. Immediately following the transaction Duntroon changed its name to Brompton Corp. ("**Brompton**"). The transaction will allow Brompton to carry on its business as an incorporated entity and as a reporting issuer which may provide it with more options to capitalize its business and complete strategic acquisitions more efficiently.

On August 1, 2008, the Fund completed the second year of its ownership of its 80% interest in IC Group. As part of a three part earn-out arrangement, the Fund received a purchase price adjustment in the amount of \$2,852,000, and has been recorded as a reduction in the carrying value of goodwill. \$2,000,000 of this amount was received in cash from the vendor and the balance is included as a receivable in other assets.

On November 19, 2008, the Fund, through NPH, entered into a purchase agreement with the minority limited partner of Hargraft and two of its three principals (the "**Vending Principals**"), pursuant to which NPH purchased 14.4% of the outstanding units of Hargraft, being the interest of the Vending Principals in the minority limited partner for \$1,725,000. The minority limited partner of Hargraft owns a 4% interest in Hargraft and is now wholly owned by the remaining principal.

On January 30, 2009, the minority limited partner of ESR delivered to NPH an offer letter pursuant to the Shotgun Buy-Sell provision of the limited partnership agreement governing ESR. On February 27, 2009 NPH elected to accept the minority limited partner's offer to sell its interest in ESR, representing 20% of ESR. The closing of the buy-sell transaction is scheduled for March 31, 2009. Following the closing of the transaction, the Fund's indirect interest in ESR will be 100%.

## 2.5 Significant Dispositions

On September 30, 2008, the Fund completed a transaction pursuant to which it indirectly sold all of the assets of its investment in Ezee and Ezee's subsidiaries. The investment was sold for net proceeds of \$30,177,000 resulting in a loss of \$6,848,000 for accounting purposes which is included in loss from discontinued operations. In addition, NPH received an additional \$5,500,000 as repayment of advances provided to Ezee for purposes of funding cash in circulation.

In addition to the significant disposition noted above, the Fund, through its investment in Hargraft, entered into a disposition agreement on January 31, 2009 whereby it sold its wholly owned subsidiary, Hargraft Schofield Benefits Inc. ("**HSBI**") for \$1,350,000.

## 2.6 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.

## 2.7 Business and Investment strategy

The Fund's business and 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 over time.
- 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.

## **2.8 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.

## **3. Description of the Business**

The Fund has continuing ownership interests in 17 Operating Partnerships. These partnerships operate in four reportable segments: (1) financial services; (2) marketing; (3) industrial services; and (4) other. The following is a description of the business of each Operating Partnership organized by business segment.

### 3.1 Overall Summary Financial Results and Summary Results 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, 2008 and December 31, 2007.

#### SUMMARY RESULTS – (\$000S)

	2008 <sup>1</sup>	2007
Revenues	\$ 669,730	\$ 531,378
Cost of revenues	(477,441)	(363,245)
Gross profit	192,289	168,133
Selling, general and administrative expenses	(124,146)	(96,307)
Amortization expense	(39,775)	(36,680)
Depreciation expense	(11,571)	(8,504)
Income from equity investments	2,112	3,418
Other income	330	1,119
Interest expense	(40,826)	(30,552)
Income tax expense-current	(44)	(10)
Income tax recovery (expense)-future	8,576	(32,349)
Loss on dilution of ownership interest	(845)	(6,958)
Write down of goodwill and intangibles	(248,561)	(2,987)
Impairment in value of long- term investment	(29,000)	-
Income (loss) from continuing operations	(291,461)	(41,677)
Income (loss) from continuing operations	(291,461)	(41,677)
Add:		
Amortization	39,775	36,680
Depreciation	11,783	8,504
Amortization of Brompton intangible assets and future income tax recovery	1,936	2,387
Interest expense	40,826	30,552
Income tax expense-current	44	10
Income tax expense-future	(8,576)	32,349
EBITDA	\$ (205,673)	\$ 68,805
Loss on dilution of ownership interest	845	6,958
Write down of goodwill and intangibles and long- term investments	277,561	2,987
Adjusted EBITDA	72,733	78,750
Weighted invested capital	\$ 545,871	\$ 487,917

<sup>1</sup> Refer to the 2008 audited restated consolidated financial statements

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

Year ended December 31, 2008

	<b>FINANCIAL SERVICES</b>	<b>MARKETING</b>	<b>INDUSTRIAL SERVICES</b>	<b>OTHER</b>	<b>CORPORATE<sup>1</sup></b>	<b>TOTAL</b>
Revenue	\$51,379	\$94,036	\$438,781	\$85,534	-	\$669,730
Gross profit	31,176	50,167	86,908	24,038	-	192,289
(Loss) from continuing operations before non-controlling interest	(112,992)	(5,359)	(42,178)	(7,819)	(123,113)	(291,461)
EBITDA	(101,812)	193	(10,039)	(422)	(93,593)	(205,673)
Loss on dilution of ownership interest					845	845
Write-down of goodwill and intangibles	94,778	15,063	39,994	12,786	85,940	248,561
Impairment of long- term investment	29,000	-	-	-	-	29,000
Adjusted EBITDA <sup>3</sup>	21,966	15,256	29,955	12,364	(6,808)	72,733
Interest income (expense) <sup>2</sup>	444	(309)	(1,946)	(1,486)	(37,529)	(40,826)
Non-cash interest expense					8,345	8,345
Income tax expense-current	(19)	(19)	(6)	-	0	(44)
Maintenance capital expenditures and reserves	(356)	(876)	(4,188)	(309)	-	(5,729)
Capital lease payments	(6)	(132)	(4,356)	(175)	-	(4,669)
Compensation expense funded by operating partner <sup>4</sup>	2,008	415				2,423
Priority income per partnership agreement <sup>5</sup>	223	315	1,809	196		2,543
Distributable cash from continuing operations	24,260	14,650	21,268	10,590	(35,992)	34,776
Cash provided by discontinued operations						3,611
Distributable cash						\$38,387
<b>Distributable cash per unit from continuing operations</b>						<b>0.48</b>
Cash provided per unit by discontinued operations						0.05
Distributable cash per unit						0.53

**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	\$ 54,604	\$ 86,816	\$ 296,943	\$ 93,015	-	\$531,378
Gross profit	34,507	46,658	62,695	24,273	-	168,133
Income (loss) from continuing operations before non-controlling interest	(4,219)	(3,078)	7,099	(5,022)	(36,457)	(41,677)
EBITDA	29,155	11,583	28,891	12,143	(12,967)	68,805
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>	29,155	14,570	28,891	12,143	(6,009)	78,750
Interest income (expense) <sup>2</sup>	488	(309)	(2,330)	(2,427)	(25,974)	(30,552)
Non-cash interest expense	-	-	-	-	2,797	2,797
Income tax expense-current	(6)	-	-	-	(4)	(10)
Maintenance capital expenditures and reserves	(803)	(872)	(2,312)	(505)	-	(4,492)
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	31,075	14,709	23,474	9,620	(29,190)	49,688
Cash provided by discontinued operations						257
Distributable cash						\$ 49,945
<b>Distributable cash per unit from continuing operations</b>						<b>\$ 0.70</b>
Cash provided per unit by discontinued operations						-
Distributable cash per unit						\$ 0.70

<sup>1</sup> The results of the Corporate segment include corporate costs and corporate interest expense.

<sup>2</sup> 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 \$7,507 (2007 - \$2,537, 2006 - Nil) and such amount has been added to the interest expense of the Corporate segment.

<sup>3</sup> Adjusted EBITDA excludes the non-cash gain or loss on changes to ownership interest and the write-down of goodwill and intangibles and impairment of long-term investments.

<sup>4</sup> NPF's agreements with ESR 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. Management of Gemma has the option to receive its distributions as bonuses. When this option is chosen, an adjustment is required to calculate the distributable cash to the Fund.

<sup>5</sup> 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.

### 3.2 Description of Operating Partnerships by Business Segment

#### A. Financial Services

##### i. Brompton Corp. ("Brompton")

###### Business Overview

On April 4, 2008, the Fund, through NPH, exchanged its 45% equity interest in Brompton LP for an approximately 41.7% equity interest in Brompton (formerly Duntroon). Brompton carries on the fund management business previously carried on by Brompton LP on substantially the same basis, with the same management team, directors and independent review committee. As a result of pre-existing tax losses within Duntroon, this reorganization is expected to provide Brompton with a tax-efficient platform for the possible expansion of Brompton's business. Concurrent with the Fund's exchange, Brompton purchased the balance of Brompton Funds LP from Brompton Group Limited on similar terms. 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 services to 11 closed-end investment funds (all of which trade on the TSX), 2 underlying funds and 2 flow-through limited partnerships (collectively, the "**Brompton Funds**") with total net assets of approximately \$1 billion as at December 31, 2008.

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. For all of the Brompton Funds, with the exception of the flow-through limited partnerships, Brompton has engaged an external portfolio manager to manage the fund's investment portfolio. The Brompton Funds focus on investing in income trusts, equity securities and debt instruments. Brompton also provides all other fund management and administration services for the Brompton Funds. Four of the Brompton Funds have indefinite terms and nine of the Brompton Funds have fixed terms which range from September 2009 to June, 2028.

#### Industry Overview and Trends

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 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. Brompton believes it has a competitive advantage because of its significant experience in the marketplace and its strong relationships with major investment dealers.

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

#### Business Overview

ESR is a specialty managing general agent (an "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., 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 has recently introduced programs for Directors and Officers Liability, 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.

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. In recent years, insurers have recorded exceptional profits resulting from strong underwriting results and investment gains. As a result, insurers compete aggressively on price in order to retain existing business and attract new business, particularly for preferred classes of business. ESR has experienced several years of flat or negative premium volume growth.

Notwithstanding the recent investment losses sustained by insurers, ESR expects that premiums for commercial insurances 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 an increasing number of MGA's in Canada, U.S. and the U.K. that offer similar products. However, because of ESR's business strengths, ESR management believes that its market niche is secure in the long term.

#### 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 teams 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.

#### 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.

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



## Business Overview

Morrison Williams is an institutional money manager with over \$2.9 billion of funds under management as at December 31, 2008. 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 12 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 22% of assets under management and its eight largest clients make up approximately 55% of assets under management, as at December 31, 2008. Morrison Williams has enjoyed long-standing relationships with its eight largest clients.

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.

## ***iv. 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 \$856 million as at December 31, 2008. 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.

#### ***v. Hargraff Schofield LP ("Hargraff")***

#### Business Overview

Founded in 1874, Hargraff is a leading participant in the Canadian insurance industry and was one of the first brokerages established in Ontario. Hargraff manages close to \$53 million of premium and customized insurance solutions for industry leaders in a number of sectors, including finance, construction, manufacturing, transportation, education and hospitality. Hargraff sells insurance products to commercial clients and high net-worth individuals.

Hargraff is a national broker with clients in all provinces of Canada and operates out of its head office in Toronto and employs 36 people.

Hargraff has been in the portfolio since April, 2006.

#### Products and Services

Hargraff offers a variety of products and services for businesses and individuals. Some of the industries to which Hargraff 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.

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 2008, transportation customers represented 62% of the premiums written by Hargraft and 42% of its commissions. In 2008, Hargraft's business mix was 91% commercial insurance lines and 9% personal insurance.

#### Customers

Hargraft sells its insurance products to businesses and individuals throughout Canada. Hargraft has approximately 1,400 customers. Its five largest customers accounted for 28% of revenue in 2008, and its largest customer accounted for 11% of revenue in 2008.

#### 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 2009.

#### 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

Hargraft will look to attract outstanding individuals who can enhance the value of its insurance sales force. Hargraft currently has a sales force of 8 people.

### Competitive Strengths

*Experienced Management and Sales Force* - Hargraft maintains a competitive advantage in the insurance industry through its experienced management team and its 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 134 year history, Hargraft has developed a reputation in the insurance brokerage industry for accountability, consistency, innovation and excellence.

### **vi. 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 64 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.

#### Products and Services

BMI offers a full range of insurance products and services including commercial property, business interruption, liability, fleet, specialty auto, 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, 9% Trucking, 10% Used Car Dealers, 5% Personal Lines and Life, and 13% Commercial.

#### Customers

BMI’s portfolio is comprised of 95% commercial clientele and the remaining 5% is personal lines clients. The portfolio consists of 4,500 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. Another factor is volatility in investment income, as poor results will apply pressure to underwriting results. The Canadian insurance market is in the midst of a competitive market which is expected to persist during 2009. Most insurers have aggressive growth targets and there is little indication of tightening capacity. Certain industry auto results are showing 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 are expected to continue to manifest during 2009, 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. Some growth is anticipated as pricing levels rise on certain auto segments. 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.

## **B. Marketing**

### ***i. 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 11 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;
- Sponsorship program activation; and
- Non-traditional media strategy, planning and buying.

S&E's 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 and Activation 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 6 clients. Its top four clients, three of which are long-standing relationships of between 4 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

There is downward pressure on advertising and sponsorship due to the general state of the economy. Sponsorship programming is not protected from this downturn and we expect a period of slower client activity and growth. We believe that sponsorship specifically will lead the market resurgence in overall industry advertising but for the short term the market will be stagnant with little or no growth.

## 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 (specific to corporate clients) and its long term relationships with its customers and suppliers provide it with a competitive advantage.

## **ii. 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. 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.

### **iii. 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 32% of sales in 2008 and its top five customers accounted for approximately 59% of sales in 2008. Capital C has enjoyed at least a five-year business relationship with all of its top five customers.

#### Industry Trends

The latest marketing report has once again demonstrated that the marketing landscape has outpaced GDP growth in North America over the past 30 years. The overall industry is now approaching 1 trillion dollars. In 2009 and 2010 the forecast bears the wait of a recessionary economy and is calling for a significant decline, up to 30% in traditional media like television and newspaper, while a slight increase in new media including retail activation, digital and social media, and promotional marketing.

The primary reason for this massive shift in spending is that much of the new media can be measured in terms of its effectiveness and the return on investment. Store sales, displays, the effectiveness of web sites and



search word and mobile optimization campaigns can be charted and monitored. The effectiveness of promotional marketing can be measured in terms of brand equity scores as well as volume and market share.

Management believes they ideally positioned in this marketplace and using their strength in strategy, retail, digital and promotional marketing to secure full agency of record agreements with their clients, including their mass advertising. This single point accountability enables them to manage the entire client budget, putting more of their dollars at work, while still sustaining revenue and margin targets.

#### 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.

#### **iv. 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: interactive promotions, promotion services, promotion CRM solutions and prize insurance.

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

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

##### Products and Services

*Interactive Promotions:* IC Group creates dynamic online promotion experiences that are designed to motivate consumer behaviour. Its suite of interactive promotion products falls within the categorization of games, contests, sweepstakes and loyalty promotions. Core products include: sweepstakes, instant-wins, games of chance, collect-and-wins, loyalty promotions, user-generated content contests, auctions-style promotions and integrated mobile and IVR contests.

*Promotion Services:* IC Group's services team can deliver full turn-key or a la cart services needed to execute and deliver promotions to market. Core services include: promotion strategy and design, promotion risk management consulting, interactive and technical services, creative design, contest services and prize fulfillment.

*Promotion CRM:* IC Group's ever-evolving technology solutions are made up of a collection of many product and data systems that ultimately provide a holistic, consumer-centric marketing view to its customers. IC Group meets a growing demand for better customer relationship management by providing its customers with solutions such as global campaign integration and management, consumer profile management, consumer insights reporting and analytics.

*Promotion Insurance* – Since its predecessors incorporation in 1989, IC Group has been a market leader in promotional insurance. Its insurance products fall within the niche categorization called contingency insurance. Core products include: event cancellation and non-appearance insurance, contractual bonus insurance, prize insurance and over-redemption insurance for coupons and rebates.

##### Customers

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

##### Industry Trends

According to the PROMO Magazine's 2008 Industry Trends Report:

- Promotional spending in the US rose by 3.5% in 2007, to \$45.81 billion, according to Veronis Suhler Stevens Communications Industry Forecast. The report covers P-O-P, coupons, licensing, premiums, loyalty programs, product sampling and games, contests and sweepstakes.
- Marketers were projected to spend \$1.86 billion in 2008 building games, contests and sweepstakes.
- CPG marketers issued 302 billion coupons in 2007 - up 6% (16 billion) from 2006.

- The value of coupons totalled approx \$387 billion - a big jump from \$337 billion in 2006.
- Consumers turned in \$2.8 billion of the total \$387 billion (\$8.57/person) resulting in a 2.6% redemption rate.
- 2007 was the first time since 1992 that redemption rate did not decline.
- Promotion spending related to loyalty programs increased 3.6% to \$2.1 billion in 2007.

According to the PROMO 2008 Interactive Marketing Survey (results of a poll among 148 media advertising executives):

- 43% of marketers expected to increase budgets in 2008 over 2007; 37% thought their budgets would remain flat; 6.1% said they would decrease their budget.
- The number of respondents running online promotions last year was 47%; more than 40% run games; 27% offer sweepstakes.
- Nearly 75% of respondents use online marketing to build their brand with viewers.

IC Group continues to be well positioned to ride the current bumpy economic wave. All current industry trends show that marketers are cutting back on traditional spending like print advertising, but continue to invest online and in promotions. In addition, IC Group's insurance products are attractive for marketers operating in tighter economic times. Marketers are distributing more rebates, incentives and coupons, which are suited for Redemption Insurance; and the budget leverage capabilities associated with IC Group's Prize Insurance product also gives marketers a "bigger bang for their buck" – an attractive proposition for those that are operating under reduced budgets.

#### 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.

#### ***v. 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, United Kingdom and Australia.

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 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 80% 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.

### **C. Industrial Services**

#### ***i. NPC Integrity Energy Services Limited Partnership ("NPC/Golosky")***

##### Business Overview

NPC/Golosky is a fully integrated provider of midstream production services to the energy industry in western Canada. NPC/Golosky 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/Golosky's revenues are from maintenance and operations of existing oil and gas facilities as opposed to construction. As a result, NPC/Golosky is less dependent on the oil cycle.

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

NPC/Golosky (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.

On July 31, 2007 NPC/Golosky acquired an 80% interest in The Golosky Group of Companies, the "Golosky Subsidiaries". With operations in Fort McMurray and Edmonton, Alberta and Howick, Quebec, the Golosky Subsidiaries are a diversified group of 10 well-established companies that provide products and services primarily to the major producers in the oil sands industry. The Golosky Subsidiaries also provide services to the oil & gas, pulp & paper and mining industries in Canada and supplies products, from its Wear Technology Division, to countries outside North America. Golosky is divided into 5 service divisions: Plant Maintenance, Fabrication and Construction (including modular assembly), Wear Technology (chromium carbide overlay), Transportation and Labour Supply

NPC/Golosky has over 200 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/Golosky has been in the portfolio since October, 2004.

##### Services

NPC/Golosky, through its subsidiaries, provides the following services:

*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/Golosky is typically involved from the start of shutdown planning to the completion of the shutdown. NPC/Golosky's maintenance services include the procurement of personnel, materials and equipment required by NPC/Golosky's clients to execute their day-to-day maintenance services, operational requirements and turnaround activities.

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

*Fabrication, Pipeline Integrity and Modular Assembly* — This business line includes pipe spooling fabrication, skid packages and vessel dressing, structural fabrication, rebuilds, power boiler and heater fabrication. It also includes the procurement of personnel, services, materials, planning, scheduling and executing of pipeline integrity and repair in Western Canada.

*Wear Technology* – This area of service includes chromium carbide and tungsten carbide overlays and abrasion and/or corrosion resistant wear plates.

*Transportation* – Transportation services include pipe management, hauling and storage, compressor hauling, skid unit hauling, equipment hauling, camp moving and general transportation services to the energy industry.

*Labour Supply* - We supply, through Golosky, qualified heavy equipment operators and mechanics and general workers to the oil sands plants in Fort McMurray.

#### Customers

NPC/Golosky's client base includes some of the largest and most recognized names in the energy industry. Three of Canada's largest integrated oil companies represent approximately 42% of NPC/Golosky's revenues.

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

#### Industry Trends

The energy industry (and particularly 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, which trend has continued, and have resulted in reduced activity. There is a reduction in revenue and pressure on margins as a result of the current world economy.

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 cyclicity. NPC/Golosky made the strategic decision to focus on these less cyclical service areas in an effort to achieve operational and financial stability.

#### Competition

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

### **ii. 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 demolition and metals recycling businesses are currently experiencing a downturn consistent with the rest of the Canadian economy. Management does not expect any significant recovery for 12-24 months.

The remediation business may benefit from a number of ongoing trends within North America including “de-industrialization”, increasing urban density and increased spending on infrastructure and the environment.

## 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 cross selling opportunities and expands the geographic diversification for the company. With access to a larger market and a broader customer base, there is room to limit the effects of the current economic downturn through growth into other markets. 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 positioned to weather the current economic downturn due in part to 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.

### **D. Other**

#### ***i. 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 in several commodity categories.

### **ii. 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 87% of revenue in 2008. The remaining 13% 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 proposal's 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.

### **iii. Titan Supply LP (“Titan”**

#### **Business Overview**

Headquartered in Edmonton, Alberta, Titan is a leading manufacturer and distributor of rigging products, rigging services and wear products to a diverse range of industrial markets, including mining, pipeline, oil and gas, transportation, construction, governmental and the forestry industry.

Over the last 40 years, Titan has built a strong infrastructure throughout Alberta providing products, services and solutions to customers and resellers located in Western Canada. With over 150 dedicated employees located in Edmonton, Leduc, Red Deer, Calgary and Grande Prairie; Titan’s specialty distribution business, along with its unique product offerings enables the company to offer customers a wide range of value added services.

Sales in 2007 and 2008 were \$49.11MM and \$49.19MM respectively. Rigging products and services represented 61.3% and 60.3% and Wear products represented 38.7% and 39.7%. Rigging products gross profit margins for 2007 and 2008 were 35.2% and 34.8% and Wear products gross profit margins contributed 27.7% and 27.4% respectively. Approximately 80% of sales are purely distribution and 20% is manufactured in-house.

Titan has been in the portfolio since September, 2006.

#### **Products**

Titan’s product lines fall into the following commodity groupings: Rigging Products & Services and Wear Products. Rigging products provide a wide range of wire rope, chains, synthetic sling and fittings utilized in various applications. Wear products include ground engaging tools (GET), industrial rotary brushes and tire chains. Titan carries a complete range of accessories in each of these product areas.

Titan is the only supplier in Western Canada capable of providing a full range of wire rope products, customized fabrication of rigging products, expertise in industrial tire chains, rigging repairs and re-certification and the ability to service a complementary line of wear products within the same customer base. All of its products are used in harsh operating conditions and are consumable in nature.

The rigging products must meet compliance standards. This leads to value added services such as: custom fabrication, inspections, repairs and re-certification. Approximately 20% of sales are fabricated in-house.

#### **Customers**

Rigging and Wear products are both in demand by a large proportion of Titan’s customers who are involved in oil and gas, pipeline, transportation, construction, forestry, mining and the oil sands.

Titan has a well-diversified customer base of approximately 3,700 active customers on a monthly basis. The top 100 customers represent 50% of sales, and the largest customer represents 4% of sales with the top five customers representing 11% of sales. The customers operate primarily in the oil & gas services business in Alberta. Titan distributes product for approximately 45 manufacturers with which it has excellent relationships.

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

#### **Suppliers**

Titan represents approximately 45 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

Canada has the world's 2nd-largest proven crude oil reserves. Most reserves are in Alberta's oil sands; approximately 173 billion barrels. Oil and gas produce one-quarter of Alberta's gross domestic product, almost 70% of the exports and 35% of Alberta government revenues.

Alberta/Canada has been the largest gas supplier to the US for 6 years in a row. Natural gas and natural gas liquids were 40% of Alberta's exports in 2007.

Alberta holds 70% of Canada's coal reserves. Nine major coal mines produce 27 - 30 million metric tonnes of marketable coal a year.

Forests cover more than 60% of Alberta's total land base, equal to 94 million acres or almost 147,000 square miles. 87% is on public lands and managed for sustainable development. Alberta's forestry industry generates C\$3.8 (or US\$3.2) billion in revenues.

Alberta's economy is facing a recession in 2009. High energy prices helped cushion the effects of the US recession and financial crisis for much of 2008, keeping Alberta's economic growth at an estimated 1.5%. Alberta's economy is expected to contract by 2% in 2009, due to the sharp cutbacks in business investment. The recession is expected to increase the unemployment rate to an average of 5.8% in 2009 from 3.5% in 2008.

The majority of companies in Alberta during the last quarter of 2008 recorded either no change or declines in their business activity. More significantly this net negative growth was experienced across virtually all sectors of the economy. Alberta's economic performance is expected to improve as the global economy recovers.

In looking ahead our longer-term expectations suggest that the whole of 2009 will be a very challenging one for the economy. Titan expects that at the end of 2009 our sales will have either remained at, or decreased from current levels.

Titan is well positioned during this economic downturn. With an experienced management team, Titan has implemented organizational efficiencies throughout much of 2008 that will positively impact 2009. Titan's focus on customer services, specifically rigging repairs, inspections and re-certification will help grow rigging services business in 2009.

Alberta's three point program for the energy sector, focus plan for the oil sands and commitment to support infrastructure projects in 2009 will have positive impact on Titan's rigging and wear products business.

## 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 wear products, specifically 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 its 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 rigging 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 rigging and wear products to generate value added sales in specialty products such as technical support for GET applications, tire chain expertise, customized synthetic and wire slings, rigging repairs, inspections and re-certification services. Titan's central warehouse

capabilities and branch locations enable it to consistently and competitively service customers operating on a province-wide basis.

#### **iv. 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. Gusgo offers the independent drivers a highly competitive compensation package. By providing the drivers 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.

#### **4. Risk Factors**

An investment in Units of the Fund involves a number of risks. In addition to the other information contained in this AIF 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 AIF. 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.

##### **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 its 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. Typically the expiry period is two years to four years. The two investments with unexpired subordination features are BMI and Gusgo. 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 AIF 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, amendments to the Tax Act were enacted (the "**SIFT Rules**"), which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("**SIFTs**"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as an eligible dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. The SIFT Rules are applicable to SIFTs beginning with the 2007 taxation year. However, subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 and as amended by the explanatory notes to the November 28, 2008 Notice of Ways and Means Motion released on December 4, 2008 (the "**Normal Growth Guidelines**"), the SIFT Rules will not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006, such as the Fund, provided that there is no "undue expansion" of the Fund in the intervening period.

As a result of amendments to the Tax Act that were enacted on March 12, 2009 (the "SIFT Amendments"), effective October 31, 2006, excluded from the definition of a SIFT is a trust or partnership that is not publicly-traded and the equity (and equity-like debt) of which is wholly-owned by any combination of a SIFT, a real estate investment trust, a taxable Canadian corporation (as each of those terms is defined in the Tax Act), or another trust or partnership that is not publicly-traded and wholly-owned as described above.

In addition, the SIFT Amendments also introduced a series of rules intended to accommodate the conversion of a SIFT into a taxable Canadian corporation without negative tax consequences to Unitholders. The Fund is considering the SIFT Amendments and their possible impact on the Fund.

The SIFT Rules 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 Fund may be materially reduced.

As a result of the Fund suspending distributions in late 2008, it is expected that in subsequent periods, the Fund will be subject to income tax on its undistributed taxable income. Consequently, the exemption under EIC 107 for income trusts that the Fund previously relied on, no longer applies. Prior to the decision to suspend distributions, no future taxes were recorded on those differences expected to reverse between 2008 and 2010. Accordingly, the reduction in the future tax liability related to the write-down of intangible assets during 2008 was offset by the recording of future tax liability related to differences that are expected to reverse between 2008-2010 and for which there were no future tax liability recorded as at the end of 2007.

The change in tax expense/recovery recorded in the financial statements had no impact on cash generated by operating activities or on distributable cash.

The Fund has evaluated its alternatives as to the best structure for its unit holders, and has determined that the most appropriate action is conversion to a corporate structure, as this will allow us to address the limits placed on our growth by the federal government with the expansion cap included in the Sift Rules.

#### 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. 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.

#### Leverage and Restrictive Covenants

The degree to which the Fund is leveraged could have important consequences to Unit holders, 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 Convertible Debentures 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. As at December 31, 2008, the Fund was not in compliance with covenants under the credit facility.

#### 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. 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 natural 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 50% 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.

#### ***ii. 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.



### ***iii 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. With the hardening of market conditions in the specialty auto market, some larger clients in the Taxi and Trucking segments are migrating to captive insurance company solutions. 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.

### ***iv. 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.

## **v. 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. Should a work stoppage occur in the NHL or 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.

## **vi. 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.

## **vii. 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.

## **viii. 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 80% 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.

### ***ix. NPC/Golosky***

#### Volatility of Industry Conditions

Conditions in the energy industry are influenced by numerous factors over which NPC/Golosky 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/Golosky's business, financial condition, results of operations and cash flows.

#### 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/Golosky'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/Golosky 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/Golosky's business, financial condition, results of operations and cash flows and therefore on the distributions to Unitholders.

### Customer Contracts

The business operations of NPC/Golosky 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/Golosky 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/Golosky'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/Golosky's business, financial condition, results of operations and cash flows.

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

NPC/Golosky sources its equipment and equipment parts from a variety of suppliers. Should any suppliers of NPC/Golosky 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/Golosky's business, financial condition, results of operations and cash flows.

### Customer Concentration

Large contracts often create a situation where a significant portion of the NPC/Golosky's main revenue and accounts receivables may be from a small number of customers increasing the risks of economic dependence and concentration of credit. NPC/Golosky is economically dependent upon its top 3 clients who made up approximately 42% of its revenues for 2008.

### Project Risk

A substantial portion of NPC/Golosky's revenues is derived from stand alone construction projects (<15M\$) under a "lump sum" contracting strategy. Although these projects provide opportunities for increased revenue and profit contributions they can occasionally result in significant losses. Although "lump sum" projects do not represent a high percentage of the work NPC/Golosky performs, NPC/Golosky may experience periods of irregular or reduced revenues. The recording of the results of these project contracts can distort revenues and earnings on both a quarterly and an annual basis and can, in some cases, make it difficult to compare the financial results between reporting periods.

### Environmental

The operations of NPC/Golosky are, and will continue to be, affected in varying degrees by federal and provincial statutes and regulations regarding the protection of the environment. Changes to existing statutes or regulations could have a negative impact on development projects in the oil sands. Furthermore, under existing legislation, all capital projects in the oil sands are subject to regulatory approval. Planned capital projects that have not yet obtained regulatory approval will require such approvals in order to proceed.

No assurance can be given that future environmental approvals, laws or regulations will not adversely impact the ability of NPC/Golosky's customers to develop and operate in the oil sands.

### Unexpected Adjustments and Cancellations in Backlog

NPC/Golosky may not be able to convert its backlog into revenue and cannot guarantee that the revenues projected in its backlog will be realized or, if realized, will result in profits. Projects may remain in its backlog for an extended period of time. NPC/Golosky includes in its backlog binding and non-binding letters of intent, work orders and cost reimbursable contracts, which may be different than the items other issuers include in backlog. In addition, as many of NPC/Golosky's clients have the right to terminate their contracts on short notice, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in its backlog and with respect to backlog evidenced by a non-binding letter of intent, the formal contract respecting same may never be finalized, resulting in such engagement being terminated. Backlog reductions can adversely affect the revenue and profit NPC/Golosky actually receives from projects reflected in its backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of the Company's backlog and the revenues and profits that NPC/Golosky actually receives. Additionally, in the event of a project cancellation, the Company may be reimbursed for certain costs but typically has no contractual rights to the total revenue that was expected to be derived from such project.

### Union Work Stoppages

Twenty percent of NPC/Golosky's hourly employees, in the Golosky Subsidiaries, are subject to collective agreements to which it is a party or is otherwise subject. Any work stoppage resulting from a strike or lockout could have a material adverse effect on the Company's business, financial condition and results of operations, including increased labour costs and service disruptions. In addition, NPC/Golosky's clients employ workers under collective agreements. Any work stoppage or labour disruption experienced by NPC/Golosky's key clients could significantly reduce the amount of its services that they need.

#### Price and Availability of Alternative Fuels

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. NPC/Golosky cannot predict the impact of changing demand for oil and gas products, and any major changes may have a material adverse effect on NPC/Golosky'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 should 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, such as the current economic downturn, in some 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, and is having, 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. One of these individuals has been employed by Peerless for over 30 years and has 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.

## ***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. The Fund is in breach of certain covenants of its credit facility and is in negotiations with its Lender.

### 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.

#### **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.

##### 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.

#### **E. Risks Relating to the Debentures**

##### Prior Ranking Indebtedness

The Debentures will be subordinate to all senior indebtedness. The payment of the principal premium (if any) and interest on the Debentures will be subordinated to senior indebtedness of the Fund. The Debentures will also be effectively subordinate to claims of creditors of the Fund's subsidiaries except to the extent the Fund is a creditor of such subsidiaries ranking at least pari passu with such other creditors.

#### Inability to Fund Purchase of Debentures

The Fund may be required to offer to purchase all outstanding Debentures upon the occurrence of a change of control. However, it is possible that following a change of control, the Fund will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases.

#### Absence of Covenant Protection

The Trust Indenture does not, and the First Supplemental Indenture will not, restrict the Fund or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. Neither the Trust Indenture nor the First Supplemental Indenture contains any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Fund or any of its subsidiaries.

#### Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Fund, after December 2008 (Series 2005 Debentures) and December 2010 (Series 2007 Debentures) and prior to the maturity date at any time and from time to time, at the redemption prices set forth in the Indenture and the First Supplemental Indenture, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Fund is able to refinance at a lower interest rate or it is otherwise in the interest of the Fund to redeem the Debentures.

#### Conversion Following Certain Transactions

In the case of certain transactions, each Debenture will become convertible into securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future.

#### Market Value Fluctuation

Prevailing interest rates will affect the market value of the Debentures, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value of the Debentures, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

#### Dilutive Effects on Holders of Units

The Fund may issue Units on the conversion, redemption or repayment of the Debentures. Accordingly, holders of Units may suffer dilution.

### **5. Distributions**

On October 8, 2008 The Fund announced that it would be suspending distributions to Unitholders after the October 15, 2008 distribution. The Fund took this defensive action in order to preserve cash in the face of unstable capital markets and the prospect that the current economic slowdown could be prolonged and widespread. The Trustees of the Fund will further review its distribution policy when it determines that stability has returned to the capital markets. The suspension of distributions by the Fund will result in the Fund being liable for income taxes on its undistributed income.

## 5.1 Summary of Distributions

The following table sets forth the monthly distributions per Unit paid by the Fund over the past three (3) years.

### **2006**

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

### **2007**

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

### **2008**

January .....	0.05420
February .....	0.05420
March .....	0.05420
April .....	0.05420
May .....	0.05420
June .....	0.05420
July .....	0.05420
August .....	0.05420
September .....	0.05420
October .....	0.05420
November .....	0.00000
December .....	0.00000

## 5.2 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

Other than BMI and Gusgo, as well as the arrangement with Morrison Williams described below, there is no subordination of distributions of cash available for distribution to NPH from the Operating Partners. Nor is there subordination of distributions of cash available for distribution to NPY by NPH.

Pursuant to the limited partnership agreements for each of 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) April 17, 2009, in the case of BMI, and (b) 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: (a) Quantum Murray terminated on January 31, 2009; (b) Armstrong, terminated on December 31, 2008; and (c) ESR, Capital CEK LP (holding entity of Capital C), S&E, Gemma and NPC/Golosky each terminated on September 30, 2007.

### 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 was to have terminated on February 29, 2008 but has been extended until February 8, 2012 pursuant to the escrow arrangement described below. 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, 2008.

	<b>Authorized</b>	<b>Issued</b>	<b>As at December 31, 2008</b> (000's)
Term Debt .....	—	—	NIL <sup>(1)</sup>
Convertible Debentures .....	—	—	\$152,683
Non-Controlling Interest .....	—	—	\$15,649
Special Voting Units .....	Unlimited	25,090,701	
Units <sup>(2)</sup> .....	Unlimited	46,540,730	\$39,953

(1) As the Fund was not in compliance with certain covenants under its term debt facility as at December 31, 2008, and as no agreements have yet been reached with the lender, the Fund has reclassified the term debt of \$210 million as a current liability, and has written off the balance of deferred financing charges of \$4.1 million associated with this facility. Also refer to the 2008 audited restated financial statements.

(2) 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>2</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.

<sup>2</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.

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 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, 2008 to December 31, 2008.

2008	Price Data			Monthly Volume
	High	Low	Close	
January	\$4.39	\$3.25	\$3.40	1,128,588
February	\$3.60	\$3.19	\$3.36	784,693
March	\$3.54	\$2.75	\$3.20	1,365,504
April	\$3.25	\$2.90	\$3.23	3,509,766
May	\$3.60	\$3.16	\$3.30	1,839,981
June	\$3.61	\$3.10	\$3.25	1,192,844
July	\$3.41	\$2.76	\$3.14	1,192,172
August	\$3.25	\$2.90	\$3.20	1,274,093
September	\$3.20	\$2.24	\$2.90	1,098,206
October	\$2.80	\$0.51	\$0.70	5,748,504
November	\$0.70	\$0.22	\$0.27	6,276,130
December	\$0.55	\$0.24	\$0.46	4,112,151

#### Normal Course Issuer Bid

On January 20, 2009, the Fund announced that it had received approval from the TSX to purchase for cancellation, through the facilities of the TSX, up to 2,327,194 Units. The normal course issuer bid came into effect on January 23, 2009 and will terminate on January 22, 2010. As of March 30, 2009, the Fund has not bought back and cancelled any Units under this normal course issuer bid.

The Fund previously had a normal course issuer bid in place which commenced on December 18, 2007 and expired on December 19, 2008. Under this normal course issuer bid, the Fund received approval to purchase for cancellation, through the facilities of the TSX, up to 2,070,348 Units. The Fund bought back and cancelled 277,500 Units at an average price of \$1.39 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, 2008 to December 31, 2008.

2008	Price Data			Monthly Volume
	High	Low	Close	
January	\$87.10	\$81.00	\$82.00	23,510
February	\$85.00	\$80.00	\$85.00	5,580
March	\$85.00	\$78.00	\$84.00	22,660
April	\$85.00	\$81.00	\$85.00	7,680
May	\$89.00	\$84.00	\$87.00	20,790
June	\$94.95	\$85.50	\$88.00	18,740
July	\$90.50	\$87.00	\$90.00	22,510
August	\$93.00	\$87.50	\$90.25	8,180
September	\$93.00	\$86.50	\$86.50	13,030
October	\$86.50	\$65.00	\$70.00	28,490
November	\$68.50	\$35.00	\$44.00	9,033
December	\$43.00	\$30.00	\$38.00	87,010

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 January 1, 2008 to December 31, 2008.

2008	Price Data			Monthly Volume
	High	Low	Close	
January	\$89.95	\$71.00	\$79.00	3,310
February	\$78.95	\$70.00	\$75.00	5,000
March	\$74.05	\$70.00	\$72.00	9,700
April	\$74.95	\$72.00	\$73.00	7,520
May	\$76.47	\$73.50	\$75.70	7,790
June	\$78.95	\$74.50	\$76.45	11,980
July	\$77.00	\$69.95	\$70.95	8,900
August	\$83.95	\$70.95	\$83.95	23,270
September	\$88.95	\$78.00	\$80.95	12,220
October	\$81.95	\$58.00	\$61.00	16,440
November	\$60.00	\$20.00	\$28.00	20,110
December	\$33.00	\$25.00	\$32.00	97,960

## 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 John K. Bell, K. Michael Edwards, Richard W. Ivey, Gerry Smith and David A. Williams. On June 10, 2008 Paul Beeston resigned as a trustee of the Fund, and as a director of Newport Partners GP Inc. and Newport Partners Trustee Inc., and the Trustees are operating with a vacancy. 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>
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, Huronia 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:

*John K. Bell.* Mr. Bell is President of Onbelay Investment Corporation, a private equity company with investments in technology, telematics and automotive. Previously he was owner and CEO of Polymer Technologies Inc. a North American automotive parts manufacturer. Prior to that he was the founder and owner of Shred Tech Limited, a world leader in recycling technology and equipment. He is Chairman of BSM Wireless Inc., a Director of ATS Automation tooling Systems Inc., and Chairman of Cambridge Memorial Hospital. Mr. Bell is a graduate Of University of Western Ontario 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 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 Radiant Energy Services, Western Copper, Calvalley Petroleum, Atlantis Systems Corp., Resin Systems Inc. and RoadDor 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 28, 2009, the Trustees of the Fund as a group beneficially owned, or controlled or directed, directly or indirectly, 1,274,186 Units and 665,090 LP Units, representing approximately 2.70% of the fully diluted outstanding Units.

## **8.2 Committees**

The Trustees have appointed an Audit Committee consisting of John Bell (Chairman), and the remaining Trustees 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), and the remaining Trustees, 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 five Trustees of the Fund. As noted above, Paul Beeston resigned as a director of CT Trustee and of GP Trustee on June 10, 2008.

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 five 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.

*Dean MacDonald.* Mr. MacDonald is President and Chief Executive Officer of the Fund. He has a long and successful career as an operating executive and entrepreneur. His operating experience includes serving as the Chief Operating Officer of Rogers Cable and as the Chief Executive Officer of Persona Communications, a TSX-listed cable and internet services company. Mr. MacDonald worked with a syndicate of investment partners to turn around Persona's operations and subsequently sold the business at a significant premium to its purchase price in 2007. Mr. MacDonald has also served as chairman of the Newfoundland and Labrador Energy Corporation which manages the province's oil and gas assets. He has management and investment experience in a number of industries including advertising, marketing and communications. In 2007, Mr. MacDonald was selected as CEO of the Year by Birch Hill Capital Partners..

The board of directors of each of CT Trustee and GP Trustee are currently operating with a vacancy.

### **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.

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with GP Trustee</u></b>
Aubrey W. Baillie ..... Toronto, Ontario	Executive Chairman
Dean T. MacDonald ..... St. John's, Newfoundland	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
Mark A. Kinney ..... Toronto, Ontario	Vice-President
David T. Lloyd ..... Toronto, Ontario	Vice-President
Michael J. Svetkoff ..... Toronto, Ontario	Vice-President

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

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.

Aubrey Baillie became a director 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.

## 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 28, 2009.

	Newport Partners Income Fund	NPY	Total Owned	Total Issued and Outstanding	Percentage Owned
Newport Partners Principals	4,545,445	7,125,265	11,670,710	71,951,476	16.22%
Trustees	1,274,186	665,090	1,939,276	71,951,476	2.70%
Newport Partners Employees (other than Newport Partners Principals)	203,230	39,663	242,893	71,951,476	0.34%

## 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) Third Amendment to Credit Agreement and Consent dated January 7, 2008; and
- (ii) Fourth Amendment to Credit Agreement and Consent dated September 30, 2008.

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, 2008, 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 and Special 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, 2008.

**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 all of the trustees of the Fund and John Bell is the current Chairman, 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 the President of the Onbelay Group of Companies, a private equity company. He is also Chairman of BSM Wireless Inc., a director of ATS Automation tooling Systems Inc., and Chairman of Cambridge Memorial Hospital. Mr. Bell is a chartered accountant and holds a degree in Business Administration from the University of Western Ontario. 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.

Mr. Edwards is the Chairman and Chief Executive Officer of FieldWorker Products Limited, a mobile data solutions company. He is also a director of the Mount Pleasant Group, Fundserve, Energy Split Corp. Inc. and Energy Split Corp II Inc. Mr. Edwards holds a Bachelor of Commerce degree from the University of Alberta.

Mr. Ivey is chairman of Ivest Properties Limited, a real estate development and management company. He also serves as a member of the board of directors of Canada Colors and Chemicals Limited and holds the positions of chairman of the Canadian Institute for Advanced Research, secretary and treasurer of the Ivey Foundation and is a member of various other advisory boards. Mr. Ivey holds a degree in Business Administration from the University of Western Ontario and a Law degree from the University of Toronto.

Mr. Smith is owner and president of Huronia Investments Inc., a private investment holding company and is also the owner and an executive with Point To Point Communications Limited and Sitecom Services limited, both companies involved in telecommunications. Mr. Smith holds a Bachelor of Commerce degree and an M.B.A. from McMaster University and is a Chartered Accountant.

**4. External Auditor Service Fees**

Audit Fees

KPMG LLP, the Fund's external auditor, auditor of NPY, and auditor of certain operating partnerships, charged \$1,720,292 for audit services and specified procedures relating to the quarterly reports of the Fund, services related to the 2008 fiscal period (\$1,807,658 – 2007 fiscal period).

Other auditors charged the operating partnerships \$185,500 for 2008 (\$145,913 for 2007).

Audit-Related Fees

KPMG LLP, the Fund's external auditor, charged the Fund and NPY \$17,581 for audit related services in the 2008 fiscal period. The audit-related services provided related to financing and divestiture assistance (\$303,542 – for audit related service relating to the convertible debenture offering and business acquisition reporting for 2007).

Other auditors charged the Fund and NPY \$NIL for 2008 (\$145,913 for 2007).

Tax Fees

KPMG LLP, the Fund's external auditor, the auditor of NPY, and the auditor of certain operating partnerships, charged the Fund \$9,908 for tax services in the 2008 fiscal period. These services included advice with respect to compliance reporting (\$29,892 for tax services with respect to the tax structuring of the Fund's convertible debenture offering as well as compliance reporting in 2007).

Other auditors charged \$NIL for tax services in the 2008 fiscal period relating to tax compliance reporting (\$24,910 in the 2007 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 all of the 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, unless otherwise defined in the AIF, the following terms shall have the meanings set forth below, unless 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;

**"AIF"** means the Annual Information Form of the Fund dated March 30, 2009 in respect of the Fund's financial year ended December 31, 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;

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

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

**"Brompton"** means Brompton Corp., a corporation incorporated under the laws of the Province of Ontario;

**"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;

**"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;

**"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;

**"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;

**"First Supplemental Indenture"** means the first supplemental indenture to the Trust Indenture, dated July 12, 2007 pursuant to which the Series 2007 Debentures were issued;

**"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;

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

**"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;

**"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;

**"Morrison Williams"** means Morrison Williams Investment Management 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;

**"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/Golosky"** means NPC Integrity Energy Services Limited Partnership, a limited partnership formed under the laws of the Province of Alberta. NPC/Golosky is licenced to carry on business as "Golosky Energy Services";

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

**"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 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;

**"SIFT Rules"** the amendments to the Tax Act enacted on June 22, 2007 that modify the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships, and as further described in *"Risks - Proposed Changes to the Income Tax Rules Applicable to Publicly Traded Trusts and Partnerships"*

**"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;

**"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.