MANAGEMENT'S DISCUSSION AND ANALYSIS

March 30, 2011

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial position and cash flows of Newport Partners Income Fund (the "Fund") for the years ended December 31, 2010 and 2009. This MD&A should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the notes thereto.

All amounts in this MD&A are in Canadian dollars. The accompanying audited consolidated financial statements of the Fund have been prepared by and are the responsibility of management. The contents of this MD&A have been approved by the Board of Trustees of the Fund, on the recommendation of its Audit Committee. This MD&A is dated March 30, 2011 and is current to that date unless otherwise indicated.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A makes reference to certain Non-GAAP Measures and contains Forward-Looking Information. Non-GAAP Measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See Non-GAAP Measures and Forward-Looking Information.

Capitalized terms are defined terms, their meaning is explained in the "Definitions" section located on page 60, and references to "we", "us", "our" or similar terms, refer to Newport Partners Income Fund, unless the context otherwise requires.

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Forward-looking information

This MD&A contains certain forward-looking information. Certain information included in this MD&A may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results and may include statements or information regarding the future plans or prospects of the Fund or the Operating Partnerships and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Fund and the Operating Partnerships. Without limitation, information regarding the future operating results and economic performance of the Fund and the Operating Partnerships constitute forward-looking information. Such forward-looking information reflects management's current beliefs and is based on information currently available to management of the Fund and the Operating Partnerships. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including risks related to investments, conditions of capital markets, economic conditions, taxation of income trusts, dependence on key personnel, limited customer bases, interest rates, regulatory change, ability to meet working capital requirements and capital expenditures needs of the Operating Partners, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. In addition, in evaluating this information, investors should specifically consider various factors, including the risks outlined under "Risk Factors", which may cause actual events or results to differ materially from any forward-looking statement. In formulating forward-looking information herein, management has assumed that business and economic conditions affecting the Fund and the Operating Partnerships will continue substantially in the ordinary course, including without limitation with respect to general levels of economic activity, regulations, taxes and interest rates. 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 MD&A, and the Fund does not assume any obligation to update or revise it to reflect new events or circumstances except as required by law. Undue reliance should not be placed on forward-looking information. The Fund is providing the forward-looking financial information set out in this MD&A for the purpose of providing investors with some context for the "2011 Outlook" presented. Readers are cautioned that this information may not be appropriate for any other purpose.

Non-GAAP measures

The terms "adjusted EBITDA", "LTM cash yield from the portfolio", ''distributable cash'', ''EBITDA'', ''invested capital'', (collectively the ''Non-GAAP Measures'') are financial measures used in this MD&A 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.

EBITDA refers to net earnings determined in accordance with GAAP, before depreciation and amortization, net of gain or loss on disposal of capital assets and disposal of investments, 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 and 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.

Adjusted EBITDA refers to EBITDA excluding the gain or loss on reduction or sale of ownership interest (dilution gains or losses), the write-down of goodwill and intangible assets, restructuring costs, and the impairment of long-term investments. 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 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 suspended distributions paid to its unitholders in October 2008. Under the Amended Forbearance Agreement, the Fund is prohibited from making distributions to unitholders and the Fund is retaining cash to meet working capital requirements, capital expenditures needs of the Operating Partners and 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 an Operating Partnership is also used by management in the calculation of yield which it uses to monitor the performance of the Fund's Operating Partnerships.

LTM cash yield from the portfolio refers to the Fund's cash on cash return for the last 12 months from an Operating Partnership based on free cash flow paid to the Fund as a percentage of weighted invested capital. Management believes that overall yield is a useful supplemental measure for investors to assess the quality of the investments in the Fund's portfolio and management's ability to invest in successful businesses at reasonable prices. Management uses this measure to monitor the performance of its investment strategy.

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 overall yield for an Operating Partnership. Management believes that invested capital is a useful supplemental measure that provides investors with useful information about the capital that the Fund deploys for each Operating Partnership which can subsequently be used to determine the performance of each Operating Partnership.

Investors are cautioned that the Non-GAAP Measures are not alternatives to measures under GAAP and should not, on their own, be construed as an indicator of performance or cash flows, a measure of liquidity or as a measure of actual return on the units. These Non-GAAP Measures should only be used in conjunction with the financial statements included in the MD&A and the Fund's annual audited financial statements available on SEDAR at www.sedar.com or at www.newportpartnersincomefund.ca

BUSINESS OBJECTIVES AND 2010 PERFORMANCE

Stabilize the Fund's balance sheet and long-term capital structure by reducing and restructuring existing debt.

- The Fund repaid approximately $64 million of senior debt during 2010.
- The Fund's senior credit facility was assigned to a new institutional lender with amended and improved terms and an extended forbearance period.
- The Fund completed the exchange of its 2010 and 2012 Convertible Debentures which were in default for Secured Debentures due in 2016.
- The Fund re-negotiated its amended senior credit facility and emerged from forbearance on March 23, 2011.
- All of the Fund's debt is now categorized as long term debt, and the going concern note on the Fund's balance sheet has been removed.

Complete the Fund's conversion to a corporation to reduce the cost of capital.

- The Fund's conversion to a corporation, Newport Inc., was approved at a meeting of the Fund's unit holders on March 25, 2011.

Increase focus on reducing operating costs and streamlining operations at investee businesses.

- Significant operating cost savings were made at the Fund's two largest investments in the industrial services segment.
- General and administrative costs were reduced at 5 of our 8 other majority controlled investments.
- Cost rationalization projects were successful within each operating segment.
- Acquisition of minority interests at NPC and Gemma will permit faster operational streamlining.

Strengthen the leadership at investee businesses by adding seasoned industry leaders to the boards.

- The Fund did not progress on this objective in 2010 given the uncertainty in its financial health.
- The Fund, however, has identified board members to be added to its investee boards and intends to advance this during 2011.

Assess portfolio at the end of the Forbearance period and review options to maximize value.

- Increased focus on developing investments in the industrial services segment.
- Reviewing value creation and realization opportunities at each investment.

INDUSTRY SEGMENTS

The Fund has five operating segments, each of which has separate operational management and management reporting information. All of the Fund's operations, assets and employees are located in Canada. In addition to the segments listed below, the corporate segment represents head office administrative and financing costs incurred by the Fund. The Fund utilizes EBITDA as a performance measure for its operating partners and segment results.

Operating Partner by Industry Segment	Business Description	Ownership Interest
Financial Services		
BMI	Full service insurance broker focusing primarily on commercial clientele with expertise in the transportation sector	78%
Brompton	Asset manager of public and private investment funds	42%
Hargraft	Insurance broker specializing in the transportation, manufacturing and construction sectors	100%
Morrison Williams	Provider of investment management services to institutional clients	80%
Marketing		
Armstrong	Fully integrated marketing agency providing in-store promotional marketing, digital and social media marketing solutions	80%
Gemma	An outsourced contact centre operator providing outbound revenue generation and inbound customer care services	100%
IC Group	Provider of on-line promotional and loyalty programs and select insurance products	80%
Industrial Services		
NPC	Provider of oil and gas maintenance, construction and wear technology services to both the conventional oil and gas industry and the oilsands	100%
Quantum Murray	National provider of demolition, remediation and scrap metal services	64%
Other		
Gusgo	Transportation and storage services provider	80%
Rlogistics	Re-seller of closeout, discount and refurbished consumer electronic and household goods in Ontario	36%
Titan	Manufacturer and distributor of rigging products and services, and ground engaging tools to the oil and gas, and construction sectors.	92%

2010 RESULTS

Summary Financial Table – (segmented) ($000s)

YEAR ENDED DECEMBER 31, 2010

	Financial Services	Marketing	Industrial Services[2]	Other	Corporate[1]	Total
Revenues	$ 13,483	$ 52,189	$ 359,833	$ 42,264	$ -	$ 467,769
Gross profit	12,186	16,876	67,654	13,680	-	110,396
Income (loss) from continuing operations before non-controlling interest	(14,748)	949	(2,814)	3,128	(38,840)	(52,325)
EBITDA from continuing operations	(11,697)	4,791	21,243	5,373	(12,543)	7,167
Write-down of goodwill and intangible assets	17,244	-	1,779	-	-	19,023
Loss on sale of investment	-	-	442	-	-	442
Adjusted EBITDA from continuing operations	5,547	4,791	23,464	5,373	(12,543)	26,632
Interest income (expense)[2]	95	(129)	(1,862)	(612)	(34,570)	(37,078)
Non-cash interest expense[3]	-	-	-	-	3,693	3,693
Income tax expense - current	-	-	(49)	-	(351)	(400)
Maintenance capital expenditures and reserves	(975)	(348)	(3,198)	(236)	-	(4,757)
Capital lease payments	-	(180)	(4,148)	(259)	-	(4,587)
Priority income per partnership agreement[4]	-	-	-	452	-	452
Distributable cash from (used by) continuing operations	$ 4,667	$ 4,134	$ 14,207	$ 4,718	$ (43,771)	$ (16,045)
Distributable cash from discontinued operations						10,592
Distributable cash used by the Fund[5]						$ (5,453)

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

2 The Fund advanced approximately $62,000 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 $6,027 for the year ended December 31, 2010 and such amount has been added to the interest expense of the Corporate segment (2009 - $6,027).

3 Non-cash interest expense relates to the amortization of the deferred financing charge and the accretion of the equity component of the convertible debentures. Issue costs are amortized over the term of the Debentures, and the debt portion will accrete up to the principal balance at maturity.

4 To the extent that in any reporting period, calculated on a cumulative basis, the Fund'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 the Fund by the operating partner.

5 As there were no distributions made during 2010 and 2009, distributable cash per unit information has not been provided.

Summary Financial Table – (segmented) ($000s)

YEAR ENDED DECEMBER 31, 2009

	Financial Services	Marketing	Industrial Services[2]	Other	Corporate[1]	Total
Revenues	$ 16,591	$ 51,901	$ 397,525	$ 38,896	$ -	$ 504,913
Gross profit	13,249	18,431	75,524	12,613	-	119,817
Income (loss) from continuing operations before non-controlling interest	(10,192)	1,733	(17,038)	(6,812)	(44,599)	(76,908)
EBITDA from continuing operations	(6,608)	7,646	6,403	(3,248)	(16,370)	(12,177)
Write-down of goodwill and intangible assets	11,938	-	18,640	7,554	3,567	41,699
Adjusted EBITDA from continuing operations	5,330	7,646	25,043	4,306	(12,803)	29,522
Interest income (expense)[2]	113	(68)	(2,680)	(692)	(36,795)	(40,122)
Non-cash interest expense[3]	-	-	-	-	3,453	3,453
Income tax expense - current	-	-	-	-	(18)	(18)
Maintenance capital expenditures and reserves	(1,183)	(253)	86	(131)	-	(1,481)
Capital lease payments	-	(144)	(5,508)	(233)	-	(5,885)
Priority Income per partnership agreement[4]	20	-	-	436	-	456
Distributable cash from (used by) continuing operations	$ 4,280	$ 7,181	$ 16,941	$ 3,686	$ (46,163)	$ (14,075)
Distributable cash from discontinued operations						19,847
Distributable cash retained by the Fund[5]						$ 5,772

Summary Results from Continuing Operations – ($000s)

	Year ended December 31		
	2010	2009	2008
Revenues	$ 467,769	$ 504,913	$ 570,865
Cost of revenues	(357,373)	(385,096)	(433,552)
Gross profit	110,396	119,817	137,313
Selling, general and administrative expenses	(87,453)	(92,667)	(90,687)
Amortization expense	(16,422)	(21,575)	(27,396)
Depreciation expense	(10,801)	(12,539)	(10,693)
Income from equity investments	2,483	1,160	1,824
Other income	-	-	330
Interest expense	(37,078)	(40,122)	(40,363)
Loss on dilution of ownership interest	-	-	(845)
Write-down of goodwill and intangible assets	(19,023)	(41,699)	(183,258)
Impairment of long- term investment	-	-	(29,000)
Loss on sale of investment	(442)	-	-
Income tax expense-current	(400)	(18)	(7)
Income tax recovery -future	6,415	10,735	24,225
Loss from continuing operations before non-controlling interest	$ (52,325)	$ (76,908)	$ (218,557)
Net loss	$ (56,148)	$ (32,178)	$ (224,409)
Loss per unit:			
Loss from continuing operations, before non-controlling interest	$ (0.73)	$ (1.12)	$ (3.17)
Net loss	$ (0.78)	$ (0.51)	$ (5.18)
Loss from continuing operations before non-controlling interest	$ (52,325)	$ (76,908)	$ (218,557)
Add:			
Amortization	16,422	21,575	27,396
Depreciation[1]	10,857	12,601	10,888
Amortization of Brompton intangible assets	1,150	1,150	1,936
Interest expense	37,078	40,122	40,363
Income tax expense-current	400	18	7
Income tax recovery-future	(6,415)	(10,735)	(24,225)
EBITDA	$ 7,167	$ (12,177)	$ (162,192)
Loss on dilution of ownership interest	-	-	845
Write-down of goodwill, intangible assets and long-term investment	19,023	41,699	212,258
Loss on sale of investment	442	-	-
Adjusted EBITDA	$ 26,632	$ 29,522	$ 50,911

1 Depreciation of $56 was recorded in Cost of revenues for the year ended December 31, 2010 (2009 - $62; 2008 – $195).

	As at December 31		
Selected Balance Sheet Accounts	2010	2009	2008
Total assets	$ 348,387	$ 484,220	$ 621,017
Senior long-term debt	86,939	150,499	210,000
Revolving credit facilities	10,089	10,089	27,400
Convertible debtentures	159,829	156,136	152,683
Non-controlling interest	-	-	15,649
Unitholders' equity (deficit)	(33,744)	21,019	39,953

2010 RESULTS COMMENTARY

2010 was a challenging year for the Fund. While the Canadian economy for the most part stabilized, the impact was varied across the industries in which the Fund's portfolio investments operate. To satisfy certain terms of the forbearance agreement, four portfolio investments and one subsidiary of NPC were sold during the year with net proceeds used to repay senior debt. S&E, Peerless Garments, Capital C, NP LP and Skystone, a subsidiary of NPC, were sold for net proceeds of $65,581. Overall results from continuing operations were mixed within the reporting segments and generally improved as the year progressed. Continuing operations from portfolio investments are reported in four operating segments: Financial Services, Marketing, Industrial Services and Other.

Revenues for the year ended December 31, 2010 were $467,769 compared to $504,913 in 2009 and $570,865 in 2008. 2010 and 2009 revenues have been reduced from 2008 levels due to several factors. The financial crisis that began at the end of 2008 and carried on into 2009 had a significant impact across all operating segments. NPC was impacted by reduced commodity prices and the general slow-down in oil and gas services industry as clients reduced or deferred spending and increased competition impacted prices. Quantum Murray has been struggling with decreased activity levels in the industrial demolition sector. The smaller commercial demolition projects that remain, carry lower margins due to competitive pressures. The environmental division was stable in 2009 due to one large project, which was the largest remediation project in the company's history. There were no projects of such a scale in 2010. The financial services sector saw reduced assets under management ("AUM") and low quartile performance issues in 2009, which led to client retention issues in 2010. In 2010 new business initiatives were undertaken in an effort to increase AUM. The marketing segment saw sharp reductions in client spending. Marketing budgets were cut and Gemma saw a shift in business from a major client. The Other segment faired relatively well and is now starting to see business return to pre-2008 levels.

The Fund's Corporate segment includes administrative costs to operate the Fund and interest costs on borrowings for prior year investments and working capital of the portfolio's businesses. The costs include significant legal fees associated with numerous corporate initiatives and the cost of increased resources to manage the Fund's investments. Corporate office costs were $12,543 for the year ended December 31, 2010 compared with $12,803 in 2009.

Non-cash items that impacted the results were depreciation and amortization, the write-down of goodwill and intangible assets, impairment of long-term investments and future income taxes. Depreciation and amortization was $27,279 for the year ended December 31, 2010, compared to $34,176 in 2009. The largest component of this expense is the amortization of intangible assets, which are recorded as investments are made.

During the fourth quarter of 2010, the Fund reviewed the carrying value of all of its investments. As part of the review, the Fund re-calculated the fair value of intangible assets and goodwill based on current or expected earnings of the businesses, and based on current earnings multiples consistent with publicly available multiples of comparable businesses. This review resulted in write-downs of goodwill and intangible assets of $19,023, primarily associated with the Fund's investment in Morrison Williams. In 2009, the write-down was $41,699 and was related to several investments.

As a result of the write-down of goodwill and intangible assets, the Fund has recorded a future income tax recovery in 2010 of $6,415 and $10,735 in 2009. The tax recoveries recorded are non-cash items that have no current impact on the Fund's cash from operating activities.

Loss from continuing operations before non-controlling interest was $52,325 in 2010, $76,908 in 2009 and $218,557 in 2008.

Loss from investments sold during 2010 was $3,823 compared to income of $38,882 in 2009. Net loss was $56,148 in 2010, $32,178 in 2009 and $224,409 in 2008.

The four operating segments produced $39,175 of adjusted EBITDA for the Fund compared to $42,325 in 2009, and $57,720 in 2008. Refer to the chart below for adjusted EBITDA by operating partner.

Adjusted EBITDA	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2010 vs. 2008**
Financial Services					
BMI	1,282	893	2,121	389	(839)
Brompton	2,566	1,225	2,246	1,341	320
Hargraft	(721)	(1,270)	1,250	549	(1,971)
Morrison Williams	2,420	4,482	6,334	(2,062)	(3,914)
	5,547	5,330	11,951	217	(6,404)
Marketing					
Armstrong	1,137	1,175	1,395	(38)	(258)
Gemma	3,062	3,786	5,373	(724)	(2,311)
IC Group	592	2,685	1,686	(2,093)	(1,094)
	4,791	7,646	8,454	(2,855)	(3,663)
Industrial Services					
NPC	20,983	19,478	22,066	1,505	(1,083)
Quantum Murray	2,481	5,565	7,889	(3,084)	(5,408)
	23,464	25,043	29,955	(1,579)	(6,491)
Other					
Gusgo	2,093	1,877	2,298	216	(205)
Titan	2,249	1,324	3,591	925	(1,342)
Rlogistics	1,031	1,105	1,471	(74)	(440)
	5,373	4,306	7,360	1,067	(1,987)
Adjusted EBITDA from portfolio operations	39,175	42,325	57,720	(3,150)	(18,545)

The main items which reduce Adjusted EBITDA to arrive at distributable cash are interest expense, excluding non-cash accretion and amortization of deferred financing costs, and capital expenditures. Interest costs for the year decreased slightly from 2009. Additional costs for forbearance extension fees and default interest fees were offset by interest expense on lower debt levels in 2010. During the year, interest costs were $33,385 compared with $36,669 in 2009.

During 2010, the operating segments had capital expenditures and capital lease payments of $7,890, as compared to $13,645 in 2009. The majority of these expenditures were incurred in the Industrial Services segments.

Distributable cash used by continuing operations for the year ended December 31, 2010 was $16,045 compared with $14,075 in 2009.

SEGMENT OPERATING RESULTS

FINANCIAL SERVICES

The Financial Services segment includes 100% of the results of Hargraft (2009 – 94%) and the Fund's proportionate share of BMI and Morrison Williams. This segment also includes income from the Fund's equity investment in Brompton. The results of ESR (sold on October 1, 2009) and NP LP (sold on December 23, 2010) are included in Discontinued Operations and are not reflected in the tables below.

BMI	-	Full-service insurance broker focusing primarily on commercial clientele with expertise in the transportation sector
Brompton	-	Asset manager of public and private investment funds
Hargraft	-	Insurance broker specializing in the transportation, manufacturing and construction sectors
Morrison Williams	-	Provides investment management services to institutional clients

Summary Financial Table ($000s)

	Year ended December 31	
	2010	2009
Revenues	$ 13,483	$ 16,591
Cost of revenues	(1,297)	(3,342)
Gross profit	12,186	13,249
Selling, general and administrative expenses	(9,206)	(9,115)
Amortization expense	(4,058)	(5,558)
Depreciation expense	(83)	(126)
Income from equity investments	1,417	46
Interest income	95	113
Write-down of goodwill and intangible assets	(17,244)	(11,938)
Income tax recovery - future	2,145	3,137
Loss for the year	$ (14,748)	$ (10,192)
Add:		
Amortization	4,058	5,558
Depreciation	83	126
Amortization of Brompton intangible assets	1,150	1,150
Interest income	(95)	(113)
Income tax recovery - future	(2,145)	(3,137)
EBITDA	$ (11,697)	$ (6,608)
Write-down of goodwill, intangible assets and long-term investments	17,244	11,938
Adjusted EBITDA	$ 5,547	$ 5,330

Supplementary Financial Information – AUM (millions)

	Year ended December 31	
	2010	2009
Morrison Williams	1,870	3,035
Brompton	1,819	1,540
Total	$ 3,689	$ 4,575

(I) REVENUES

Revenues from the Financial Services segment were $13,483 in 2010, which represents an 18.7% decrease over the $16,591 reported for 2009. The decline was primarily driven by Morrison Williams.

2010 was a challenging year for Morrison Williams. Although performance in the financial markets was positive during the year, AUM and hence revenues declined with the departure of a few large pension clients. Morrison Williams began rebuilding the management team in 2010 and expects to see growth in AUM in 2011.

BMI had a satisfactory year with revenues marginally surpassing 2009 levels. All business segments, with the exception of trucking, experienced growth over the prior year. Results generally reflect a modest improvement in economic conditions, and successful business development initiatives, the taxi segment in particular had a strong contribution to overall results.

Hargraft had another difficult year as competitive pressures had a significant impact on the deterioration of the book of business. Revenue was lower than the prior year due to lost accounts and the resulting lower premiums and commissions.

(II) GROSS PROFIT

Gross profit for the year ended December 31, 2010 was $12,186, which translated into a 90.4% gross profit margin. This compares to gross profit of $13,249 for the prior year, reflecting a gross profit margin of 79.9%. The increase in gross profit margin was due to a decrease in cost of revenues at BMI and Hargraft which was offset by a reduced gross profit margin at Morrison Williams where an investment is being made to develop a new management team.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $9,206 for the year ended December 31, 2010 compared with $9,115 for the year ended December 31, 2009. Selling, general and administrative expenses as a percentage of revenues was 68.3%, compared to 54.9% in 2009. These costs are typically fixed, however this year's increase in selling, general and administrative expenses primarily reflects increased legal costs at Morrison Williams related to a new regulatory requirement as well as the increased salary costs for additions to the senior management team.

(IV) INCOME FROM EQUITY INVESTMENTS

Income from equity investments was $1,417 in 2010 compared to $46 in 2009. The increase in equity income reflects an increase in Brompton's AUM by 18%. The increase was due to two new investment funds under management and market appreciation of the value of assets held by the funds.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLE ASSETS

Due to the decline during the year in the customer base, the Fund wrote down goodwill related to its investment in Morrison Williams by $17,244. Refer to the Goodwill and Intangible Asset section for further details.

MARKETING

The Marketing segment includes 100% of the results of Gemma (2009 – 80%) and the Fund's proportionate share of the results of Armstrong, and IC Group. The results of S&E (sold on June 23, 2010) and Capital C (sold on December 1, 2010) are included in Discontinued Operations and are not reflected in the tables below .

Armstrong	-	Fully integrated marketing agency providing in-store promotional marketing, digital and social media marketing solutions
Gemma	-	Outsourced contact centre operator providing outbound revenue generation and inbound customer care services
IC Group	-	Provider of on-line promotional and loyalty programs and a provider of select insurance products

Summary Financial Table ($000s)

	Year ended December 31	
	2010	2009
Revenues	$ 52,189	$ 51,901
Cost of revenues	(35,313)	(33,470)
Gross profit	16,876	18,431
Selling, general and administrative expenses	(12,120)	(10,789)
Amortization expense	(5,021)	(4,717)
Depreciation expense	(898)	(910)
Income from equity investments	35	4
Interest expense	(129)	(68)
Income tax (expense) recovery -future	2,206	(218)
Income for the year	$ 949	$ 1,733
Add:		
Amortization	5,021	4,717
Depreciation	898	910
Interest expense	129	68
Income tax expense (recovery) -future	(2,206)	218
EBITDA and Adjusted EBITDA	$ 4,791	$ 7,646

(I) REVENUES

Revenues for the Marketing segment were $52,189, a 0.6% increase over 2009 revenues of $51,901.

In general, all three businesses within the marketing segment were impacted to various degrees by client budget reductions. The increase in revenue reflects the Fund's increase in ownership of Gemma to 100%. Gemma's overall revenues fell short of the prior year primarily due to a shift in business of a major client and the economic climate and its impact on delaying new business launches and acquiring new customers.

Armstrong's results were slightly down from the prior year. Clients remained cautious with marketing spending, and most business lines experienced modest declines. The declines were primarily driven by a reduction in business by a major client offset by new client accounts and additional services provided to other existing clients.

IC Group revenues were below prior year levels. 2009 results included the build and launch of a major loyalty program and revenues were not matched in the current year. In 2010 the launch and design revenues were replaced with lower maintenance revenues. Additionally, IC Group lost a major customer at the end of 2009 and have not yet been able to recover the shortfall with new sales.

(II) COST OF REVENUES AND GROSS PROFIT

Gross profit for the Marketing segment was $16,876 and gross margin was 32.3% for the year ended December 31, 2010. For the comparative year ended December 31, 2009, gross profit was $18,431 and gross profit margin was 35.5%.

The decline in gross margin reflects the competitive landscape and pricing pressure the marketing segment is experiencing.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2010 were $12,120 compared to $10,789 in 2009. These expenses as a percentage of revenues were 23.2% in 2010 compared to 20.8% in 2009. The increase relates to resource challenges at IC Group. New projects, which were highly technical in nature, required IC Group to contract out additional resources.

INDUSTRIAL SERVICES

The Industrial Services segment includes the Fund's proportionate share of the results of NPC and Quantum Murray. The Fund acquired the minority share of NPC in December 2010, thereby increasing ownership to 100% by December 31, 2010. However, the Fund continued to include its proportionate 80% share until December 20, 2010.

NPC	-	Provider of oil & gas maintenance, construction and wear technology services to both the conventional oil and gas industry and to the oil sands
Quantum Murray	-	National provider of demolition, remediation and scrap metal services

Summary Financial Table ($000s)

	Year ended December 31	
	2010	2009
Revenues	$ 359,833	$ 397,525
Cost of revenues	(292,179)	(322,001)
Gross profit	67,654	75,524
Selling, general and administrative expenses	(44,190)	(50,481)
Amortization expense	(5,940)	(8,418)
Depreciation expense	(9,288)	(10,680)
Interest expense	(7,889)	(8,707)
Write-down of goodwill and intangible assets	(1,779)	(18,640)
Loss on sale of investment	(442)	-
Income tax expense - current	(49)	-
Income tax (expense) recovery - future	(891)	4,364
Loss for the year	$ (2,814)	$ (17,038)
Add:		
Amortization	5,940	8,418
Depreciation[1]	9,288	10,680
Interest expense	7,889	8,707
Income tax expense - current	49	-
Income tax expense (recovery) - future	891	(4,364)
EBITDA	$ 21,243	$ 6,403
Write-down of goodwill and intangible assets	1,779	18,640
Loss on sale of investment	442	-
Adjusted EBITDA	$ 23,464	$ 25,043

1 Depreciation of $nil relating to production equipment has been included in cost of revenues for the year ended December 31, 2010 (2008 - $119).

	Year ended December 31			
	NPC		Quantum Murray	
	2010	2009	2010	2009
Revenues	$ 258,949	$ 255,159	$ 100,884	$ 142,366
Cost of revenues	(214,579)	(206,798)	(77,600)	(115,203)
Gross profit	44,370	48,361	23,284	27,163
Selling, general and administrative expenses	(23,387)	(28,883)	(20,803)	(21,598)
Amortization expense	(2,813)	(5,291)	(3,127)	(3,127)
Depreciation expense	(5,431)	(5,964)	(3,857)	(4,716)
Interest expense	(7,591)	(8,222)	(298)	(485)
Write-down of goodwill and intangible assets	(1,779)	(17,573)	-	(1,067)
Loss on sale of investment	(442)	-	-	-
Income tax expense -current	(49)	-	-	-
Income tax (expense) recovery -future	761	2,112	(1,652)	2,252
Income (loss) for the year	$ 3,639	$ (15,460)	$ (6,453)	$ (1,578)
Add:				
Amortization	2,813	5,291	3,127	3,127
Depreciation	5,431	5,964	3,857	4,716
Interest expense	7,591	8,222	298	485
Income tax expense - current	49	-	-	-
Income tax expense (recovery) -future	(761)	(2,112)	1,652	(2,252)
EBITDA	$ 18,762	$ 1,905	$ 2,481	$ 4,498
Write-down of goodwill and intangible assets	1,779	17,573	-	1,067
Loss on sale of investment	442	-	-	-
Adjusted EBITDA	$ 20,983	$ 19,478	$ 2,481	$ 5,565

(I) REVENUES

Revenues from the Industrial Services segment were $359,833 compared with $397,525 in 2009, a decrease of 9.5%

NPC results for the year were mixed on a divisional basis. The industrial services division which provides labor and maintenance services to conventional oil and gas companies as well as to the oil sands region, had a solid year. Revenues in this division were significantly improved from 2009 with most of the increase coming from labor and maintenance services provided to one large company operating in the oil sands region. Project related work in this division was reduced from the prior year. Gross margins in the industrial services division were improved from the prior year, in which project related losses were incurred.

Conversely, the Wear and Fabrication division had disappointing results in 2010 compared to 2009. Wear technology volumes were significantly reduced from prior year levels due to the absence of significant projects and lower maintenance orders. Gross margins were also compressed in 2010 due to reduced specialized pipe overlay orders as well as increased competition created by excess capacity in the industry.

At Quantum Murray revenues were down 29%. The decrease was primarily a result of the inclusion in 2009 of the Environmental division's largest remediation project in its history. In 2010, remediation activity was slower than expected as public sector environmental projects were delayed. The Demolition division had improved revenues in 2010 reflecting a gradual improvement in the industrial demolition market. The Metals division had improved revenues as a result of improved scrap prices throughout the year.

(II) GROSS PROFIT

Gross profit was $67,654 for the year ended December 31, 2010 compared with $75,524 in 2009. Gross profit margins were 18.8% compared to 19.0% in 2009. Gross margins were reduced at NPC but were offset by improved margins at Quantum Murray compared to a year ago.

NPC's gross margin reduction reflects the shift in mix in revenue from higher margin wear technology revenue to lower margin industrial services revenue. The industrial services division's gross margins did improve in 2010 with the absence of project losses incurred in 2009.

At Quantum Murray gross margins improved in all three divisions compared to a year ago. The large Ministry of Enviromental remediation project in 2009 had lower margins than the smaller remediation projects completed in 2010.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $44,190 for the year ended December 31, 2010 compared to $50,481 in 2009. These expenses as a percentage of revenues were 12.3%, reduced from 12.7% in 2009. Expenses at NPC have been reduced, due to restructuring charges recorded in 2009 and cost management in the industrial services division. Expenses at Quantum Murray have been reduced from a year ago, primarily at the demolition and metals divisions where headcount and truck fleets have been reduced to match lower business volumes.

(IV) WRITE-DOWN OF GOODWILL AND INTANGIBLE ASSETS

During 2010, write-downs of intangibles assets in the amount of $1,779 were recorded relating to the sale of NPC's investment in Skystone. In 2009, write-downs of goodwill and intangible assets in the amount of $18,640 were

recorded relating the Fund's investments in both NPC and Quantum Murray. See section "Goodwill and Intangible Asset Write-downs".

(V) LOSS ON SALE OF INVESTMENT

An accounting loss of $442 was recorded on the sale of NPC's subsidiary Skystone International.

(VI) SEASONALITY

NPC's revenues and profits are impacted by seasonality and weather conditions. For example, severe winter conditions and excessively rainy periods can delay equipment moves and thereby adversely affect revenues. Spring break-up typically occurs in March and April leaving many roads temporarily incapable of supporting heavy equipment travel, thereby negatively impacting NPC's business.

Quantum Murray's remediation activity can be reduced in the winter months, depending on assignment location and weather. In addition, due to the timing of large contracts, quarterly results can fluctuate.

OTHER

The Other segment includes the Fund's proportionate share of the results of Gusgo and Titan. This segment also includes income from the Fund's equity investment in Rlogistics. The results of Peerless (sold on August 19, 2010) are included in Discontinued Operations and are not reflected in the tables below.

Gusgo	-	Provider of container transportation and storage services
Rlogistics	-	Reseller of close-out, discount and refurbished consumer electronic and household goods
Titan	-	Manufacturer and distributor of rigging products, rigging services and ground engaging tools

Summary Financial Table ($000s)

	Year ended December 31	
	2010	2009
Revenues	$ 42,264	$ 38,896
Cost of revenues	(28,584)	(26,283)
Gross profit	$ 13,680	$ 12,613
Selling, general and administrative expenses	(9,394)	(9,479)
Amortization expense	(1,316)	(2,882)
Depreciation expense	(532)	(704)
Income from equity investments	1,031	1,110
Interest expense	(612)	(692)
Write-down of goodwill and intangible assets	-	(7,554)
Income tax recovery - future	271	776
Income (loss) for the year	$ 3,128	$ (6,812)
Add:		
Amortization	1,316	2,882
Depreciation [1]	588	766
Interest expense	612	692
Income tax recovery - future	(271)	(776)
EBITDA	$ 5,373	$ (3,248)
Write-down of goodwill and intangible assets	-	7,554
Adjusted EBITDA	$ 5,373	$ 4,306

1 Depreciation of $56 relating to production equipment has been included in cost of revenues (2009 - $62).

(I) REVENUES

Revenues for the other segment were $42,264 for the year ended December 31, 2010, compared to $38,896 in 2009, which reflects an increase of 8.7%.

Gusgo's revenues increased due to an improving economy and a stimulated transportation industry. The increase over the prior year is primarily attributed to higher volumes received from existing customers.

Titan realized a marked improvement in revenues from the previous year, across all product lines. Increased activity in the oil and gas market and oil sands development materialized in the last half of the year.

(II) GROSS PROFIT

Gross profit was $13,680 for the year ended December 31, 2010, compared with $12,613 for 2009. Gross profit margins were consistent at 32.4% for both 2010 and 2009.

Competitive pressures and aggressive pricing by other suppliers have however impacted Titan's gross margins negatively. These modest decreases at Titan were offset by modest increases by Gusgo.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $9,394 for the year ended December 31, 2010, compared with $9,479 for 2009. These expenses as a percentage of revenues were 22.2%, compared to 24.4% in 2009. The reduction in these expenses is attributable to Titan, where significant cost controls were implemented more than a year ago.

(IV) INCOME FROM EQUITY INVESTMENTS

Income from equity investments related to the Fund's ownership share of Rlogistics was $1,031 in 2010 compared to $1,110 in 2009. Over the last eighteen months, Rlogistics has expanded its product lines, which has required increased investment in retail space and inventory. Rlogistics continued to operate in a competitive retail market in 2010 and has worked hard to acquire products with above average margins.

CORPORATE

The Corporate segment includes head office management, administrative and legal costs, as well as interest costs.

Summary Financial Table ($000s)

	Year ended December 31	
	2010	2009
Selling, general and administrative expenses	$ (12,543)	$ (12,803)
Depreciation expense	(87)	(119)
Interest expense	(28,543)	(30,768)
Write-down of goodwill	-	(3,567)
Loss on dilution of ownership interest	-	-
Income tax expense-current	(351)	(18)
Income tax recovery-future	2,684	2,676
Loss for the year	$ (38,840)	$ (44,599)
Add:		
Depreciation expense	87	119
Interest expense	28,543	30,768
Income tax expense – current	351	18
Income tax recovery -future	(2,684)	(2,676)
EBITDA	$ (12,543)	$ (16,370)
Write-down of goodwill	-	3,567
Adjusted EBITDA	$ (12,543)	$ (12,803)

(I) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $12,543 for the year ended December 31, 2010, compared to $12,803 for 2009. Total expenses remained consistent year over year. The break-down of selling, general and administrative expenses is as follows:

	Year ended December 31	
	2010	2009
Salaries	$ 7,433	$ 6,434
Professional advisor fee	1,740	1,104
Legal	1,119	2,557
Other	2,251	2,708
Selling, general and administrative expenses	$ 12,543	$ 12,803

Salaries expense increased due to the stock based compensation expense of $1,385 relating to a stock option plan introduced in 2010. Advisor fees increased due to additional IFRS related work. These increases were offset by a significant reduction in legal expense as well as a reduction in other expenses.

(II) INTEREST EXPENSE

Interest expense was $28,543 for the year ended December 31, 2010 compared to $30,768 for 2009. Interest expense relates to the long-term debt, the revolving line of credit and the convertible debentures. It also includes fees related to forbearance period extensions and swap breakage fees on the repayment of principal amounts. The Fund has accrued interest expense of $23,870 on the convertible debentures but was contractually prohibited from paying it under the Forbearance Agreement with its senior lender. On March 23, 2011 debentures holders approved a plan to exchange the accrued and unpaid interest with 3 year unsecured debentures. See liquidity and capital resources. The reduction in interest expense reflects lower debt levels in 2010, which were offset by higher fees paid in 2010 related to the Forbearance Agreement.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

The following table summarizes the major consolidated cash flow components:

	2010	2009
Cash from operating activities	$ 18,309	$ 70,700
Cash from investing activities	41,394	56,668
Cash used in financing activities	(75,846)	(107,341)
Consolidated cash and cash equivalents (continuing and discontinued operations)	27,739	41,262

CASH FROM OPERATING ACTIVITIES

The following table provides a break-down of cash from operating activities by cash used in operations, changes in non-cash balances and cash and distributions provided from discontinued operations.

	2010	2009
Cash used in operations	$ (7,398)	$ (8,598)
Changes in non-cash balances		
Accounts receivable	22,276	17,825
Inventories	(4,454)	2,462
Other current assets	15,989	9,011
Accounts payable, accrued liabilities and deferred revenue	(37,304)	600
Interest on revolving credit facility and convertible debentures	12,935	12,384
Increase in cash due to changes in non-cash balances	9,442	42,282
Cash and distributions provided by discontinued operations	16,265	37,016
Cash from operating activities	18,309	70,700

CASH FROM INVESTING ACTIVITIES

Cash from investing activities totaled $41,394 compared to $56,668 in 2009. Cash from investing activities was provided by the sale of the Fund's interest in Peerless, Capital C, Skystone and NP LP in 2010. The acquisition of the minority shares of NPC and Gemma partially offset these cash inflows. See table below for further details.

	2010	2009
Acquisition of businesses, net of cash acquired		
ESR minority share	$ -	$ (8,487)
IC Earn-out	-	(2,337)
Gemma minority share	(4,325)	-
NPC minority share	(14,769)	-
	(19,094)	(10,824)
Proceeds on disposal of business		
ESR	-	74,662
Hargraft Schofield Benefits Inc.	-	1,197
NPC (Skystone)	2,929	-
S&E	271	-
Peerless	20,381	-
Capital C	27,000	-
NP LP	15,000	-
	65,581	75,859
Other	(5,093)	(8,367)
Cash from investing activities	41,394	56,668

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities was $75,846 in 2010 and $107,341 in 2009, primarily due to the repayment of the long-term debt from the proceeds of asset sales.

	2010	2009
Decrease in long-term debt		
Repayments from proceeds of sales and cash on hand	$ (63,560)	$ (59,501)
Decrease in revolving credit facilities		
Repayments from proceeds of sales and cash on hand	-	(33,461)
Increase in revolving credit facilities	-	16,150
Other	(12,286)	(30,529)
Cash used in investing activities	(75,846)	(107,341)

FINANCING

SENIOR FACILITY

The Fund, through Newport Finance Corp. ("NFC"), a subsidiary of the Fund, had a Senior Credit Agreement (the "Senior Credit Agreement") with a syndicate of lenders (the "Lenders"). Since December 31, 2008, the Fund had not been in compliance with certain covenants under the Senior Credit Agreement. On April 1, 2009 and April 29, 2009, the Fund received notices from the Lenders confirming the events of default.

FORBEARANCE AGREEMENT

On July 21, 2009 the Fund announced that a Forbearance Agreement (the "Forbearance Agreement") had been entered into with the Lenders. Under the terms of the Forbearance Agreement, the Lenders agreed to forbear from exercising their default-related rights and remedies under the Senior Credit Agreement for a period of up to 365 days, which period could be reduced upon the occurrence of certain new defaults (the "Forbearance Period").

AMENDMENTS TO FORBEARANCE AGREEMENTS

During 2009 and 2010 the Fund and the Lenders agreed to four separate amendments to the Forbearance Agreement. During the period July 21, 2009 to December 21, 2010 the Fund repaid $155,158 in principal and paid $13,590 in fees and default interest as detailed below:

	Jan 21 – Dec 31 2010	July 21 – Dec 31 2009
Principal repayments	$63,560	$91,598
Amendment fees	5,738	118
Swap breakage fees	3,286	963
Default interest	2,952	533

SUPPORT AGREEMENTS AND ASSIGNMENT OF SENIOR DEBT

On November 30, 2010 the Fund announced it had entered into support agreements ("Support Agreements") for comprehensive senior debt and Debenture refinancing. These Support Agreements between Marret Asset Management ("Marret"), K2 Associates Investment Management Inc. ("K2") and the Fund secured the support of Marret and K2 for (i) the assignment to Marret and amendment of NFC's senior secured credit facility and (ii) an exchange transaction pursuant to which the terms of the indentures for the Fund's Debentures would be amended to provide for the mandatory exchange of the Debentures for newly created second lien notes and subordinated unsecured notes of the Fund.

On December 20, 2010 the Fund announced the successful assignment of senior debt financing to Marret, on behalf of various funds under management ("Marret Lenders"). In connection with the assignment, the Marret Lenders received an assignment of all of the rights and obligations of the Lenders under the senior credit facility, and the Forbearance Agreement. In connection with the assignment, the Marret Lenders agreed to extend the Forbearance Period until December 31, 2011, unless amendments curing existing events of default were entered into prior to that date. The amended and restated credit agreement with NFC and certain of its affiliates, as well as an amended and restated Forbearance Agreement, provides improved borrowing terms to the Newport group of companies.

The key terms under the assignment are as follows; the principal amount of advances were not to exceed $112,000, the interest rate is determined in accordance with a Total Leverage Ratio test and was initially set at

9.5% per annum, mandatory repayments of 100% of all net proceeds on any asset sale and 75% of excess cash flow from operations. The Forbearance Agreement was extended to December 31, 2011 and a consent fee of $1,000 was paid to Marret on the completion of the assignment.

SECOND AMENDED & RESTATED SENIOR CREDIT AGREEMENT

On March 23, 2011 the Fund, through NPC and Marret Lenders, finalized a second amended and restated senior credit agreement ("ARCA"). The ARCA removed all forbearance conditions. See note 10 in the financial statements.

CONVERTIBLE DEBENTURES

As a consequence of the continuing events of default under the Senior Credit Agreement, the Fund was contractually prohibited from remitting the December 31, 2010, June 30, 2010, December 31 and June 30, 2009 interest payments on the Unsecured Subordinated Convertible Debentures (the "Debentures") and as of July 15, 2009, the failure to make the interest payment on June 30, 2009 constituted an event of default under the terms of the Trust Indentures governing the Debentures.

On February 28, 2011, the Fund issued a management information circular which provided details of the proposed exchange of the Debentures (the "Exchange"). Under the proposed amendment, the existing Debentures will be mandatorily exchanged for second lien notes (the "Secured Debentures") and the unpaid accrued interest on the Debentures would be exchanged for unsecured subordinated notes (the "Unsecured Debentures"). At the exchange meeting held on March 18, 2011 the debenture holders voted in favour of the Exchange and, the Secured Debentures and the Unsecured Debentures ("the New Debentures") were issued on March 23, 2011 pursuant to a new indenture.

The aggregate principal amount of the Secured Debentures is $176,229 which satisfies the principal amounts of the Debentures, the subordinated revolving credit facility and related interest on March 23, 2011 (which at December 31, 2010 was $176,004). The maturity date of the Secured Debentures will be March 23, 2016 (the "Secured Debenture Maturity Date). The interest rate will be 8% per annum, payable semi-annually in arrears on June 30 and December 31 in each year until the Secured Debenture Maturity Date. The Fund has the option to repurchase any or all Secured Debentures outstanding at any time. The Fund has the right to redeem in cash any or all Secured Debentures outstanding at any time in its sole discretion without bonus or penalty, provided all accrued interest is paid at redemption. The Fund is also obligated to redeem a portion of the Secured Debentures prior to the Secured Debenture Maturity Date in certain circumstances based on proceeds from specified dispositions, proceeds from the issuance of equity instruments or based on excess operating cash flow as defined. The Fund is unable to estimate any amounts repayable in 2011 in connection with this mandatory redemption provision. The Secured Debentures will have a security interest in substantially all of the Funds assets which is subordinated to similar security interests granted in connection with the Replacement Senior Credit Facility or certain debt incurred in the future by the Fund's subsidiaries. The Secured Debentures were listed on the TSX on the date of closing of March 23, 2011.

The aggregate principal amount of the Unsecured Debentures is equal to the accrued and unpaid interest on the Debentures at March 23, 2011 of $26,552 (which at December 31, 2010 was $23,870). The maturity date is March 23, 2014 (the "Unsecured Debenture Maturity Date"). Interest will accrue on the principal amount of the Unsecured Debentures at a non-compounding rate of 3.624% per annum, payable in cash at the Unsecured Debenture Maturity Date. The Fund will repay the principle amount of the Unsecured Debentures on the Unsecured Debentures Maturity Date either in cash or by delivering common shares of Newport Inc. at a conversion price of

$0.2254 per common share. The total number of common shares to be issued on the repayment of the Unsecured Debentures is capped at 10% of the outstanding common shares of Newport Inc. on the repayment date. The Unsecured Debentures were listed on the TSX on the closing date of March 23, 2011.

For accounting purposes, the exchange transactions will be accounted for as extinguishments of the Debentures, the accrued interest payable under the Debentures and the Subordinated Revolving Credit Facility. All costs incurred in connection with the issuance of the New Debentures will be expensed as a reduction of this gain on extinguishment. The Secured Debentures and Unsecured Debentures will be accreted up to their principal amount over the period to the respective Maturity Dates using the effective interest method.

SOURCES OF FUNDING

The Fund will continue to look to reduce its debt leverage. The new financing arrangements are designed to ensure that debt balances are reduced as quickly as possible. Consequently, proceeds of all asset sales are required to retire debt, as well as 75% of available cash flow beginning in the final quarter of 2011.

The Operating Partnerships will continue to be self funding, and as required the Fund will continue to provide working capital advances, largely to its industrial services investments. Seasonal increased working capital needs at NPC in 2011 will also be supported, if required, by additional borrowings of up to $10,000 from the senior lender, which amounts will be available to be drawn from March 23, 2011 until September 30, 2011, with a requirement to repay these amounts by October 31, 2011.

WORKING CAPITAL

December 31		2010		2009
Current assets	$	184,661	$	209,585
Current liabilities		95,323		439,173
Working capital - excluding discontinued operations		89,338		(229,588)
Working capital - discontinued operations		(103)		17,272
Total working capital	$	89,235	$	(212,316)

Working capital was significantly improved in 2010. In 2009 the revolving credit facilities, term debt and convertible debentures were classified as current liabilities.

CAPITAL EXPENDITURES

The Industrial Services segment contains the only capital intensive entities within the Fund. The remaining entities are service based and therefore have minimal capital expenditure requirements. The following table shows capital expenditures and capital lease payments by segment.

December 31, 2010		Financial Services		Marketing		NPC		QM		Other		Total
Capital expenditures	$	74	$	375	$	1,339	$	1,423	$	92	$	3,303
Capital lease repayments		-		180		2,337		1,811		259		4,587
	$	74	$	555	$	3,676	$	3,234	$	351	$	7,890

December 31, 2009		Financial Services		Marketing		NPC		QM		Other		Total
Capital expenditures	$	(44)	$	515	$	5,247	$	1,914	$	128	$	7,760
Capital lease repayments		-		144		3,402		2,106		233		5,885
	$	(44)	$	659	$	8,649	$	4,020	$	361	$	13,645

CONTRACTUAL OBLIGATIONS

The following table represents the contractual obligations of the Fund as at December 31, 2010:

	2011	2012	2013	2014	2015	Thereafter	Total
Interest expense	$ 24,028	$ 23,320	$ 23,320	$ 14,314	$ 14,098	$ 3,167	$ 102,247
Senior loan [1]	-	-	86,939	-	-	-	86,939
Secured debentures[2]	-	-	-	-	-	176,229	176,229
Unsecured debentures [2]	-	-	-	26,552	-	-	26,552
Capital lease obligations	4,916	2,421	1,196	902	150	-	9,585
Operating leases	11,891	8,607	5,956	3,820	2,610	3,748	36,632
Total contractual obligations	$ 40,835	$ 34,348	$117,411	$ 45,588	$ 16,858	$ 183,144	$ 438,184

[1] See Note 10 to the consolidated financial statements.
[2] Balance reflects the maturity face value of convertible debentures. Refer to "Convertible Debentures" section for further details.

COMMITMENTS

The Fund has letters of credit outstanding at December 31, 2010 totalling $3,411. The letters of credit are predominantly to secure cash management services provided by Royal Bank of Canada and as a performance guarantee for customer contracts in certain Operating Partnerships. The letters of credit are cash collateralized and are included in cash and cash equivalents held in trust.

FOURTH QUARTER 2010 RESULTS

Summary Financial Table – (segmented) ($000s except per unit amounts)

THREE MONTHS ENDED DECEMBER 31, 2010

	Financial Services	Marketing	Industrial Services[2]	Other	Corporate[1]	Total
Revenues	$ 3,109	$ 12,492	$ 90,267	$ 12,219	$ -	$ 118,087
Gross profit	2,815	4,163	18,225	4,049	-	29,252
Income (loss) from continuing operations before non-controlling interest	(17,979)	(826)	412	1,461	(7,459)	(24,391)
EBITDA from continuing operations	(16,404)	971	5,877	1,931	(3,336)	(10,961)
Write-down of goodwill and intangible assets	17,244	-	-	-	-	17,244
Adjusted EBITDA from continuing operations	$ 840	$ 971	$ 5,877	$ 1,931	$ (3,336)	$ 6,283
Interest income (expense)[2]	24	(35)	(558)	(164)	(10,709)	(11,442)
Non-cash interest expense[3]	-	-	-	-	892	892
Income tax expense	-	-	(40)	-	(158)	(198)
Maintenance capital expenditures and reserves	(366)	(120)	(1,297)	(48)	-	(1,831)
Capital lease payments	-	(38)	(876)	(71)	-	(985)
Priority income per partnership agreement[4]	-	-	-	128	-	128
Distributable cash from (used by) continuing operations	$ 498	$ 778	$ 3,106	$ 1,776	$ (13,311)	(7,153)
Distributable cash from discontinued operations						1,794
Distributable cash used by the Fund[5]						$ (5,359)

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

2 The Fund advanced approximately $62,000 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 $1,519 and such amount has been added to the interest expense of the Corporate segment (2009 - $1,519).

3 Non-cash interest expense relates to the amortization of deferred financings charges and the accretion of the equity component of the Convertible Debentures. Issue costs are amortized over the term of the Debentures, and the debt portion will accrete up to the principal balance at maturity.

4 To the extent that in any reporting period, calculated on a cumulative basis, the Fund'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 the Fund by the Operating Partnership.

5 As there were no distributions made during the current or prior year quarter, distributable cash per unit information has not been provided

Summary Financial Table – (segmented) ($000s except per unit amounts)

THREE MONTHS ENDED DECEMBER 31, 2009

	Financial Services	Marketing	Industrial Services[2]	Other	Corporate[1]	Total
Revenues	$ 4,035	$ 12,394	$ 98,931	$ 9,310	$ -	$ 124,670
Gross profit	3,204	4,293	22,665	2,893	-	33,055
Income (loss) from continuing operations before non-controlling interest	(6,254)	(506)	(13,020)	(2,453)	(12,681)	(34,914)
EBITDA from continuing operations	(6,059)	1,520	(9,210)	611	(3,826)	(16,964)
Write-down of goodwill and intangible assets	7,038	(1)	18,640	347	8	26,032
Adjusted EBITDA from continuing operations	$ 979	$ 1,519	$ 9,430	$ 958	$ (3,818)	$ 9,068
Interest income (expense)[2]	28	(43)	(724)	(159)	(7,778)	(8,676)
Non-cash interest expense[3]	-	-	-	-	893	893
Income tax expense	(1)	-	-	-	16	15
Maintenance capital expenditures and reserves	(321)	(26)	1,062	(55)	-	660
Capital lease payments	-	(119)	(1,955)	(52)	-	(2,126)
Priority Income per partnership agreement[4]	-	-	-	79	-	79
Distributable cash from (used by) continuing operations	$ 685	$ 1,331	$ 7,813	$ 771	$ (10,687)	(87)
Distributable cash from discontinued operations						3,582
Distributable cash retained by the Fund[5]						$ 3,495

Summary Results from Continuing Operations ($000s)

	Quarter ended December 31	
	2010	2009
Revenues	$ 118,087	$ 124,670
Cost of revenues	(88,835)	(91,615)
Gross profit	$ 29,252	$ 33,055
Selling, general and administrative expenses	(23,629)	(24,528)
Amortization expense	(3,653)	(4,751)
Depreciation expense	(2,552)	(4,077)
Income from equity investments	361	239
Interest expense	(11,442)	(8,678)
Write-down of goodwill and intangible assets	(17,244)	(26,032)
Income tax expense (recovery) - current	(198)	16
Income tax expense (recovery) - future	4,714	(158)
Loss from continuing operations before non-controlling interest	$ (24,391)	$ (34,914)
Add:		
Amortization	3,653	4,751
Depreciation[1]	2,564	4,093
Amortization of Brompton intangible assets	287	286
Interest expense	11,442	8,678
Income tax expense (recovery) - current	198	(16)
Income tax expense (recovery) - future	(4,714)	158
EBITDA	$ (10,961)	$ (16,964)
Write-down of goodwill and intangible assets	17,244	26,032
Adjusted EBITDA	$ 6,283	$ 9,068

1 Depreciation of $12 relating to production equipment has been included in cost of revenues (2009 - $16).

FOURTH QUARTER RESULTS COMMENTARY

The Fund's continuing operations from its portfolio investments are reported in its four operating segments: Financial Services, Marketing, Industrial Services and Other. Revenues for the three months ended December 31, 2010 were $118,087 compared to $124,670 in 2009, a decrease of 5.3%. Quantum Murray's reduced revenues were the main driver of the decline.

Gross profit for the three months ended December 31, 2010 was $29,252 compared to $33,055 in 2009, a decrease of 11.5%. Gross margins were 24.8% for the three months ended December 31, 2010 compared to 26.5% in the 2009 period. The main contributor to the decline in gross margin percentage was NPC.

For the three months ended December 31, 2010, these four operating segments produced $9,619 of adjusted EBITDA for the Fund compared to $12,886 in 2009. Refer to the chart below for adjusted EBITDA by operating partner. The main items which reduce Adjusted EBITDA to arrive at distributable cash are interest expense, excluding non-cash accretion and amortization of deferred financing costs, and capital expenditures. During the final quarter, interest costs were $10,550, compared with $7,783 in 2009. During the three months ended December 31, 2010, the operating segments had capital expenditures and capital lease payments of $2,816, as compared to $1,466 in the same period in 2009. The majority of these expenditures were incurred in the Industrial Services segments.

Distributable cash used by continuing operations for the three months ended December 31, 2010 was $7,153, compared with $87 in the same period in 2009.

Non-cash items that impacted the results were depreciation and amortization, and future income taxes. Depreciation and amortization was $6,217 for the three months ended December 31, 2010, compared to $8,844 for 2009. The largest component of this expense is the amortization of intangible assets, which were recorded as investments were made.

During the fourth quarter of 2010, the Fund reviewed the carrying value of all of its investments. As the Fund reviewed its investments, it re-calculated the fair value of intangible assets and goodwill based on current or expected earnings of the businesses. This review resulted in write-downs of goodwill of $17,244, primarily associated with the Fund's investment in Morrison Williams (2009 – goodwill and intangible assets of $26,032).

Since 2007 the Fund has been required to record future income tax related to temporary differences at the Fund level. These differences are between the accounting and tax basis of the Fund's net assets, and the majority of the differences relate to intangible assets. As a result of the write-downs of intangible assets in 2010 and 2009, the Fund has recorded future income tax recoveries and expenses in the fourth quarter of $4,714, and $158, respectively. The future income tax recoveries recorded in 2010 and in 2009 are non-cash items that have no current impact on the Fund's cash from operating activities.

Net loss for the three months ended December 31, 2010 from continuing operations before non-controlling interest was $24,391 compared to a loss of $34,914 in 2009.

Adjusted EBITDA	Q4 2010	Q4 2009	Q4 2008		2010 vs. 2009	2010 vs. 2008
Financial Services						
BMI	331	225	659		106	(328)
Brompton	349	370	199		(21)	150
Hargraft	(172)	(707)	297		535	(469)
Morrison Williams	332	1,091	1,162		(759)	(830)
	840	979	2,317		(139)	(1,477)
Marketing						
Armstrong	161	162	420		(1)	(259)
Gemma	702	805	1,297		(103)	(595)
IC Group	108	552	1,086		(444)	(978)
	971	1,519	2,803		(548)	(1,832)
Industrial Services						
NPC	4,054	6,668	5,938		(2,614)	(1,884)
Quantum Murray	1,823	2,762	(1,867)		(939)	3,690
	5,877	9,430	4,071		(3,553)	1,806
Other						
Gusgo	687	343	729		344	(42)
Titan	944	410	1,114		534	(170)
Rlogistics	300	205	402		95	(102)
	1,931	958	2,245		973	(314)
Adjusted EBITDA from portfolio operations	9,619	12,886	11,436	-	(3,267)	(1,817)

INDUSTRIAL SERVICES

Revenue in the fourth quarter for NPC was improved from the prior year quarter however the mix of revenue was significantly different from that in 2009, creating lower gross margins and EBITDA. Wear technology revenues were lower compared to the prior year quarter when a major client was building inventory levels. At the same time gross margins were compressed in 2010 due to the increased competition created by excess capacity in the marketplace as well as fewer specialized pipe overlay orders.

Fabrication revenues were significantly higher in the current quarter as fabrication activities picked up with the awarding of some significant contracts. The maintenance services division had a solid quarter with increased revenues compared to the prior year quarter. Transportation revenues were also improved from the prior year with increased volumes from three large clients.

Revenues at Quantum Murray were significantly down compared to the prior year quarter. In 2009, the Environmental division benefitted from the largest remediation project in Quantum Murray's history. There were no projects in 2010 on such a scale however several smaller projects with higher margins positively contributed to the current quarter.

FINANCIAL SERVICES

Results in the financial services sector were mixed. Morrison Williams' results were below prior year levels due to lower AUM. Morrison Williams' results were negatively impacted by the loss of a few large clients and additional expenses incurred to rebuild the management team. Morrison Williams had additional insurance and legal fees associated with new regulatory filings in 2010. During the fourth quarter, Brompton's AUM increased by approximately $88 million to $1.8 billion. Market appreciation of the value of assets held by the funds and proceeds received from the exercise of warrants issued by existing funds was partially offset by annual redemptions of certain funds. At the end of December 2009, AUM was approximately $1.5 billion. BMI produced improved results due to the improvement in the general economic environment and successful business development. Hargraft had improved EBITDA compared to the prior year quarter due to restructuring costs recorded in 2009.

MARKETING

The marketing segment had a challenging quarter. Armstrong's results were consistent with the prior year. While revenues were higher in 2009 due to a high volume of pass-through purchased goods, this revenue stream does not translate into higher earnings as there is minimal gross margin with this revenue. Spending levels by other clients were consistent with the prior year. Both IC Group and Gemma results were impacted by client spending reductions. Gemma's fourth quarter results were impacted by decreased outbound telesales from a major client and their changing business demands. This was partially offset by increased telesales volumes from financial services and utility clients. IC Group's interactive and insurance revenue were both lower in 2010. Loyalty program spending cuts by a major client was the primary cause for the reduction in revenue. Margins were lower due to the use of more technical contractors to service more complex programs.

OTHER

The Other Segment had a solid quarter. Gusgo had a strong quarter with revenue levels significantly improved over the prior year due to increased volumes with existing customers. The transportation industry was considerably impacted by the downturn in the economy and as the economy stabilizes, Gusgo continues to increase volumes in Canadian and US markets. Titan had a strong fourth quarter, producing results significantly above the prior year period. The quarter saw strong revenue improvements in the rigging and wear product lines compared to the prior year. Favourable foreign exchange gains as well as higher than expected vendor rebates, resulted in higher gross margin for the quarter. It is encouraging to see increases from 2009 levels and this is a positive sign that the Alberta economy is improving.

The Fund's Corporate segment includes administrative costs to operate the Fund, and the interest costs on borrowings to fund investments and working capital of its businesses. Corporate office costs were $3,336 for the three months ended December 31, 2010 compared with $3,818 in 2009. Corporate costs reduced total Adjusted

EBITDA to $6,283 for the three months ended December 31, 2010 compared with $9,068 in 2009, a decrease of 30.7%.

Summary of Quarterly Results – ($000s except unit amounts)

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Revenues	$ 118,087	$ 121,470	$ 127,331	$ 100,881	$ 124,670	$ 136,934	$ 106,675	$ 136,634
Loss from continuing operations after non-controlling interest	(24,391)	(9,167)	(7,203)	(11,564)	(35,423)	(13,229)	(13,255)	(9,153)
Net loss	(28,556)	(13,530)	(4,554)	(9,508)	(175)	(11,986)	(10,538)	(9,479)
Loss per unit from continuing operations	(0.34)	(0.13)	(0.09)	(0.17)	(0.49)	(0.19)	(0.21)	(0.22)
Loss per unit	(0.39)	(0.19)	(0.06)	(0.14)	0.00	(0.17)	(0.17)	(0.17)

Critical Accounting Policies and Estimates

The Fund prepares its consolidated financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in note 1 in the 2010 audited annual consolidated financial statements. The Fund and the Operating Partnerships evaluate their estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in the consolidated financial statements are estimates used in determining allowance for doubtful accounts, inventory valuation, the useful lives of property, plant and equipment and intangible assets, revenue recognition and other matters. Actual results could differ from those estimates and assumptions.

The assessment of goodwill and intangible assets for impairment requires the use of judgments, assumptions and estimates. Due to the material nature of these factors, they are discussed here in greater detail.

Goodwill and Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. When the Fund enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The book value of goodwill was $31,413 at December 31, 2010 (December 31, 2009 - $46,986).

Intangible assets acquired individually or as part of a group of other assets are recognized and measured at cost. Intangible assets acquired in a transaction, including those acquired in business combinations, are recorded at their fair value. Intangible assets with determinable useful lives, such as customer relationships and contracts, are amortized over their useful lives and are tested for impairment when there is an indicator of impairment. Intangible assets having an indefinite life, such as brands, are not amortized but instead are tested for impairment on an annual or more frequent basis by comparing their fair value with book value. The net book value of intangible assets was $76,551 at December 31, 2010 (December 31, 2009 - $64,770).

Goodwill and Intangible impairments

The Fund reviews all of its investments for possible impairment on an annual basis, or more frequently if there is an event, or series of events, which in the view of management would trigger an earlier review. The Fund completed its annual impairment test during the fourth quarter of 2010 and reviewed the carrying value of all of its investments. The original investment carrying value is based upon the consideration paid by the Fund for each investment. The consideration paid is typically based on a multiple of earnings of the business being acquired. Further, this consideration is allocated to the tangible and intangible assets of the business acquired based on estimates of fair value at the time of acquisition, with any excess being allocated to goodwill. The Fund determined that the fair value of the investment in Morrison Williams was lower than the carrying value. As a result, the Fund recorded a goodwill impairment charge of $17,244. In assessing whether there was an impairment, the Fund estimated the fair value of its investments using certain assumptions and estimates of earnings. These

assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of its investments which would result in further impairment of goodwill. In addition, with the sale of NPC's 80% investment in Skystone International LP ("Skystone") on July 2, 2010, NPC performed an impairment test on the intangible assets related to this investment. With the availability of current fair market value information, it was determined that the indefinite life intangible assets were impaired. A write down of $1,779 was recorded on June 30, 2010.

For the year ended December 31, 2009, the Fund wrote off $3,218 in goodwill related to NPC and Hargraft. In addition, at the time of the initial public offering of the Fund, net proceeds raised were indirectly invested into NPY giving the Fund an initial indirect ownership of 35% of NPY. The Fund's ownership interest has increased to 100% as at December 31, 2009 through both an additional indirect investment in June 2006, following a public issue of units of the Fund, and also through the exchange by unitholders of units of NPY into units of the Fund. The 2009 unit exchanges resulted in goodwill of $3,567 at the Fund level. The Fund determined that the goodwill created on these exchanges was impaired and therefore it was written off.

During the review of its carrying value of its investments, the Fund also performed an impairment test of its intangible assets, whereby the carrying amount of intangible assets was compared to the discounted future cash flows expected from their use. Impairment tests involve a significant degree of judgement, as expectations concerning future cash flows and the selection of an appropriate discount rate are subject to considerable risks and uncertainties. The Fund concluded that there was no impairment in the carrying amount of definite life intangible assets as at December 31, 2010. For the year ended December 31, 2009, the Fund reduced the carrying value of intangible assets by $22.5 million with respect to customer relationships and $12.4 million with respect to brands.

Write-downs of goodwill and customer relationships recorded by the Fund during the year ended December 31, 2010 were as follows:

Investment	Goodwill	Customer Relationships	Total
NPC (Skystone)	-	1,779	1,779
Morrison Williams	17,244	-	17,244
	$ 17,244	$ 1,779	$ 19,023

Write-downs of goodwill, customer relationships, and brands recorded by the Fund during the year ended December 31, 2009 was as follows:

Investment	Goodwill	Customer Relationships	Brands	Total
NPC	132	11,163	6,278	17,573
Quantum Murray	-	-	1,067	1,067
Hargraft	3,086	7,698	864	11,648
Titan	-	3,655	3,552	7,207
Armstrong	-	-	347	347
BMI	-	-	290	290
	$ 3,218	$ 22,516	$ 12,398	$ 38,132
NPY	3,567	-	-	3,567
	$ 6,785	$ 22,516	$ 12,398	$ 41,699

Long-term Investments

Investments over which the Fund is able to exercise significant influence are accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for the Fund's share of post-acquisition earnings or losses, less distributions in the case of investments in partnerships and dividends in the case of investments in companies. Investments are written down when there is evidence that a decline in value that is other than temporary has occurred. The Fund reviews all of its investments for possible impairment on an annual basis, or more frequently if there is an event which in the view of management would trigger an earlier review. The Fund concluded that there was no impairment of long-term investments as at December 31, 2010 and 2009.

Income Taxes and Conversion to a Corporation

Since the initial public offering in 2005, the Fund has operated under a trust structure. The Board of Trustees, the Board of Directors and management continuously review the Fund's strategic objectives and options available in light of the Fund's business, financial position and market conditions.

In October 2006, the Minister of Finance announced the federal government's plan to change the tax treatment of specified investment flow-through trusts (the "SIFT Rules"). The SIFT Rules impose a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax rate and treat such distributions as dividends to unitholders. Once the Fund became subject to the SIFT Rules in 2011, the comparative income tax advantage of the income trust structure over a corporate structure was eliminated. In effect, the Fund is now subject to tax as if it was a corporation, resulting in the loss of the tax and cash yield benefits that underpinned the rationale for adoption of an income trust structure in the first instance.

Based on its review of the Fund's current trust structure and considering the current financial position and the proposed debt restructuring, the Board determined that a corporate structure is better suited to management's business strategy following the debt restructuring.

A meeting of unitholders was held on March 25, 2011 at which meeting a vote in favour of the conversion to a corporation was passed. Effective April 1, 2011 the Fund will operate as a corporation under the name Newport Inc.

Future Income Taxes

The impact to the Fund with the change to the SIFT rules was that the Fund must account for future taxes arising from differences between the tax basis of an asset or liability and its carrying amount on the balance sheet under GAAP. The Fund has computed future income taxes based on temporary differences that are expected to reverse after December 31, 2010 at the substantively enacted rates and laws expected to apply. In general, there are no material differences in the values for operating assets and liabilities such as accounts receivable, inventory and trade payables for the Operating Partnerships. There are, however, differences[1], for example between the carrying values of definite life intangibles (e.g. customer contracts) and indefinite life intangibles (e.g. brands) that arise as part of the Fund's accounting for its investments in the underlying Operating Partnerships. As one example, under GAAP, the Fund records intangible assets related to acquisitions and these assets typically have a lesser value for tax purposes depending on the manner in which the acquisition was structured. In this case, a future tax liability would be recorded for the difference. If the Fund was to divest of one or more of its Operating Partnerships for an

amount that is greater than the tax carrying value this would give rise to a gain because the proceeds would be greater than the tax value of the assets. The current tax liability, if any, would be paid out of the proceeds of the divestiture with no impact on the Fund's operating cash flow and the future tax liability previously recorded with respect to the divested Operating Partnership would be reduced accordingly.

At December 31, 2010 the Fund has calculated a future tax asset related to differences that are expected to reverse commencing in 2011 using the applicable estimated tax rate of approximately 28.25%. Due to uncertainty regarding the realization of certain deferred tax assets, a full valuation allowance was recorded.

The recording of a future tax expense or recovery has no impact on cash generated by operating activities or on distributable cash.

1 These differences are referred to as either deductible temporary differences or taxable temporary differences and may result in tax-deductible amounts or taxable amounts in future periods and GAAP requires that these differences be recorded.

ADDITIONAL INFORMATION

ACCOUNTING POLICIES

The Fund's accounting policies are disclosed in the notes to the 2010 audited annual consolidated financial statements.

SIGNIFICANT NEW ACCOUNTING POLICIES

The fair value of stock options granted is recognized over the applicable stock option vesting period as stock based compensation expense in the consolidated statements of loss and contributed surplus in the consolidated balance sheets. Upon the exercise of stock options, consideration received and the accumulated contributed surplus is credited to unitholders' capital.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Fund will be required to adopt International Financial Reporting Standards ("IFRS"), for interim and annual reporting purposes, beginning on or after January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Fund for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

The Fund began planning the transition from Canadian GAAP to IFRS in 2008 by establishing a project plan and a project team. The project team is led by a senior finance team member who provides overall project governance, management and support. Members also include representatives from various areas of the Fund as well as representatives from the Operating Partnerships. In addition, the Fund has engaged external advisors to assist in the IFRS conversion project.

A quarterly report is made to the Audit Committee of the Fund and the Audit Committee has played an active and increasing role in the project as accounting policy decisions are made and impacts are quantified.

The project plan consists of three phases: the initial assessment (high level impact assessment to identify key areas), detailed assessment and design (review and selection of policy alternatives, draft financial statement content and determine changes to existing accounting policies, information systems and business processes), and implementation.

The Fund has completed the initial assessment phase and has substantially completed the detailed assessment and design phase. The following table summarizes the key elements of the Fund's plan for transitioning to IFRS and the progress made against each activity.

Key Activities	Milestones	Status
Accounting policies		
• Identify differences between IFRS and the Fund's existing policies and procedures and determine application on a retrospective or prospective basis • Analyze and select ongoing policies where alternatives are permitted • Analyze and determine which IFRS 1 exemptions will be taken on transition • Create accounting policy and procedures manuals	• Senior management approval of policy decisions and IFRS optional exemptions and mandatory exemptions by December 31, 2010	• Accounting policy differences have been analyzed and alternatives reviewed. Key focus areas have been identified, see "significant differences" for more information • Senior management has approved all policy decisions and exemptions.
Financial statement preparation		
• Quantify the effects of converting to IFRS • Prepare first time adoption reconciliations required under IFRS 1 • Prepare financial statements and note disclosures in compliance with IFRS	• Quantification of opening balance sheet adjustments by April 30. • Completion of reconciliations required under IFRS 1 by April 30. • External auditor to commence opening balance sheet audit procedures during Q4 2010. • Shell financial statements completed and reviewed by senior management by April 30.	• Opening balance sheet adjustments have been quantified for PP&E. Impact is less than $2,000. • Adjustments for step acquisition of Gemma and NPC are in progress. • Adjustments for goodwill, future income taxes and the presentation of stock options are in process • IFRS 1 reconciliations are established and will be populated as the analysis is completed • Draft Q1 2011 shell financial statements are in progress. • External auditors are completing the opening balance sheet audit procedures.

<table>
<tr><th>Key Activities</th><th>Milestones</th><th>Status</th></tr>
<tr><td colspan="3">Internal Control over Financial Reporting (ICFR)</td></tr>
<tr><td>• Information included in financial statements falls within the scope of ICFR. Three broad categories have been considered:
o Design and implement controls over the transition
o Design and implement changes to processes and systems
o Design and implement controls from the date of transition
• New IFRS related internal controls will be tested during the 2011 internal audit</td><td>• Management review of opening balance sheet adjustments and conversion analysis working papers by April 30.
• Management review of internal controls over the IFRS transition as the conversion progresses and in place by April 30.
• Operating Partners related controls implemented by April 30 requiring Operating Partners to verify that they have reviewed the policy manuals to ensure appropriate reporting after transition.</td><td>• Documentation of controls over conversion has commenced
• Opening balance sheet adjustment for IAS 16 has been reviewed and approved by management</td></tr>
<tr><td colspan="3">Disclosure controls and procedures (DC&P)</td></tr>
<tr><td>• Information included in the MD&A falls within the scope of DC&P. DC&P must be appropriately amended to capture the additional MD&A disclosures expected for the IFRS changeover
• DC&P must include processes to communicate to senior management all information that might need to be reported as a result of the changeover
• The Fund must ensure that key stakeholders are informed about the anticipated effects of the IFRS transition</td><td>• Present a status update on IFRS changeover to the disclosure committee during Q4 2010 and address any additional disclosure requirements</td><td>• The IFRS team has met with the disclosure committee during Q2, Q3 and Q4 2010 to update the committee on the status of the changeover
• OSC publications are regularly reviewed to ensure that appropriate disclosures are being made.</td></tr>
</table>

Key Activities	Milestones	Status
Financial reporting expertise		
• Provide specific IFRS training to key employees involved with implementation. Provide appropriate training to the Audit Committee and board • Develop awareness of the likely impacts of the transition throughout the Fund Provide training on revised policies and procedures to the Operating Partnerships	• External advisors have provided and will continue to provide IFRS training for the Fund, Operating Partners and Audit Committee • Final training to be provided to Operating Partners in April 2011 to ensure they are appropriately following IFRS beyond transition	• IFRS training was provided in November 2009 to the Fund's project team, Operating Partners and Audit Committee • The IFRS implementation team meets regularly with external IFRS advisors to track progress and keep abreast of changes and new IFRS information provided by the various accounting bodies The Fund's accounting team holds weekly IFRS update meetings
Business activities		
• Identify impacts of conversion on contracts including Partnership agreements, financial covenants and lease contracts • Identify impacts of conversion on taxation	• Taxation impacts to be identified by March 31, 2011	• Identification of impacts on contracts is complete. Lease contracts were reviewed during the IAS 17 analysis to ensure operating leases did not have characteristics of capital leases and to ensure that assets under capital lease were depreciated over an appropriate period. • Limited Partnership agreements were analyzed in detail to determine whether the Fund has control over Operating Partnerships. This was a key procedure in determining that joint control would continue to apply under IFRS.
IT systems		
• Identify changes required to IT systems and implement solutions • Determine and implement a solution for capturing financial information under both Canadian GAAP and IFRS during 2010, the year of transition.	• Determine a method for tracking the IFRS/GAAP differences for the Operating Partners • Existing management reports may require modification for the IFRS changes.	• Operating Partners will separately track IFRS/GAAP differences. The Fund will make the adjustments on consolidation. Differences are expected to be minimal.

The following disclosure highlights the initial adjustments required to be made on adoption of IFRS in order to provide an opening balance sheet and the significant accounting policies required or expected to be applied by the Fund subsequent to adoption that will be significantly different from the Fund's current accounting policies.

IFRS 1: FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of January 1, 2010. However, IFRS 1 provides entities adopting IFRS for the first time with a number of specific optional exemptions and mandatory exemptions to the general requirement for full retrospective application of IFRS. The most significant exemption that is expected to apply to the Fund is for business combinations. The Fund expects to apply IFRS 3R Business Combinations prospectively to transactions occurring after January 1, 2010. Refer to the 2010 Second Quarter MD&A for a full description of the exemption.

SIGNIFICANT DIFFERENCES

IFRS are premised on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. We believe that the adoption of IFRS will not have a material impact on our reported cash flows.

The IFRS with the largest potential to impact the Fund is IAS 31 Interests in Joint Ventures. Under the existing IAS 31, an entity is permitted to use either proportionate consolidation or the equity method to account for investments in joint ventures. The Fund's investments in less than 100% owned Operating Partnerships are considered joint ventures as they are jointly controlled entities. The anticipated revision to IAS 31 is in its final stages of development and is expected to be released during 2011. The most significant change anticipated in the revised IAS 31 is that proportionate consolidation will no longer be permitted for jointly controlled entities and they must be accounted for using the equity method. In the second quarter MD&A the Fund reported that it expected to use the equity method upon adoption of IFRS in anticipation of the release of the revised IAS 31. This would have resulted in a significantly different income statement and balance sheet as the Fund would no longer be consolidating its proportionate share of investments and would instead pick up a single line item in the income statement and balance sheet. There have been significant delays to the introduction of IAS 31 and it is not expected to be effective until 2013. In light of these delays the Fund will continue to use the proportionate consolidation method until the revised IAS 31 is effective.

The adoption of IFRS 3R Business Combinations will also have a significant impact on the Fund's consolidated financial statements. Under IFRS 3R, in a step-acquisition where the Fund's ownership interest changes from joint control to control, the Fund must re-measure its previously held equity interest in the acquiree at the step-acquisition date fair value and recognize the resulting gain or loss, if any, in income. This results in the Fund effectively applying acquisition accounting for the entire controlling interest held after the step-acquisition resulting in higher amounts being reflected on the Fund's consolidated balance sheet for the fair value of acquired assets and liabilities compared to Canadian GAAP, with consequential adjustments to future income because of different amortization expense, for example. In January 2010 and December 2010, the Fund acquired the remaining 20% interests in Gemma and NPC, respectively, that it did not previously own. These step-acquisitions will result in adjustments to the Fund's IFRS consolidated financial statements as at, and subsequent to, the dates of the respective transactions. No such adjustments will arise for step-acquisitions arising prior to January 1, 2010 as a result of the IFRS 1 transition exemption applied by the Fund.

The precise impact of conversion cannot be determined until all adjustments have been quantified and a full set of consolidated financial statements under IFRS have been prepared. The International Accounting Standards Board ("IASB") have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and the impact on the Fund's consolidated financial statements in future years. In addition to the anticipated changes in joint venture accounting discussed previously, we expect that there may be additional new or revised IFRS in relation to consolidation, income taxes, liabilities, leases, discontinued operations, revenue recognition and related party disclosures. We have processes in place to ensure that such potential changes are monitored and evaluated.

The following unaudited tables show the impacts of the differences between IFRSs and Canadian GAAP which have been identified to date, assuming IFRSs were adopted with a transition date (date of opening IFRS balance sheet) of January 1, 2010.

Estimated Adjustments to Net Income on Adoption of IFRS For the year ended December 31		2010
Net loss under Canadian GAAP		(56,148)
A	Property, plant & equipment	213
B	Impairment of assets	TBD
C	Future income taxes	TBD
D	Business combinations	TBD
Revised net loss under IFRS		TBD

Estimated Adjustments to Unitholders' Equity on Adoption of IFRS As at		January 1, 2010	December 31, 2010
Unitholders' equity (deficit) under Canadian GAAP		21,019	(31,567)
A	Property, plant & equipment	1,836	213
B	Impairment of assets	TBD	TBD
C	Future income taxes	TBD	TBD
D	Business combinations	N/A	TBD
Revised unitholders' equity (deficit) under IFRS		TBD	TBD

CHANGES IN ACCOUNTING POLICIES

A. Property, plant & equipment: Under both Canadian GAAP and IFRS, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. This practice is referred to as componentization. Under Canadian GAAP, componentization was not applied to the same level and extent as required under IFRS. Through the componentization analysis, the Fund discovered that the components of several assets were depreciated too quickly given the different useful lives of significant components of the asset. These assets are now depreciated based on their components, resulting in an opening balance sheet adjustment increasing the value of the assets and reducing previous depreciation.

B. Impairment of assets: Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36 uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (using discounted future cash flows). This may potentially result in more write-downs where carrying

values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IFRS also allows a reversal of previous impairments. The impact has not yet been quantified, however an increase in impairment is expected.

C. Future income taxes: While there are changes between Canadian GAAP and IFRS, the income tax standard is expected to be applied prospectively upon transition and therefore there will not be a GAAP / IFRS difference. However, a difference will arise as a result of the change in impairment under IFRS. The change in the write-down would result in a change in the associated future tax asset or liability. The impact has not yet been quantified. The impact will be dependent of some changes in impairment.

D. Business combinations: Under IFRS, step acquisitions which result in obtaining control require the investment to be re-measured to fair value at the date on which control was gained with any gain or loss on re-measurement recognized in profit or loss. Under Canadian GAAP each transaction is treated separately. The cost of the transaction and the fair value at the date of each transaction determines goodwill for that transaction. In 2010, the Fund completed two step acquisitions in which control was obtained. Another change that will impact the Fund is the accounting for transaction costs. Under IFRS, acquisition related costs are expensed as incurred. Under Canadian GAAP, these costs are included in the cost of the investment. The impact has not yet been quantified, however, a net gain is expected.

CONTINGENCIES

LAWSUITS

A statement of claim has been filed in the Court of Queen's Bench Alberta alleging breach of contract and negligence. NP Holdings LP signed a letter of intent with a third party to acquire several businesses. The transaction was not completed. The claim is for $630 relating to third party costs relating to the transaction and $38,600 in damages. The claim is being defended and management is of the opinion that the claim is without merit.

A statement of claim has been filed by a former employee of the Fund alleging breach of contract, wrongful dismissal, defamation, and intentional interference with economic relations. The claim is for the amount of $6,500. The claim is being defended and management is of the opinion that the claim is without merit.

A statement of claim has been filed by a purchaser of the assets of a Subsidiary of the Fund in connection with the calculation of income as related to a promissory note forming part of a transaction. The claim is being defended and management feels the claim is without merit.

TRANSACTIONS WITH RELATED PARTIES

OWNERSHIP

As of December 31, 2010, directors, officers and employees, and operating partnership related to the Fund beneficially hold an aggregate of 15,083,045 units or 21.0% on a fully diluted basis.

TRANSACTIONS

NPY provides funding to the Operating Partnerships to fund working capital requirements. Advances bear interest at the rate of prime plus one percent, are unsecured and are due on demand.

Included in Other Assets are advances of $2,846 (2009 – $24,016) made to the Operating Partnerships.

Selling, general and administrative expenses include $3,379 of rent expense paid to related parties of Quantum Murray, Gusgo and NPC (2009 - $2,803).

Employee loans, net of provisions, made to employees of the Fund were outstanding in the amount of $1,869 (2009 – $3,470). In accordance with the terms and conditions of the loans, the loans are interest bearing and used to fund the purchase of units of the Fund or to refinance such purchases and are secured by a pledge of the units.

On December 23, 2010 the Fund sold its 100% investment in NP LP to a group of principals of NP LP who are also board members of Newport Partners GP Inc. This transaction was completed following an external valuation of fair value of the company.

SUBSEQUENT EVENTS

(a) Acquisitions

On February 10, 2011 the Fund announced that NPC acquired the remaining units of Golosky Holdings LP and Clearwater Holdings LP that it did not own. As a result of the transaction NPC now owns 100% of the oil sands division. NPC paid $19,766 in cash for the additional 20% investment.

(b) Debenture Restructuring

On March 18, 2011 a meeting of the debenture holders of the Fund was held to approve the restructuring of the convertible debentures and the Subordinated Revolving Credit Facility.

(c) Amended Senior Credit Facility

On March 23, 2011 The Fund entered into a new senior debt agreement with the Marret Lenders, under the terms of this Agreement, the Fund will exit the Forbearance Period. See note 10.

(d) Conversion to a Corporation

On March 25, 2011 a special meeting of the unitholders of the Fund was held to approve the conversion of the Fund to a corporation pursuant to a plan of arrangement ("Arrangement") under the Business Corporations Act. The unitholders of the Fund approved the Arrangement which will result in the reorganization of the Fund's income trust structure into a public corporation to be named Newport Inc. and the holders of Fund units will become shareholders of Newport Inc. The anticipated date of conversion is April 1, 2011.

(e) Incentive Plan

At the March 25, 2011 unitholder meeting a resolution was approved to amend the Fund's existing Incentive Option Plan ("IOP"). The amendment permitted the adoption of a new Management Incentive Plan ("MIP"). Another resolution was approved to adopt the new MIP and the grant of options. Pursuant to the MIP, 7,150,000 of Fund Units were listed and reserved for issuance upon the exercise of the stock options. The MIP provides that 50% of the options granted to an optionee vest on March 25, 2012 and the remaining 50% of the options granted to each optionee will vest on March 25, 2013. The exercise price under the MIP is $0.358. Each option granted will have a five year term.

2011 OUTLOOK

In the first quarter of 2011 the Fund successfully completed its debt refinancing. With a restructured balance sheet, the Fund's senior management team's primary focus will be on improving results within the different operating segments.

Assuming a continuing strengthening economy, and stable oil prices, the Industrial Services segment should see increased demand for its services in 2011. Additional equity investment to increase ownership to 100% has been made at NPC which is the Fund's largest and biggest contributor to total EBITDA. Economists forecast Oil Sands activity to continue to grow 5-10% each year for the next 10 years. This growth will require investment in pipelines, thus positively impacting the fabrication and wear technology services division. NPC is positioned well for 2011 and beyond to provide maintenance and construction services to the major operators in the Oil Sands and to the conventional oil and gas companies.

At Quantum Murray improved results should return with the stimulated economy. The environmental division is expecting modest growth with increased activity in the private and public sectors. The demolition division is expecting a stronger year as industrial demolition activity is improving as previously postponed projects come to market. The metals division's outlook continues to be unpredictable due to the unsettled global metals markets.

There is a more cautious view in the marking segment. Within the marketing segment, both IC Group and Gemma are focused on client development to further diversify the client base and to reduce the risk of client concentration. Armstrong Partnership is expecting a similar year to 2010.

The Financial services segment is expected to have a challenging year. Morrison Williams will have a transitional year as it looks to rebuild its client base by attracting new institutional clients.

Baird and Hargraft are expecting modest growth in the year. New market entrants are making ample capacity and thin underwriting margins are contributing to the persistent soft market.

Within the Other segment, both Gusgo and Titan are expecting slightly improved results from 2010. Gusgo is expecting volume growth from existing clients if the economy continues to improve. Titan is expecting improved results with the forecast increased rig utilization in the conventional drilling activity as well as the increased activity in the oil sands. However gross margins are expected to continue to be compressed due to competitive pressures.

RISK FACTORS

As this is the Annual Report of Newport Partners Income Fund, references herein are to the Fund although it will be converted to Newport Inc. effective April 1st, 2011.

An investment in units of the Fund involves a number of risks. In addition to the other information contained in this MD&A 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 MD&A. 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.

The Fund's financial results are impacted by the performance of each of its Operating Partnerships and various external factors influencing their operating environments. 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 have a negative effect on the financial condition or results of operations of the Fund.

Please refer to the AIF dated March 30, 2011 for a discussion of Risk Factors particular to the Operating Partnerships and the Fund.

Failure to Realize Anticipated Benefits of Investments Made

The Fund and a number of its Operating Partnerships may 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.

Condition of Capital Markets

While the Fund has successfully restructured its balance sheet, the majority of cash flow, and all asset sale proceeds, will be used to pay down debt. The Fund may in this process, look to source a cheaper senior credit facility and, 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 slow down the repayment of debt.

In addition, 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, growth plans 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 future business plan, 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.

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.

Dependence on the Operating Partnerships

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

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) 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 ARCA 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, and to make additional acquisitions. In addition, the ARCA 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 ARCA 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 ARCA were to be accelerated, there can be no assurance that the assets of NPY would be sufficient to repay in full that indebtedness.

Potential Sales of Additional Units

The Fund may issue additional Units or securities exchangeable for or convertible into Units in the future. 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.

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.

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 of partnership income. 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 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 interest rate on CT Notes was reset to 0% effective Mar 1, 2009. 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.

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 to sell at the offered price, in which case NPH will receive the proceeds of sale, and will use such proceeds to pay down debt. 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 purchase or 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.

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.

Restrictions on potential growth

The use of operating cash flow to reduce debt will make additional capital and operating expenditures somewhat dependent on increased cash flow. Lack of those funds could limit the future growth of the Operating Partnerships and their cash flow.

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 is 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.

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.

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 repayment of the Unsecured Convertible Debentures. Accordingly, holders of Units may suffer dilution.

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.

Regulation

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

Competition

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

Potential Unknown Liabilities

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

Availability of Future Financing

The Fund's principal source of funds is cash generated from its Operating Partnerships. The Fund however 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.

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.

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

DISCLOSURE CONTROLS AND PROCEDURES

Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the CSA requires CEOs and CFOs to certify that they are responsible for establishing and maintaining the disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

The Fund's management, including its CEO and CFO, have evaluated the effectiveness of the Fund's disclosure controls and procedures as at December 31, 2010 and have concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by the Fund in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

The Fund has conducted an analysis of the impact of IFRS on its internal controls over financial reporting to determine whether the Fund has appropriate controls over the transition process and the preparation of IFRS compliant financial statements. Given the limited Canadian GAAP/IFRS differences identified, the implementation of IFRS will not have a material impact over the Fund's internal controls over financial reporting. Minor modifications will be made to the control environment to ensure that all Canadian GAAP/IFRS adjustments are reflected and appropriate disclosures have been made.

Under the supervision of and with the participation of management, including the CEO and CFO, we have evaluated the internal controls over financial reporting as at December 31, 2010 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

Due to the inherent limitations common to all control systems, management acknowledges that disclosure controls and procedures and internal control over financial reporting may not prevent or detect all misstatements. Accordingly, management's evaluation of our disclosure controls and procedures and internal control over financial reporting provide reasonable, not absolute, assurance that misstatements resulting from fraud or error will be detected.

ADDITIONAL INFORMATION

Additional information relating to the Fund including the Fund's AIF is on SEDAR at www.sedar.com or on our website www.income.newportpartners.ca.

DEFINITIONS

"Agent" – means DB Newport LLC, as agent on behalf of the Lenders under the Senior Credit Agreement;

"AIF" – means Annual Information Form;

"Amended Forbearance Agreement" – means the amendments dated November 25, 2009 and February 18, 2009 to the original agreement dated July 21, 2009, between Newport Finance Corp. and the Lenders and Agent thereto;

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

"AUM" – means Assets Under Management;

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

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

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

"CEO" – means Chief Executive Officer;

"CICA" – means Canadian Institute of Chartered Accountants;

"Convertible Debentures" or "Debentures" – means collectively the two series of unsecured, subordinated, convertible debentures of the Fund, due December 31, 2010 and December 31, 2012, respectively;

"CT" – means Commercial Trust;

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

"Fund" – means Newport Partners Income Fund;

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

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

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

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

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

"IFRS" – means International Financial Reporting Standards;

"LTM" – means Last Twelve Months;

"Lenders" – means the various persons from time to time acting as lenders under the Senior Credit Agreement;

"MD&A" – means Management's Discussion and Analysis;

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

"Newport Partners" or "NP LP" – means Newport Partners LP, a limited partnership formed under the laws of Ontario;

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

"NPH" – means Newport Partners Holdings LP, a limited partnership formed under the laws of Ontario;

"NPY" – means Newport Private Yield LP, a limited partnership formed under the laws of Ontario;

"NPY LP Units" – means units of NPY;

"Operating Partnerships" – means businesses in which the Fund holds an ownership interest;

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

"Priority Income" – means the annual distribution to which NPF is entitled before its Operating Partners share in the income of the business;

"Quantum Murray" – means Quantum Murray LP (formerly Murray Demolition LP) a limited partnership formed under the laws of Ontario;

"Rlogistics" – means Rlogistics LP, a limited partnership formed under the laws of Ontario;

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

"Senior Credit Agreement" – means the Secured Credit Agreement entered into on December 7, 2006, with a syndicate of Lenders;

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

"TSX" – means Toronto Stock Exchange; and

"Units" – means trust units of the Fund.