Consolidated Financial Statements of

NEWPORT PARTNERS INCOME FUND

Three Months Ended March 31, 2010 and 2009
(Unaudited)

NEWPORT PARTNERS INCOME FUND

Consolidated Balance Sheets
(In thousands of dollars)

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 21,363	$ 43,882
Cash and short-term investments held in trust	20,605	20,142
Accounts receivable	100,780	119,363
Inventories	33,755	34,034
Prepaid expenses	2,909	2,951
Future tax asset	985	-
Other current assets	13,689	14,249
	194,086	234,621
Property, plant and equipment	42,893	44,012
Long-term investments	16,369	16,047
Goodwill (note 3)	69,954	68,914
Intangible assets (note 3)	99,300	101,979
Other assets	13,856	13,751
	$ 436,458	$ 479,324
Liabilities and Unitholders' Equity		
Current liabilities:		
Revolving credit facilities (note 5)	$ 10,089	$ 10,089
Current portion of long-term debt (note 5)	132,458	150,499
Convertible debentures (note 5)	157,049	156,136
Accounts payable and accrued liabilities (note 5)	99,386	115,117
Deferred revenue	11,149	10,403
Current portion of obligations under capital leases	4,619	4,588
Future tax liability	-	105
	414,750	446,937
Obligations under capital leases	5,007	5,915
Future tax liability	4,264	5,453
Unitholders' equity (note 7)	12,437	21,019
	$ 436,458	$ 479,324

Going concern (note 1)

See accompanying notes to unaudited interim financial statements.

NEWPORT PARTNERS INCOME FUND

Consolidated Statements of Loss and Comprehensive Loss
(In thousands of dollars, except per unit amounts)
(unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues	$ 122,073	$ 155,512
Cost of revenues	91,317	121,231
	30,756	34,281
Expenses		
Selling, general and administrative	24,914	26,741
Amortization of intangible assets	6,416	7,351
Depreciation	2,962	3,056
	34,292	37,148
Loss before the undernoted	(3,536)	(2,867)
Income from equity investments	470	18
Write-down of goodwill	-	270
Interest expense, net (note 5)	9,693	10,046
Loss before income taxes	(12,759)	(13,165)
Income tax expense – current	3	17
Income tax recovery – future	(3,254)	-
Loss from continuing operations before non-controlling interest	(9,508)	(13,182)
Non-controlling interest relating to continuing operations	-	4,331
Loss from continuing operations	(9,508)	(8,851)
Loss from discontinued operations before non-controlling interest	-	(936)
Non-controlling interest relating to discontinued operations	-	308
Loss from discontinued operations	-	(628)
Net loss and comprehensive loss	$ (9,508)	$ (9,479)
Loss per unit (note 6)		
Basic and diluted:		
Continuing operations	$ (0.13)	$ (0.18)
Discontinued operations	$ -	$ (0.01)
Net loss	$ (0.13)	$ (0.19)

See accompanying notes to unaudited interim consolidated financial statements.

NEWPORT PARTNERS INCOME FUND

Consolidated Statements of Unitholders' Equity
(In thousands of dollars, except per unit amounts)
(unaudited)

	Number of Units	Unitholders' Capital	Equity Component of Convertible Debenture	Deficit	Contributed Surplus	Total Unitholders' Equity
Balance – January 1, 2010	71,631,431	$ 414,884	$ 9,850	$ (406,075)	$ 2,360	$ 21,019
Net loss for the period	-	-	-	(9,508)	-	(9,508)
Stock-based compensation (note 8)	-	-	-	-	926	926
Balance – March 31, 2010	71,631,431	$ 414,884	$ 9,850	$ (415,583)	$ 3,286	$ 12,437

	Number of Units	Unitholders' Capital	Equity Component of Convertible Debenture	Deficit	Contributed Surplus	Total Unitholders' Equity
Balance – January 1, 2009	46,540,730	$ 401,640	$ 9,850	$ (373,897)	$ 2,360	$ 39,953
Units of NPY exchanged (note 7)	2,209,891	1,410	-	-	-	1,410
Net loss of the period	-	-	-	(9,479)	-	(9,479)
Balance – March 31, 2009	48,750,621	$ 403,050	$ 9,850	$ (383,376)	$ 2,360	$ 31,884

See accompanying notes to unaudited interim consolidated financial statements

NEWPORT PARTNERS INCOME FUND

Consolidated Statements of Cash Flows
(In thousands of dollars)
(unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided by (used in):		
Operating activities:		
Net loss for the period	$ (9,508)	$ (9,479)
Items not affecting cash:		
Loss from discontinued operations before non-controlling interest (note 4)	-	936
Amortization of intangible assets	6,416	7,351
Depreciation	2,981	3,078
Future income tax recovery	(3,254)	-
(Income) loss from equity investments, net of cash received	(470)	172
Non-cash interest expense	912	834
Write-down of goodwill	-	270
Non-controlling interest	-	(4,639)
Changes in non-cash working capital	4,783	14
Stock based compensation expense	926	-
Distributions from discontinued operations (note 4)	-	496
Cash provided by discontinued operations (note 4)	-	(1,201)
	2,786	(2,168)
Investing activities:		
Acquisition of businesses, net cash acquired (note 3 and 4)	(4,321)	(8,487)
Proceeds on disposal of business (note 4)	-	1,197
Purchase of property, plant and equipment	(1,163)	(1,917)
Increase in other assets	(105)	-
Cash used in discontinued operations (note 4)	-	(40)
	(5,589)	(9,247)
Financing activities:		
Decrease in long-term debt	(18,041)	-
Increase in revolving credit facilities	-	4,660
Increase in cash held in trust	(463)	(4,420)
Repayment of capital lease obligations	(1,212)	(1,423)
Cash provided by discontinued operations (note 4)	-	1,396
	(19,716)	213
Decrease in cash and cash equivalents	(22,519)	(11,202)
Cash and cash equivalents, beginning of period – continuing operations	43,882	23,559
Cash and cash equivalents, beginning of period – discontinued operations	-	296
Cash and cash equivalents, end of period	$ 21,363	$ 12,653
Cash and cash equivalents, end of period – discontinued operations	-	$ 451
Cash and cash equivalents, end of period – continuing operations	$ 21,363	$ 12,202
Supplemental cash flow information:		
Interest paid	5,232	5,049
Cash acquired upon acquisition	4	113
Cash removed on disposal of business	-	77
Supplemental disclosure of non-cash financial and investing activities:		
Acquisition of property, plant and equipment through capital leases	243	751

See accompanying notes to unaudited interim consolidated financial statements.

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

The Fund has been created to hold, through the Fund's investment in Newport Partners Commercial Trust ("Commercial Trust"), interests in Newport Private Yield LP ("NPY"), and its general partner, NPY GP Trust. NPY is a limited partnership formed to indirectly invest in securities of private businesses, either in limited partnerships or in corporations (collectively the "Operating Partnerships"). As at March 31, 2010, the Fund indirectly holds all of the A1 LP units of NPY, representing 100% of the outstanding LP units (2009 – 68%).

1. Significant accounting policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with respect to the presentation of interim financial information. Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles have been condensed to include only the notes related to elements which have significantly changed in the interim period and therefore they do not include all information and footnotes required in the preparation of annual financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Fund's audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

Basis of presentation – going concern

These unaudited interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Fund will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

On July 21, 2009, the Fund announced that a Forbearance Agreement (the "Forbearance Agreement") had been entered into with a syndicate of lenders (the "Lenders") (refer to note 5). Under the terms of the Forbearance Agreement, the Lenders have agreed not to enforce their default related rights and remedies under the Senior Credit Agreement for a period of up to 365 days (the "Forbearance Period"). The Forbearance Agreement contemplates the full repayment of amounts outstanding under the Senior Credit Agreement by the end of the Forbearance Period. As described in note 5, the Lenders have agreed to two amendments of the repayment terms under the Forbearance Agreement. If the Fund is unable to generate sufficient cash to repay the remaining amounts outstanding under the Forbearance Agreement on July 21, 2010, the Fund would be dependent on the continuing financial support of the Lenders to further amend the repayment terms.

The Fund was contractually prohibited from paying interest due on June 30, 2009 on its unsecured subordinated convertible debentures (the "Debentures") due to the above-noted covenant breach (refer to note 5). As of July 15, 2009 the failure to make the interest payment constituted an event of default under the terms of the trust indenture of the Debentures. The Fund is in discussions with holders of the Debentures with a view to restructure this debt.

Because of the nature and extent of the terms included in the Forbearance Agreement relating to the repayment of amounts outstanding under the Senior Credit Agreement, and the requirements to resolve the event of default of the Debentures, to raise additional indebtedness and re-establish the profitability equity and cash flows of the Fund, there are material uncertainties resulting in significant doubt about the appropriateness of the use of the going concern assumption.

These unaudited interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the consolidated balance sheet classifications used.

(In thousands of dollars)

2. Change in accounting policies and future accounting standards

The Fund had no changes in accounting policies from the previously audited consolidated financial statements for the year ended December 31, 2009.

3. Business combinations

On August 4, 2009, the minority limited partner of Gemma Communications LP ("Gemma") delivered to Newport Partners Holdings LP ("NPH") an offer letter pursuant to the shotgun buy-sell provision of the limited partnership agreement governing Gemma. NPH elected to accept the minority limited partner's offer to sell its 20% interest in Gemma. The buy-sell transaction closed on January 4, 2010, at which time, the Fund paid $4,285 and its interest in Gemma increased to 100%. This transaction had been accounted for using the purchase method.

The preliminary estimated fair values of the assets acquired and liabilities assumed for this interest were as follows:

	Gemma
Assets acquired:	
Current assets (includes cash of $4)	830
Property, plant and equipment	293
Goodwill	1,040
Intangible assets	3,737
	5,900
Liabilities assumed:	
Current liabilities	544
Long-term liabilities	56
Future tax liability	975
	1,575
Net assets acquired:	
Consideration	
Cash	4,285
Transaction costs	40
	4,325

Adjustments to the preliminary allocations may occur as a result of obtaining more information regarding asset valuations

4. Discontinued operations

On January 30, 2009, the minority limited partner of Elliot Special Risks LP ("ESR") delivered to NPH an offer letter pursuant to the shotgun buy-sell provision of the limited partnership agreement governing ESR. On February 27, 2009 NPH elected to accept the minority limited partner's offer to sell its 20% interest in ESR. The transaction closed on March 31, 2009, at which time, the Fund paid $8,500 and its interest in ESR increased to 100%. This transaction has been accounted for using the purchase method. On October 1, 2009, the Fund sold its 100% interest in ESR.

The following table shows the revenue and net loss from discontinued operations of ESR for the three months ended March 31, 2009.

(In thousands of dollars)

Three months ended March 31		2009
Revenues	$	2,956
Net loss before non-controlling interest	$	(936)

5. Credit facilities and long-term debt

On December 7, 2006, the Fund entered into a Senior Credit Agreement with the Lenders to provide up to $320,000 in funding. The Senior Credit Agreement is collateralized by general security agreements covering assets of all of the operating partnerships of the Fund, other than Brompton Corp. (“Brompton”) and Rlogistics LP (“RGC”). Repayment was required on the maturity date in 2012. Amounts owing under the Senior Credit Agreement bear interest at Banker’s Acceptance (“BA”) rate plus 5.95%.

As at December 31, 2008, the Fund was not in compliance with certain covenants under its Senior Credit Agreement.

On July 21, 2009, the Fund announced that a Forbearance Agreement had been entered into with the Lenders. Under the terms of the Forbearance Agreement, the Lenders agreed not to enforce their default related rights and remedies under the Senior Credit Agreement for a period of 365 days.

Commencing January 31, 2010, the Fund is subject to a monthly minimum EBITDA covenant, and to a maximum capital expenditures covenant. As at March 31, 2010 the Fund was in compliance with these covenants.

Assuming that the Fund is in compliance with the Forbearance Agreement, the Lenders have also agreed that no default interest will accrue or be payable during the Forbearance Period and have agreed to waive certain prepayment fees which would otherwise continue to apply. Default interest up until the beginning of the Forbearance Period will be paid in part from the proceeds of asset sales with the balance payable at the end of the Forbearance Period. Default interest accrued at March 31, 2010 and December 31, 2009 was $2,969, and covers the period January 31, 2009 to July 21, 2009.

A Forbearance fee is to be paid to the Lenders, in part from asset sales with the balance payable at the end of the Forbearance Period (refer to note 1). The fee is initially 75 basis points of the principal amount outstanding under the Senior Credit Agreement, but may be reduced to 50 basis points upon certain repayment targets being achieved. A fee of $1,667 has been accrued at March 31, 2010 (December 31, 2009 - $1,850).

In conjunction with the signing of the Forbearance Agreement, NPH, a subsidiary of the Fund, has arranged for a $20,000 subordinated financing facility from an affiliate in order to provide sufficient working capital. The facility bears interest at 10% per annum and repayments of principal and interest can be made after repayment to the Lender’s has been completed. As at March 31, 2010, the Fund has drawn $10,089 on this facility. Interest expense accrued on this facility at March 31, 2010 was $696 (December 31, 2009 - $449).

On October 1, 2009, $70,100 was paid to the Lenders and was applied as follows: $32,110 to the revolving credit facility, $30,023 to the term facility, $6,888 to collateralize existing and new letters of credit with the balance of $1,079 to pay default interest and fees. The collateral balance for the letters of credit is included in cash and cash equivalents in trust.

On November 25, 2009, the Fund announced an amendment to the Forbearance Agreement had been entered into with the Lenders (the “First Amendment”). Under the terms of the First Amendment, the requirement to repay $55,000 by January 7, 2010 by way of proceeds from asset sales has been amended. The Lenders have agreed to allow for repayments by using cash on hand and proceeds from asset sales. On November 25, 2009, $30,000 was repaid and the next repayment was originally scheduled for February 28, 2010 in the amount of $35,000, with the balance to be repaid by July 21, 2010.

On February 19, 2010, the Fund announced that a second amendment to the Forbearance Agreement was entered into with the Lenders (the "Second Amendment"). Under the terms of the Second Amendment, the requirement to repay $35,000 by February 28, 2010 was amended to a requirement to pay $18,500. On February 18, 2010 the Fund paid $20,000 from cash on hand which included a $1,500 rescheduling fee that was included in interest expense in the quarter. The balance owing of $132,458 is to be repaid by July 21, 2010. In addition, the Lenders consented to NPH acquiring all of the issued and outstanding equity interests of Gemma that it does not currently own.

By reason of the continuing events of default under the Senior Credit Agreement, the Fund was prohibited under its collateral covenant agreement with the Lenders from making the June 30, 2009 interest payment of $5,968 on the Debentures. As of July 15, 2009, the failure to make the interest payment constitutes an event of default under the terms of the trust indenture. Under the terms of the trust indenture, the debenture trustees could provide notice to the Fund to declare all principal and interest to become due and payable as a result of this default. Accordingly, after July 15, 2009 the Debentures are classified as a current liability. The Forbearance Agreement does not permit the Fund to make principal or interest payments on the Debentures during the Forbearance Period and as a result the interest payment of $5,968 due December 31, 2009 was not made. Accounts payable and accrued liabilities as at March 31, 2010 include $14,919 of accrued interest on the Debentures (December 31, 2009 - $11,936).

6. Loss per unit

The units issuable on the conversion of the Debentures and stock options are the only potential dilutive units. The computation of fully diluted loss per unit is anti-dilutive and is not shown.

7. Unitholders' equity

Pursuant to the Exchange Agreement between the Commercial Trust and NPY all A2 LP units were exchanged for A1 LP units by December 31, 2009.

During the three months ended March 31, 2009, 2,209,891 A2 LP units were exchanged. As these units of NPY were outstanding prior to the IPO, the conversion of these units was calculated as a step acquisition using the original carrying value of these units.

8. Stock-based compensation

On November 30, 2009 the unitholders of the Fund approved an Incentive Option Plan (the "Plan"). Pursuant to the Plan, 7,100,590 units of the Fund were listed and reserved for issuance upon the exercise of the stock options granted. On January 13, 2010, 7,000,000 options were granted to employees and directors at an exercise price of $0.403 per unit with options vesting in 2010 through to 2013. All option grants have a term of five years from the date of grant and generally vest over three years. As at March 31, 2010 3,225,000 units were exercisable. No options were forfeited, exercised or expired during the quarter.

The fair value of stock options granted is recognized on a straight-line basis 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.

(In thousands of dollars)

The Fund estimates stock-based compensation expense at the grant date based on the fair value of the options as calculated by the Black-Scholes fair value option-pricing model. This fair value model requires various judgmental assumptions including volatility and expected life of the options. The resulting fair value is charged to compensation expense over the vesting period of the options. The following assumptions were used in arriving at the fair value of options granted during the three months ended March 31, 2010:

	Three months ended March 31, 2010
Risk free interest rate	1.63%
Expected volatility	141%
Expected weighted average life of options	2.42 years
Expected dividend yield	0%

The Fund recorded stock-based compensation expense in the quarter ended March 31, 2010 of $926 for options granted on January 13, 2010.

9. Segmented information

The Fund has six reportable 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. The financial services segment incorporates investment management, institutional money management, wealth management and insurance brokerage services. The marketing segment represents the investment in non-traditional marketing operations that acquires rights in media, publications and television, and an investment in an integrated direct marketing company with its primary focus on inbound and outbound tele-services, an investment in a fully integrated marketing services agency and investments in two promotional solutions marketing firms. The industrial services segment includes two reportable segments and represents the investments in fully integrated providers of mid-stream production services to the energy industry and in a provider of demolition contract services and site remediation services. The other segment incorporates a manufacturer of protective outerwear, a distributor and manufacturer of heavy equipment, a container transportation business and a reverse logistics provider. The corporate segment includes head office administrative and financing costs incurred by the Fund.

The accounting policies of segments are the same as those described in the summary of significant accounting policies in note 1 of the audited consolidated financial statements for the year ended December 31, 2009. The Fund utilizes earnings before interest, taxes, depreciation and amortization ("EBITDA") as a performance measure for its operating partners and segment results, and accordingly a reconciliation from net loss from continuing operations to EBITDA is included herein.

(In thousands of dollars)

Three months ended March 31, 2010	Financial Services	Marketing	Industrial Services		Other	Corporate	Total
			NPC	Quantum Murray			
Revenue	$ 6,888	$ 21,930	$ 52,404	$ 21,025	$ 19,826	-	$ 122,073
Cost of Revenue	2,159	14,313	43,660	17,099	14,086	-	91,317
	4,729	7,617	8,744	3,926	5,740	-	30,756
Expenses							
Selling, general and administrative	3,213	4,862	5,702	5,281	2,674	3,182	24,914
Amortization of intangible assets	1,512	1,887	788	782	1,447	-	6,416
Depreciation	52	391	1,364	986	145	24	2,962
	$ 4,777	$ 7,140	$ 7,854	$ 7,049	$ 4,266	$ 3,206	$ 34,292
Income (loss) before the undernoted	(48)	477	890	(3,123)	1,474	(3,206)	(3,536)
Income from equity investment	320	-	-	-	150	-	470
Interest (income) expense	(30)	50	1,909	75	214	7,475	9,693
Income tax expense – current	3	-	-	-	-	-	3
Income tax recovery – future	(31)	(2,200)	(602)	1,653	(381)	(1,693)	(3,254)
Income (loss) from continuing operations	$ 330	$ 2,627	$ (417)	$ (4,851)	$ 1,791	$(8,988)	$(9,508)
Add back:							
Interest (income) expenses	(30)	50	1,909	75	214	7,475	9,693
Depreciation and amortization	1,564	2,278	2,152	1,768	1,611	24	9,397
Amortization of Brompton intangible asset (i)	287	-	-	-	-	-	287
Income tax expense – current	3	-	-	-	-	-	3
Income tax recovery – future	(31)	(2,200)	(602)	1,653	(381)	(1,693)	(3,254)
EBITDA	$ 2,123	$ 2,755	$ 3,042	$ (1,355)	$ 3,235	$ (3,182)	$ 6,618
Goodwill acquired	-	1,040	-	-	-	-	1,040
Expenditures for property, plant and equipment	46	274	349	463	31	-	1,163
Total assets	95,088	76,298	88,148	63,910	65,067	47,947	436,458
Total goodwill	27,493	19,309	10,681	7,183	5,288	-	69,954

(i) The amortization of the intangible asset related to the investment in Brompton is included in income from equity investment.

(In thousands of dollars)

Three months ended March 31, 2009	Financial Services	Marketing	Industrial Services NPC	Industrial Services Quantum Murray	Other	Corporate	Total
Revenue	$ 6,828	$ 22,834	$ 77,776	$ 29,397	$ 18,677	$ -	$ 155,512
Cost of Revenue	2,334	14,228	66,961	24,511	13,197	-	121,231
	4,494	8,606	10,815	4,886	5,480	-	34,281
Expenses							
Selling, general and administrative	2,761	4,803	7,820	5,662	3,374	2,321	26,741
Amortization of intangible assets	1,982	1,765	1,323	782	1,499	-	7,351
Depreciation	82	332	1,635	796	177	34	3,056
	4,825	6,900	10,778	7,240	5,050	2,355	37,148
Income (loss) before the undernoted	(331)	1,706	37	(2,354)	430	(2,355)	(2,867)
Income (loss) from equity investment	(302)	20	-	-	300	-	18
Write-down of goodwill	-	-	-	-	-	270	270
Interest (income) expense	(30)	35	2,170	52	250	7,569	10,046
Income tax expense – current	6	-	-	-	-	11	17
Income (loss) from continuing operations	$ (609)	$ 1,691	$ (2,133)	$ (2,406)	$ 480	$(10,205)	$(13,182)
Add back:							
Interest (income) expenses	(30)	35	2,170	52	250	7,569	10,046
Depreciation and amortization	2,064	2,097	2,958	1,578	1,698	34	10,429
Amortization of Brompton intangible asset (i)	287	-	-	-	-	-	287
Income tax expense – current	6	-	-	-	-	11	17
EBITDA	$ 1,718	$ 3,823	$ 2,995	$ (776)	$ 2,428	$(2,591)	$ 7,597
Goodwill acquired (ii)	-	-	-	-	-	4,610	4,610
Expenditures for property, plant and equipment	-	258	1,349	256	54	-	1,917
As at December 31, 2009:							
Total assets	96,684	71,056	91,371	85,634	66,140	68,439	479,324
Total goodwill	27,493	18,269	10,681	7,183	5,288	-	68,914

(i) The amortization of the intangible asset related to the investment in Brompton is included in income from equity investment.

(ii) Discontinued operations previously part of the financial services segment are included in the corporate segment (refer to note 4).

10. Comparative figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation in March 31, 2010 unaudited interim consolidated financial statements.