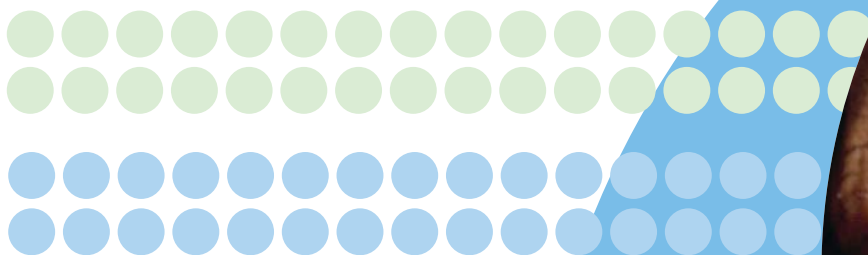


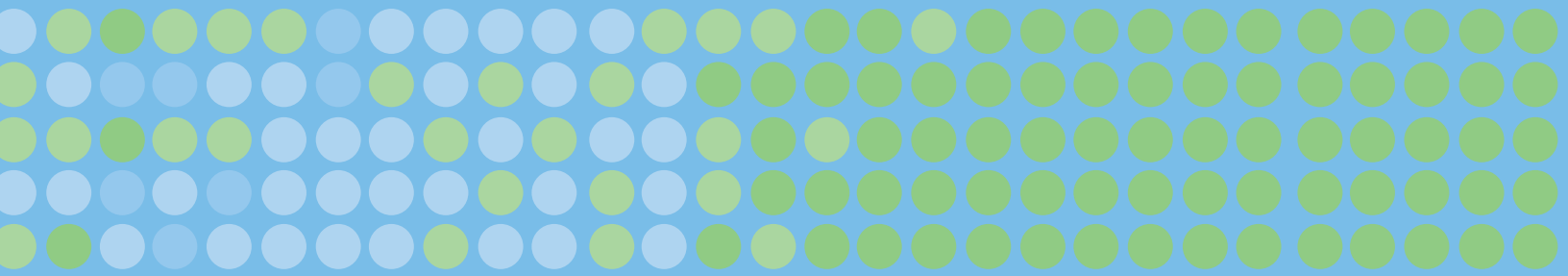
**B E S T Funds**

Building Equity & Shareholder Trust



**B.E.S.T. DISCOVERIES FUND INC.**

ANNUAL REPORT **2005**



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B.E.S.T. DISCOVERIES FUND INC.

Dear Shareholder,

The year ended September 30, 2005 has presented several challenges for The Business, Engineering, Science & Technology Discoveries Fund but also numerous opportunities. While we have seen the rationalization of some of the values of our portfolio we continue to see strong performance in our core holdings which we believe provide a strong outlook for the future.

We continued to support our strongest holdings by providing expansion capital to several of our most promising investments. In addition the Fund made investments in two new companies which we believe will emerge as leaders in their markets and provide the Fund with long-term capital appreciation. Portfolio companies such as Iogen Corp., Evault Inc., Protus IP Solutions Inc., and Dragonwave Inc. continue to impress us with strong growth as they become leaders in their respective markets.

There is growing evidence that the capital markets are opening to earlier stage companies and the technology sector in particular. We believe that this will help the Fund to realize gains and deliver significant returns to you, the shareholder.

As always, we are committed to fostering an environment of good corporate governance and building the trust of shareholders. Our independent board of directors is constantly challenging us to build value in the Fund while always promoting the highest ethical and professional standards.

Thank you for your continued support.

Yours Truly,



John M.A. Richardson  
Chief Executive Officer

## Management Report of Fund Performance For the year ended September 30, 2005

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-795-BEST (2378), by writing to us at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6, by visiting our website at [www.bestfunds.ca](http://www.bestfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or semiannual portfolio disclosure.

### Investment Objectives and Strategies

The Fund invests in small and medium-sized eligible businesses with the objective of achieving maximum long-term capital appreciation. The Fund's investments are selected on the basis of various criteria including a review of industry economics, managerial capability, product or service competitiveness, growth potential and past performance. The Fund primarily focuses on niche businesses and other companies with a broader market focus, which are capitalizing on innovative uses of engineering, science and technology. The Fund diversifies its portfolio by investing in eligible companies that are at different stages of development in a variety of high potential industries, which include telecommunications, information technology and alternative energy.

The Fund is subject to the investment restrictions contained in the *Community Small Business Investment Funds Act* (Ontario) as further described in the Fund's prospectus.

### Risk

There is no change in the suitability of the Fund for investment from that stated in the Fund's prospectus.

### Results of Operations

The Net Asset Value of the Fund at the end of the year was \$49.7 million with 6.94 million Class A Shares outstanding. This compares to the prior year ending September 30, 2004 Net Asset Value of \$60.1 million with 7.1 million Class A Shares outstanding. The decline in Net Asset Value is due to a net loss from operations of \$3.0 million, a loss on investments of \$5.8 million and net redemptions of \$1.6 million. The loss on investments is due to unrealized losses on the Fund's investment holdings during the year of \$5.4 million and realized losses of \$0.4 million.

Interest and other income were down 11.8% for the year compared to last year. This decline is due to the lower balances of interest earning securities held by the Fund which are mainly composed of reserve funds.

Total expenses for the year increased by 6.4% or \$243,000 from last year. This is due to higher Management Fees, Advisory Fees and Sponsor Fees, which reflect the higher average Net Asset Value of the Fund for the year. Other costs such as legal, auditing and administrative fees increased as a result of the higher cost of administration, custodian and compliance costs.

The Fund made investments during the year in two new companies: AssetMetrix Inc. and Wellington Polymer Technology Inc., for a total of \$2.9 million. The Fund also provided follow-on financing to several of its existing portfolio companies in the amount of \$1.9 million.

The Fund managed to attract additional new subscriptions during the year of \$2.7 million compared to the prior year when the Fund raised only \$930,000. The new subscriptions however, were offset by redemptions in the amount of \$4.2 million.

### Recent Developments

On September 20, 2005, the Ontario government announced plans to phase out the Ontario tax credit for investors as follows:

Taxation Year	RSP Sales Season	LSIF Tax Credit
2005	2006	15%
2006	2007	15%
2007	2008	15%
2008	2009	15%
2009	2010	10%
2010	2011	5%

Should the government implement legislation to this effect, investors who purchase the Fund after the date the credit is eliminated will no longer be eligible for a provincial tax credit equal to 15% of the purchase price of Class A Shares of the Fund. The Ontario government also announced that they will consult further with the industry on transition rules governing pricing, eligibility and other reporting requirements.

### Related Party Transactions

B.E.S.T. Investment Counsel Limited, the Manager and Advisor to the Fund and The International Federation of Professional and Technical Engineers – Local 164, the Sponsor to the Fund, are deemed to be related parties. Please refer to the section titled “Management Fees” which outlines the fees paid to these related parties during the year.

John Richardson, the Chief Executive Officer of the Fund, is a director, officer and indirectly controls all of the voting securities of B.E.S.T. Investment Counsel Limited.

### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years for the Class A Shares, Series I and for the past four years for the Class A Shares, Series II and Series III. This information is derived from the Fund's audited annual financial statements.

### The Fund's Net Asset Value (NAV) per Class A Share, Series I

	2005	2004	2003	2002	2001
<b>Net Asset Value, beginning of the year</b>	\$ 8.48	\$ 8.36	\$10.14	\$11.28	\$14.98
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.14	\$ 0.16	\$ 0.09	\$ 0.27	\$ 0.32
Total expenses	\$(0.57)	\$(0.53)	\$ (0.60)	\$ (0.74)	\$ (0.93)
Realized gains (losses) for the period	\$(0.05)	\$(0.08)	\$ (0.34)	\$ (0.56)	\$ 0.03
Unrealized gains (losses) for the period	\$(0.77)	\$ 1.02	\$ (0.83)	\$ (0.01)	\$ (3.02)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	\$(1.25)	\$ 0.57	\$ (1.68)	\$ (1.04)	\$ (3.60)
<b>Net Asset Value, end of the year</b>	\$ 7.18	\$ 8.48	\$ 8.36	\$10.14	\$11.28

### The Fund's Net Asset Value (NAV) per Class A Share, Series II

	2005	2004	2003	2002
<b>Net Asset Value, beginning of the year</b>	\$ 8.13	\$ 8.40	\$10.14	\$11.22
<b>Increase (decrease) from operations:</b>				
Total revenues	\$ 0.13	\$ 0.15	\$ 0.10	\$ 0.05
Total expenses	\$(0.57)	\$(0.49)	\$ (0.59)	\$ (0.55)
Realized gains (losses) for the period	\$(0.05)	\$(0.07)	\$ (0.35)	\$ (0.52)
Unrealized gains (losses) for the period	\$(0.72)	\$ 1.04	\$ (0.82)	\$ 0.01
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	\$(1.21)	\$ 0.63	\$ (1.66)	\$ (1.01)
<b>Net Asset Value, end of the year</b>	\$ 7.01	\$ 8.13	\$ 8.40	\$10.14

### The Fund's Net Asset Value (NAV) per Class A Share, Series III

	2005	2004	2003	2002
<b>Net Asset Value, beginning of the year</b>	\$ 9.04	\$ 8.56	\$10.23	\$11.20
<b>Increase (decrease) from operations:</b>				
Total revenues	\$ 0.13	\$ 0.16	\$ 0.09	\$ 0.05
Total expenses	\$(0.60)	\$(0.60)	\$ (0.60)	\$ (0.52)
Realized gains (losses) for the period	\$(0.07)	\$(0.08)	\$ (0.34)	\$ (0.51)
Unrealized gains (losses) for the period	\$(1.28)	\$ 1.01	\$ (0.82)	\$ 0.01
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	\$(1.82)	\$ 0.49	\$ (1.67)	\$ (0.97)
<b>Net Asset Value, end of the year</b>	\$ 7.74	\$ 9.04	\$ 8.56	\$10.23

<sup>(1)</sup> Net Asset value is based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

## Ratios and Supplemental Data

### Class A Shares, Series I

	2005	2004	2003	2002	2001
Net assets <sup>(1)</sup>	\$44,344,000	\$54,946,795	\$54,117,646	\$64,001,038	\$66,236,518
Number of shares outstanding <sup>(1)</sup>	6,179,430	6,482,747	6,470,587	6,309,028	5,870,039
Management expense ratio <sup>(2)</sup>	6.61%	6.26%	6.75%	6.75%	6.55%
Management expense ratio before waivers	6.61%	6.26%	6.75%	6.75%	6.55%
Portfolio turnover <sup>(3)</sup>	8.32%	15.20%	25.29%	31.02%	16.37%
Trading expense ratio <sup>(4)</sup>	0%	0%	0%	0%	0%
Closing pricing NAV per share	\$7.43	\$8.82	\$8.36	\$10.14	\$11.28

### Class A Shares, Series II

	2005	2004	2003	2002
Net assets <sup>(1)</sup>	\$5,129,431	\$5,112,067	\$5,043,439	\$3,446,355
Number of shares outstanding <sup>(1)</sup>	731,389	629,335	600,532	339,733
Management expense ratio <sup>(2)</sup>	6.55%	6.74%	6.50%	6.82%
Management expense ratio before waivers	6.55%	6.74%	6.50%	6.82%
Portfolio turnover <sup>(3)</sup>	8.32%	15.20%	25.29%	31.02%
Trading expense ratio <sup>(4)</sup>	0%	0%	0%	0%
Closing pricing NAV per share	\$7.53	\$8.86	\$8.40	\$10.14

### Class A Shares, Series III

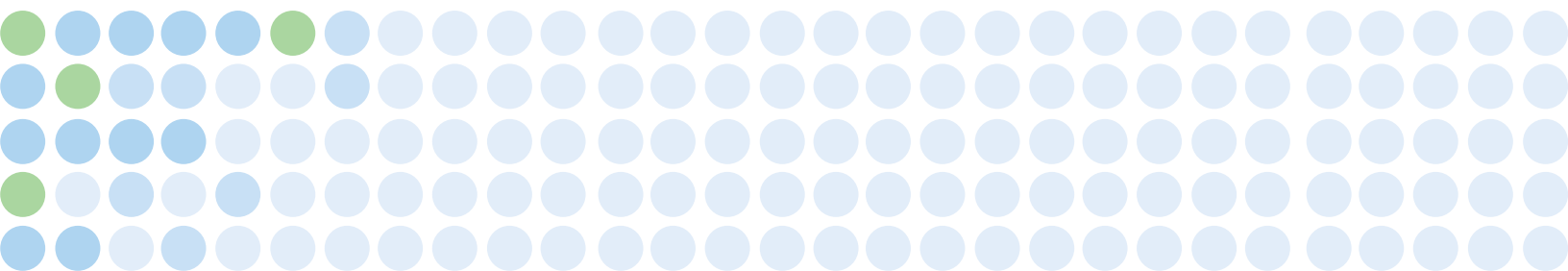
	2005	2004	2003	2002
Net assets <sup>(1)</sup>	\$239,611	\$88,820	\$84,015	\$100,407
Number of shares outstanding <sup>(1)</sup>	30,950	9,820	9,820	9,812
Management expense ratio <sup>(2)</sup>	6.84%	6.94%	7.41%	7.68%
Management expense ratio before waivers	6.84%	6.94%	7.41%	7.68%
Portfolio turnover <sup>(3)</sup>	8.32%	15.20%	25.29%	31.02%
Trading expense ratio <sup>(4)</sup>	0%	0%	0%	0%
Closing pricing NAV per share	\$7.74	\$9.04	\$8.56	\$10.23

<sup>(1)</sup> This information is provided as at September 30 of the years shown.

<sup>(2)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of securities, excluding securities having maturity dates at acquisition of one year or less, by the average market value of the portfolio, excluding short-term investments.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.



## Management Fees

### Management Fee

In consideration for portfolio management services, the Fund pays B.E.S.T. Investment Counsel Limited an annual fee of 1.50% of the Net Asset Value of the Fund. During the year, the Fund paid the Manager \$980,124 in management fees.

### Advisor Fee

In consideration for investment advisory services, the Fund pays B.E.S.T. Investment Counsel Limited (the "Advisor"), an annual fee of 1.75% of the Net Asset Value of the Fund. During the year, the Fund paid the Advisor \$1,143,478 in advisory fees.

### Sponsor Fees

The International Federation of Professional and Technical Engineers – Local 164 is the sponsor for the Fund. The Sponsor receives an annual fee of 0.15% of the Net Asset Value of the Fund. During the year, the Fund paid the Sponsor \$98,012.

### Sales, Marketing and Administration Fees

The Fund has retained the Advisor to provide sales and marketing services to the Fund. The Fund pays the Advisor an annual sales and marketing fee as follows: (1) the aggregate of 0.425% on the first \$50 million of Net Asset Value of the Fund, 0.4% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount above \$150 million, (2) less \$96,000. During the year, the Fund paid the Advisor \$145,716 for sales and marketing services.

The Fund and the Manager have also retained the Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the Registrar pursuant to the terms of an accounting and administrative services agreement. The Fund pays the Advisor an annual accounting and administrative fee equal to \$96,000.

## Past Performance

### General

The past performance is shown for each of the five years ended September 30.

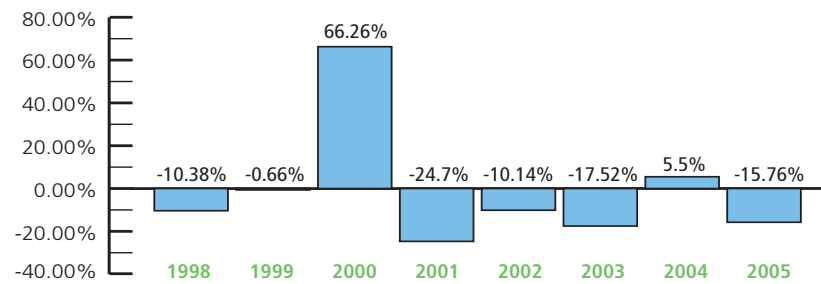
The performance information shown does not take into account sales, redemptions or income taxes or other charges that would have reduced returns or performance. Mutual funds are not guaranteed, their values change frequently and past performance is not indicative of future performance.

### Year by Year Return

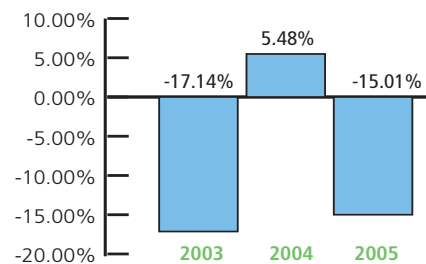
The Total Return of the Fund indicates in percentage terms how much an investment in the Fund made on the first day of each financial year would have increased or decreased by the last day of each financial year.



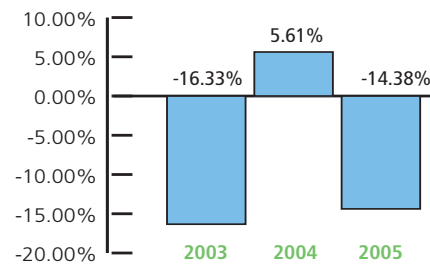
### Class A Series I



### Class A Series II



### Class A Series III



## Annual Compound Returns

### The Annual Compound Return of the Fund.

Annual Compound Return	Class A Shares, Series I	Class A Shares, Series II	Class A Shares, Series III	Globefund LSIF Peer Index
1 Year	(15.76%)	(15.01%)	(14.38%)	(0.70%)
3 Year	(9.84%)	(9.44%)	(8.87%)	(2.59%)
5 Year	(13.08%)	-	-	(6.49%)
From inception	(3.30%)	(10.11%)	(9.40%)	(0.17%)

The Globefund Labour-Sponsored Investment Fund Peer Index is an equally weighted average of mutual funds within the Labour-Sponsored Investment Fund asset class.

## Summary of Investment Portfolio

As at September 30, 2005, the Portfolio of the Fund consisted of the following investments:

Description	Maturity
<b>Short-Term Investments: (7.67% of the Total NAV)</b>	
Loblaw Companies Limited	October 11, 2005
TransAlta	October 31, 2005
Franchise Trust	November 2, 2005
<b>Fixed-Term Investments (6.03% of the Total NAV)</b>	
Emera Inc., 6.0%	April 17, 2006
Farm Credit Corporation, Floating Rate	June 11, 2011
Farm Credit Corporation, 6.0%	September 28, 2012
Farm Credit Corporation, 4.4% Accrual Note	February 10, 2015
<b>Public Companies and Venture Investments: (84.12% of Total NAV)</b>	
APEKS Limited	
Common Shares	
Class B, Preferred Shares	
AssetMetrix Inc., Series A Preferred Shares	
Canadian Trading & Quotation System Inc.	
Common Shares	
Class A Preferred Shares	
Debenture, 0.0%	March 3, 2011
Bridge Loan, 12.0%	November 1, 2005
Claymore Capital Management Inc.	
Common Shares	
Debenture, 2.0%	December 10, 2007
Cygnal Technologies Corporation, Common Shares	
Cymat Corporation, Common Shares	
DragonWave Inc.	
Series A Preferred Shares	
Series B Preferred Shares	
GridIron Software Inc.	
Series B Preferred Shares	
Series C Preferred Shares	
Convertible Debenture, 20.0%	January 1, 2006
iMPath Networks Inc.	
Common Shares	
Series A Preferred Shares	
Indigo Books & Music Inc. Common Shares	
InternetSecure Inc. Common Shares	
logen Corporation	
Debentures, 10.0%	December 1, 2005
Warrants	December 1, 2006

Description	Maturity
Warrants	December 1, 2007
Kaval Wireless Technologies Inc.	
Common Shares	
Class A Preferred Shares	
Mar Mex Canada Inc., 0.0% Debenture	October 1, 2006
Necho Systems Corporation	
Common Shares	
Class A Preferred Shares	
Class B Preferred Shares	
Class C Preferred Shares	
Class D Preferred Shares	
Class E Preferred Shares	
Debenture, 15.0%	November 30, 2005
NetActive Inc.	
Class A Preferred Shares	
Class B Preferred Shares	
Newstep Networks Inc.	
Special Voting Shares	
Series A Special Voting	
Series A Exchangeable	
OnX Enterprise Solutions Inc., Common Shares	
PixeLink Corporation, Preferred Shares	
Polyphalt Inc., Common Shares	
Protus IP Solutions Inc.	
Class A Preferred Shares, Series I	
Class A Preferred Shares, Series II	
Class B Preferred Shares	
Soliton Inc., Preferred Shares, Series I	
VNRAND Inc. (subsidiary of EVault Inc.)	
Series B, Exchangeable Shares	
Series C, Exchangeable Shares	
Series D, Exchangeable Shares	
Wellington Polymer Technologies Inc.	
2068051 Ontario Inc. Common Shares	
2070452 Ontario Inc. Common Shares	
2068051 Ontario Inc., 8.0% Debenture, Series A	May 12, 2010
2068051 Ontario Inc., 8.0% Debenture, Series B	May 12, 2010

## Item 6 – Other Information

The Fund is required to produce a full long form prospectus on an annual basis. The prospectus contains full disclosure of the Funds securities, objectives and strategies, tax credits, valuation policies, a description of venture investments and risk factors among other detailed disclosure. The prospectus should be considered the main source of disclosure for the Fund.

## The Business, Engineering, Science & Technology Discoveries Fund Inc.

# FINANCIAL STATEMENTS September 30, 2005 and 2004

### MANAGEMENTS RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of The Business, Engineering, Science & Technology Discoveries Fund Inc. (The "Fund") and other financial information contained in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using management's best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the financial statements directly and through its Audit Committee. The Board of Directors has the responsibility for determining the value of the Fund's investments on a consistent basis. The Board of Directors obtains from its auditors a report on the reasonableness of the valuation of the Funds' investments by the Funds' Board of Directors. The audit committee meets with management and with the external auditors to discuss the results of the audit examination with respect to the adequacy of internal accounting controls and to review the financial statements of the Fund. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors. The accompanying financial statements have been approved by the Board of Directors and have been audited by PriceWaterhouseCoopers LLP, Chartered Accountants, in accords with Canadian generally accepted auditing standards, on behalf of the shareholders. PriceWaterhouseCoopers LLP has full and unrestricted access to the Audit Committee



John M.A. Richardson, Chief Executive Officer



Thomas W. R. Lunan, Chief Financial Officer

November 17, 2005

### AUDITORS' REPORT

#### To the Shareholder of The Business, Engineering, Science & Technology Discoveries Fund Inc.

We have audited the statement of investment portfolio of The Business, Engineering, Science & Technology Discoveries Fund Inc. (the "Fund") as at September 30, 2005, the statements of net assets as at September 30, 2005 and 2004 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2005 and 2004 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants,  
Toronto, Ontario

## STATEMENT OF INVESTMENT PORTFOLIO As at September 30, 2005

Par value \$	Issuer	Maturity date	Cost \$	Market value \$
<b>Short-term investments (7.67%)*</b>				
2,118,000	Loblaw Companies Limited	October 11, 2005	2,113,686	2,113,686
852,000	TransAlta	October 31, 2005	849,957	849,957
852,000	Franchise Trust	November 2, 2005	849,810	849,810
<b>Total short-term investments</b>			3,813,453	3,813,453
<b>Fixed-term investments (6.03%)*</b>				
500,000	Emera Inc., 6.00%	April 17, 2006	497,650	506,630
1,000,000	Farm Credit Canada, floating rate	June 11, 2011	1,000,000	977,000
500,000	Farm Credit Canada, 6.00%	September 28, 2012	500,000	493,500
1,000,000	Farm Credit Canada, 4.40%	February 10, 2015	1,000,000	1,017,400
<b>Total fixed-term investments</b>			2,997,650	2,994,530
Par value/ number of shares	Issuer	Maturity date/ expiration date	Cost \$	Market value \$
<b>Public company investments (2.71%)</b>				
264,900	Cygnal Technologies Corporation, common shares		529,800	307,284
1,600,000	Cymat Corporation, common shares		2,000,000	944,000
5,194	Indigo Books & Music Inc., common shares		500,000	44,928
165,000	OnX Enterprise Solutions Inc., common shares		1,000,000	30,525
416,667	Polyphalt Inc., common shares		250,000	20,833
<b>Total public company investments</b>			4,279,800	1,347,570
<b>Venture investments - expansion stage companies (81.40%) *</b>				
<b>Industrial and financial (39.73% of total venture investments)</b>				
APEKS Limited				
5,500	Class B, preferred shares		550,000	
113,040	Common shares		127,736	
Canadian Trading and Quotation System Inc.				
3,000,000	Debenture, nil%	March 3, 2011	3,000,000	
352,941	Class A shares		-	
198,616	Common shares		125,537	
650,000	Bridge loan, 12.00%	November 1, 2005	650,000	
Claymore Capital Management Inc.				
1,333	Common shares		-	
5,000,000	Debenture, 2.00%	December 10, 2007	5,000,000	
Iogen Corporation				
148,662	Warrants	December 1, 2006	10	
3,000,000	Debenture, 10.00%	December 1, 2005	3,000,000	
13,539	Warrants	December 31, 2007	-	
150,000	Mar-Mex Canada Inc., nil%	October 1, 2006	150,000	
34,500	Pixelink Corporation, 'A' preferred shares		1,500,000	
Wellington Polymer Technology Inc.				
311,353	2068051 Ontario Inc.		344,272	
311,353	2070452 Ontario Inc.		15,016	
61,725	2068051 Ontario, 8.00%	May 12, 2010	61,725	
168,907	2068051 Ontario Inc., 8.00%	May 12, 2010	168,907	
<b>Total industrial and financial</b>			14,693,203	16,076,453

The accompanying notes are an integral part of these financial statements.

Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>Technology (60.27% of total venture investments)</b>				
3,318,903	AssetMetrix Inc., Series A, preferred shares		2,300,000	
	DragonWave Inc.			
1,000,000	Series A, preferred shares		1,500,000	
4,103,297	Series B, preferred shares		783,730	
	GridIron Software Inc.			
114,090	Series B, preferred shares		200,000	
334,728	Series C, preferred shares		800,000	
400,000	Convertible debenture	January 1, 2006	400,000	
	iMPath Networks Inc.			
588,155	Common shares		750,000	
237,302	Series A, common shares		414,464	
874,440	InternetSecure Inc., common shares		1,326,089	
	Kaval Wireless Technologies Inc.			
775,500	Common shares		3,997,350	
465,116	Class A, convertible shares		763,676	
27,360	Class A, preferred shares		42	
	Necho Systems Corporation			
599,940	Common shares		750,000	
873,683	Class A, preferred shares		1,092,213	
246,649	Class B, preferred shares		308,342	
138,889	Class C, preferred shares		187,500	
750,000	Class D, preferred shares		750,000	
1,759,942	Class E, preferred shares		2,023,933	
666,667	Debenture, 15.00%	November 30, 2005	666,667	
	NetActive Inc.			
248,225	Class A shares		930,844	
397,100	Class B, preferred shares		750,880	
	Newstep Networks Inc.			
1,000,000	Special voting shares		1	
1,000,000	Series A, special voting shares		1	
1,000,000	Series A, exchangeable preferred shares		1,555,500	
	Protus IP Solutions Inc.			
750,000	Class A, preferred shares, Series 1		600,000	
625,000	Class A, preferred shares, Series 2		500,000	
2,083,333	Class B, preferred shares		1,000,000	
1,500,000	Soliton Inc., Class A, Series 1, preferred shares		1,500,000	
	VNRAND Inc.			
2,625,000	Series B, exchangeable shares		4,065,327	
6,892,591	Series C, exchangeable shares		1,777,173	
890,562	Series D, exchangeable shares		490,347	
<b>Total technology</b>			32,184,079	24,392,802
<b>Total venture investments</b>			46,877,282	40,469,255
<b>Total investments (97.81%) *</b>			57,968,185	48,624,808
<b>Other net assets (2.19%) *</b>			1,088,235	1,088,235
<b>Total net assets (100.00%) *</b>			59,056,420	49,713,043

\* Percentages shown relate investments at market value to total net assets.

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF NET ASSETS

As at September 30, 2005 and 2004

	2005 \$	2004 \$
<b>ASSETS</b>		
<b>Investments</b> - at fair value (cost - \$57,968,185; 2004 - \$62,758,039)	48,624,808	58,810,523
<b>Cash</b>	499,035	735,160
<b>Accrued interest and other receivables</b>	988,109	1,000,572
	50,111,952	60,546,255
<b>LIABILITIES</b>		
<b>Accounts payable and accrued liabilities</b>	398,909	398,572
<b>NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY</b>	49,713,043	60,147,683
<b>Net asset value per class/series</b>		
Class A, Series I shares	44,344,000	54,946,795
Class A, Series II shares	5,129,431	5,112,067
Class A, Series III shares	239,611	88,820
Class B shares	1	1
	49,713,043	60,147,683
<b>Number of shares outstanding (note 3)</b>		
Class A, Series I shares	6,179,430	6,482,747
Class A, Series II shares	731,389	629,335
Class A, Series III shares	30,950	9,820
Class B shares	1	1
	6,941,770	7,121,903
<b>Net asset value per share (note 6)</b>		
Class A, Series I shares	7.18	8.48
Class A, Series II shares	7.01	8.13
Class A, Series III shares	7.74	9.04

Approved by the Board of Directors



Harold F. Jones  
Director



George R. Paterson  
Director

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF OPERATIONS

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Income</b>		
Interest	973,051	1,075,914
Other	-	27,667
	973,051	1,103,581
<b>Expenses</b>		
Advisory fees	1,143,478	1,120,842
Management fees	980,124	960,719
Transfer agent, registrar and administrative	794,021	702,390
Custodian fees	42,817	32,339
Selling costs	542,559	595,702
Directors' fees and expenses	127,976	108,987
Sponsor's fees	98,012	96,072
Legal fees	97,810	38,706
Audit fees	80,650	51,930
Shareholder and broker communications	103,892	50,659
Capital taxes	5,818	16,199
	4,017,157	3,774,545
<b>Net investment loss for the year</b>	(3,044,106)	(2,670,964)
<b>Realized loss and unrealized depreciation on investments</b>		
Realized loss on sale of investments (note 5)	(363,572)	(557,011)
Change in unrealized depreciation on investments	(5,395,861)	7,285,696
<b>Net realized and unrealized gain (loss) on investments</b>	(5,759,433)	6,728,685
<b>Increase (decrease) in net assets from operations for the year</b>	(8,803,539)	4,057,721
<b>Increase (decrease) in net assets from operations per series</b>		
Class A, Series I shares	(7,930,092)	3,662,874
Class A, Series II shares	(833,157)	390,042
Class A, Series III shares	(40,290)	4,805
<b>Earnings (losses) per share</b>		
Class A, Series I share	(1.25)	0.57
Class A, Series II share	(1.21)	0.63
Class A, Series III share	(1.82)	0.49

The accompanying notes are an integral part of these financial statements.



## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Net assets - Beginning of year</b>		
Class A, Series I shares	54,946,795	51,225,236
Class A, Series II shares	5,112,067	4,501,893
Class A, Series III shares	88,820	84,015
Class B shares	1	1
	60,147,683	55,811,14
<b>Increase (decrease) in net assets from operations per series</b>		
Class A, Series I shares	(7,930,092)	3,662,874
Class A, Series II shares	(833,157)	390,042
Class A, Series III shares	(40,290)	4,805
	(8,803,539)	4,057,721
<b>Capital transactions</b>		
Proceeds from issue		
Class A, Series I shares	1,532,708	660,141
Class A, Series II shares	981,235	269,854
Class A, Series III shares	191,081	-
Commissions paid to agents, Class A, Series I	(84,389)	(41,259)
Commissions paid to agents, Class A, Series II	(61,327)	(26,985)
Payments on redemption		
Class A, Series I shares	(5,152,039)	(859,775)
Class A, Series II shares	(89,596)	(38,891)
Surplus of stated capital over amounts		
Class A, Series I shares	1,012,579	285,683
Class A, Series II shares	15,193	7,516
Redemption fee charged		
Class A, Series I shares	18,438	13,895
Class A, Series II shares	5,016	8,638
	(1,631,101)	278,817
<b>Increase (decrease) in net assets</b>		
Class A, Series I shares	(10,602,795)	3,721,559
Class A, Series II shares	17,364	610,174
Class A, Series III shares	150,791	4,805
	(10,434,640)	4,336,538
<b>Net assets - End of year</b>		
Class A, Series I shares	44,344,000	54,946,795
Class A, Series II shares	5,129,431	5,112,067
Class A, Series III shares	239,611	88,820
Class B shares	1	1
	49,713,043	60,147,683

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating activities</b>		
Net investment loss for the year	(3,044,106)	(2,670,964)
Net change in non-cash balances related to operations	12,800	(638,185)
	(3,031,306)	(3,309,149)
<b>Investing activities</b>		
Proceeds from sale of short-term investments	93,149,364	34,405,795
Proceeds from sale of fixed-term investments	991,800	11,014,645
Proceeds from sale of venture investments	2,535,356	8,802,301
Purchase of short-term investments	(84,906,307)	(43,462,546)
Purchase of fixed-term investments	(2,490,800)	(5,085,040)
Purchase of venture investments	(4,853,131)	(2,443,502)
	4,426,282	3,231,653
<b>Financing activities</b>		
Proceeds from issue of Class A, Series I shares	1,532,708	660,141
Proceeds from issue of Class A, Series II shares	981,235	269,854
Proceeds from issue of Class A, Series III shares	191,081	-
Amounts paid for Class A, Series I shares redeemed	(4,139,460)	(574,093)
Amounts paid for Class A, Series II shares redeemed	(74,403)	(31,375)
Commissions to agents on distribution of shares	(145,716)	(68,243)
Redemption fees charged	23,454	22,533
	(1,631,101)	278,817
<b>(Decrease) increase in cash during the year</b>	(236,125)	201,321
<b>Cash - Beginning of year</b>	735,160	533,839
<b>Cash - End of year</b>	499,035	735,160

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS September 30, 2005 and 2004

### 1. FUND STATUS AND OPERATIONS

The Business, Engineering, Science & Technology Discoveries Fund Inc. (the "Fund") was incorporated under the laws of Canada by articles of incorporation dated November 21, 1996, amended December 31, 1996, amended January 30, 1998 and further amended December 21, 2001. The Fund is registered as a Labour Sponsored Investment Fund Corporation under the Community Small Business Investment Funds Act (Ontario) (the "CSBIF Act"). The Fund is taxable as a mutual fund corporation and is a prescribed Labour Sponsored Venture Capital Corporation under the Income Tax Act (Canada).

The Fund makes investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation.

The sponsor of the Fund is the International Federation of Professional and Technical Engineers - Local 164 (the "Sponsor").

Pursuant to a management agreement dated November 29, 1996, amended December 30, 1996, amended and restated effective October 1, 2000 and further amended and restated effective August 1, 2002 (the "Management Agreement"), B.E.S.T. Capital Management Limited (the "Manager") manages all aspects of the Fund. Effective September 1, 2003, the Management Agreement was assigned to B.E.S.T. Investment Counsel Limited (the "Management Advisor").

The Ontario Government announced on August 29, 2005 that it would end its involvement in the Labour Sponsored Investment Fund ("LSIF") tax credit program by harmonizing certain requirements to help funds move to a federal government sponsored LSIF program. The province will phase out the 15% tax credit by the end of the 2010 taxation year.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

A net asset value is calculated on every valuation date for each series of Class A shares. The net asset value of a particular series of shares is computed by calculating the value of the series' proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged to that series. Other expenses are allocated proportionately to each series based upon the relative net assets of each series.

The significant accounting policies are as follows:

#### Short-term and fixed-term investments

Short-term investments are valued at cost, which together with accrued interest approximates market value.

Bonds are valued based on quoted market prices. The difference between the market value and average cost of the bonds is recorded as an unrealized appreciation (depreciation) of investments.

Purchases and sales of marketable securities are recorded on a trade date basis.

#### Venture investments

Venture investments, having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on the quoted market prices.

Investments in securities not having quoted market values or in restricted securities are recorded at estimated fair market value. Estimated fair market value is determined on the basis of the expected realizable value of the venture investments if they were disposed of in an orderly fashion over a reasonable period of time. Details regarding the Fund's valuation methodology are included in its annual prospectus.

PricewaterhouseCoopers LLP ("PwC") are the Fund's independent auditors. As part of their audit of the September 30, 2005 financial statements, PwC performed certain procedures on the value of the Fund's venture investment portfolio as at September 30, 2005. The PwC personnel responsible for performing the procedures are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. They have no present or prospective financial interest in the securities of the Fund and the fees to be received by PwC are not contingent on the conclusions reached.

The procedures performed by PwC do not constitute an independent valuation (i.e., a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a "valuation service" as defined in The Canadian Institute of Chartered Accountants' independence requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation and regulation, to determine the value of the Fund's assets, the net asset value of the Fund and the Class A and Class B shares of the Fund.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

#### Management's estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The process of valuing venture investments for which no quoted market values exist is inevitably based on inherent uncertainties and the resulting values may be higher or lower by a material amount than those that would have been used had a ready market existed for the investments.

#### Commissions to agents on distribution of shares

Sales commission on Class A, Series I shares is 6.25% of the amount invested. Sales commission on Class A, Series II shares is 10.00% of

## NOTES TO FINANCIAL STATEMENTS (continued) September 30, 2005 and 2004

the amount invested, consisting of a 6.25% sales commission plus an additional 3.75% sales commission in lieu of any service fees being payable before the eighth anniversary of the date of issue of the Series II shares. No sales commission is payable on the sale of Class A, Series III shares.

Sales commissions related to the sale of Class A, Series I and Class A, Series II shares are charged to share capital as a share issuance cost.

Fees for early redemption of shares by shareholders are netted against the amounts paid on redemption of shares.

### Income recognition

Interest and other income are recorded on an accrual basis.

### Earnings (losses) per share

Earnings (losses) per share from operations are disclosed in the statements of operations and represent for each class of shares, the increase or decrease in net assets from operations for the period attributable to the class divided by the average number of shares of the class outstanding during the period.

Unlimited number of Class C shares, issuable in series, without voting rights, with discretionary dividend entitlement and with such other terms as the Board of Directors may determine in respect of a particular series. The issuance of Class C shares is subject to prior approval of the Ministry of Finance (Ontario).

### Issued for cash

	2005		2004	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A shares				
Series I				
Balance - Beginning of year	6,482,747	82,858,189	6,470,587	83,099,082
Issued during the year	173,819	1,532,708	80,265	660,141
Commissions to agents on distribution of shares	-	(84,389)	-	(41,259)
Redeemed during the year	(477,136)	(5,152,039)	(68,105)	(859,775)
Balance - End of year	6,179,430	79,154,469	6,482,747	82,858,189
Class A shares				
Series II				
Balance - Beginning of year	629,335	6,567,268	600,532	6,363,290
Issued during the year	110,560	981,235	32,500	269,854
Commissions to agents on distribution of shares	-	(61,327)	-	(26,985)
Redeemed during the year	(8,506)	(89,596)	(3,697)	(38,891)
Balance - End of year	731,389	7,397,580	629,335	6,567,268
Class A shares				
Series III				
Balance - Beginning of year	9,820	107,792	9,820	107,792
Issued during the year	21,130	191,081	-	-
Redeemed during the year	-	-	-	-
Balance - End of year	30,950	298,873	9,820	107,792
Class B shares				
Balance - Beginning of year	1	1	1	1
Issued during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Balance - End of year	1	1	1	1

### 3. SHARE CAPITAL

The following is a description of the authorized and issued share capital:

#### Authorized

Unlimited number of Class A shares, issuable in series, with voting rights, discretionary dividend entitlement, restrictions on transfer and redemption, redeemable at the net asset value less applicable early redemption fee. As approved by the shareholders on December 21, 2001, three series of Class A shares have been designated, the Series I shares, the Series II shares and the Series III shares (collectively the "Class A shares"). Each of the three series of Class A shares has a different sales commission, redemption fee and service fee structure. The rights of the Class A, Series I shares are the same in all material respects as the rights of the former Class A shares. The offering of Class A, Series II shares and Class A, Series III shares commenced on January 4, 2002.

25,000 Class B shares, issuable only to the Sponsor or permissible employee organizations, with voting rights, no dividend entitlement.

#### 4. MANAGEMENT FEES AND EXPENSES

The Fund pays an annual fee to the Manager to manage all aspects of the Fund. In consideration of the performance by the Manager of its duties, the Manager receives a fee of 1.50% per annum of the net asset value of the Fund and subject to meeting certain conditions, an Incentive Participation Amount ("IPA"). The Fund also pays the Management Advisor an annual fee of 1.75% of the net asset value of the Fund and subject to certain conditions, an IPA. The Manager and the Management Advisor will not be entitled to receive the IPA unless: (1) the compound annual internal rate of return, including realized and unrealized gains and income, from an eligible investment since its acquisition equals or exceeds 12.00% per year; (2) the total net realized and unrealized gains and income from the portfolio of eligible investments since January 1, 1997 have generated a return greater than the annualized average rate of return on five-year GICs offered by a Schedule 1 Canadian chartered bank plus 2.00%; and (3) the Fund has recouped an amount equal to all principal invested in the particular eligible investment.

Upon satisfying the above conditions, the IPA will be determined on the following basis:

The proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund after deducting the cost of such investment shall be allocated and paid as follows:

- The Fund shall receive an amount equal to all gains and income earned from each particular eligible investment which provides a cumulative investment return at an annual average rate equal to 12.00% since investment.
- The Management Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12.00% annual average rate of return up to and including 15.00% of the annual average rate of return earned from the particular eligible investment.
- All gains and income earned on each particular investment after deducting the amounts calculated in accordance with (a) and (b) above shall be allocated as to 80.00% to the Fund; 16.00% to the Management Advisor; and 4.00% to the Manager.

For the years ended September 30, 2005 and 2004, no IPA fees have been incurred.

During the year, the Fund paid registered dealers a service fee equal to 0.50% per annum of the net asset value of the Class A, Series I shares and 1.25% per annum of the net asset value of the Class A, Series III shares held by their clients.

The Fund pays the Sponsor a fee of 0.15% of the net asset value on an annual basis.

The Fund has retained Unisen Inc. to provide fund accounting, shareholder recordkeeping and administration services, including registrar and transfer agency services. The Fund pays Unisen Inc. a fund accounting fee at a fixed amount and shareholder recordkeeping and administration fees at a fixed amount per account.

The Fund and the Manager have retained the Management Advisor to provide sales and marketing services to the Fund pursuant to the terms of a sales and marketing services agreement dated July 10, 2003 effective August 1, 2003. The Fund pays the Management Advisor an annual sales and marketing fee (calculated daily and paid monthly in arrears) as follows: (i) the aggregate of 0.425% on the first \$50 million of the net asset value of the Fund, 0.40% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount

of the net asset value of the Fund above \$150 million, (ii) less \$96,000. Prior to August 1, 2003, the Fund and the Manager retained Clearview Investment Solutions Inc. to provide these services on the same terms.

The Fund and the Manager have also retained the Management Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the registrar pursuant to the terms of an accounting and administrative services agreement dated as of September 1, 2003. The Fund pays the Management Advisor an annual accounting and administrative fee (payable monthly in arrears) equal to \$96,000. From August 1, 2002 to August 31, 2003, the Fund and the Manager retained Carl Flintoff Services Inc. to provide these services on the same terms.

The Fund pays all direct costs and expenses incurred in the operation of the Fund, including directors' fees, custodian fees, insurance, legal, audit, valuation and marketing expenses.

#### 5. REALIZED LOSS ON SALE OF INVESTMENTS

The realized loss on sale of investments is as follows:

	2005 \$	2004 \$
Proceeds from sale of short-term investments	93,149,364	34,405,795
Proceeds from sale of fixed-term investments	991,800	11,014,645
Proceeds from sale of venture investments	2,535,356	8,802,301
	96,676,520	54,222,741
Less: Cost of investments sold		
Cost of investments - Beginning of year	62,758,039	66,546,703
Purchase of short-term investments	84,906,307	43,462,546
Purchase of fixed-term investments	2,490,800	5,085,040
Purchase of venture investments	4,853,131	2,443,502
	155,008,277	117,537,791
Investments, at cost - End of year	(57,968,185)	(62,758,039)
	97,040,092	54,779,752
Realized loss on sale of investments	(363,572)	(557,011)

#### 6. NET ASSET VALUE RECONCILIATION

Historically, the Fund had adopted the industry practice of amortizing the 6.25% sales commission paid on sales of Class A shares against retained earnings (deficit) and the 3.75% additional commission paid on sales of Series II shares to selling costs on a straight-line basis over a period of eight years.

As a result of changes in GAAP, financial statements of a labour-sponsored investment fund for any financial year beginning on or after October 1, 2003 may not use the deferral and amortization method in respect of the commissions to agents on distribution of

## NOTES TO FINANCIAL STATEMENTS (continued) September 30, 2005 and 2004

shares. Rather, sales commissions paid by labour-sponsored investment funds to registered dealers are now recorded as an immediate charge against the net asset value of the labour-sponsored investment fund through a reduction of share capital. The securities regulatory authorities in Ontario require labour-sponsored investment funds to follow GAAP requirements in preparing their financial statements. For transitional purposes, those securities regulatory authorities have issued a notice stating that, in determining the price at which shares of labour-sponsored funds are purchased and redeemed, a labour-sponsored investment fund may, on certain conditions, calculate the net asset value of its shares (the

"trading net asset value") by continuing to defer and amortize the sales commissions paid prior to January 1, 2004, and treating sales commissions paid on or after January 1, 2004 as an immediate reduction in the trading net asset value.

The adoption of the transition rules afforded by the securities regulatory authorities results in differences between the trading net asset value of the Class A shares and the net asset value of the Class A shares for the purposes of the Fund's financial statements (the "GAAP net asset value").

The reconciliation of the net asset value for trading purposes and the GAAP net asset value as at September 30, 2005 is as follows (NAVPS - net asset value per share, NAV - net asset value):

2005								
	Series I		Series II		Series III		Class B shares	Total
	NAVPS \$	NAV \$	NAVPS \$	NAV \$	NAVPS \$	NAV \$		
GAAP net asset value	7.18	44,344,000	7.01	5,129,431	7.74	239,611	1	49,713,043
Unamortized sales commissions	0.25	1,561,516	0.52	377,043	-	-	-	1,938,559
Trading net asset value	7.43	45,905,516	7.53	5,506,474	7.74	239,611	1	51,651,602

2004								
	Series I		Series II		Series III		Class B shares	Total
	NAVPS \$	NAV \$	NAVPS \$	NAV \$	NAVPS \$	NAV \$		
GAAP net asset value	8.48	54,946,795	8.13	5,112,067	9.04	88,820	1	60,147,683
Unamortized sales commissions	0.34	2,227,245	0.73	461,171	-	-	-	2,688,416
Trading net asset value	8.82	57,174,040	8.86	5,573,238	9.04	88,820	1	62,836,099

### 7. INCOME TAXES

Under the Income Tax Act (Canada), generally no income taxes are payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. A portion of the income taxes payable on net interest income earned by the Fund is also refundable on payment or deemed payment of taxable dividends to the shareholders.

The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A shares. If and to the extent that the Fund increases the paid-up capital of the Class A shares, a holder of the shares will be deemed to have received a dividend and the adjusted cost base of that holder's shares will be increased by the amount of the deemed dividend.

The CSBIF Act sets minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met, the Fund will be subject to defined income taxes and penalties.

As at September 30, 2005, the Fund had non-capital losses available for carry-forward of \$21,788,000 of which approximately \$920,000, \$938,000, \$3,961,000, \$4,004,000, \$4,682,000, \$3,611,000 and \$3,672,000 will expire in 2006, 2007, 2008, 2009, 2010, 2014 and 2015, respectively. No benefit of these losses has been recognized in the financial statements.

The Fund also had net capital losses available for carry-forward of \$7,106,000 as at September 30, 2005 for which no expiry time exists.

### 8. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the presentation adopted in the current year.







**B E S T Funds**

Building Equity & Shareholder Trust



## PROSPECTUS

*This prospectus constitutes a public offering of these securities only in Ontario and therein only by persons permitted to sell such securities. Neither the Ontario Securities Commission nor any other department or agency of the Government of Ontario has assessed the merits of an investment in the Fund and any representation to the contrary is an offence. The Ontario Securities Commission and the Government of Ontario make no recommendation concerning such an investment and assume no liability or obligation to any investor in these securities.*

Continuous Offering

January 18, 2006



[www.bestfunds.ca](http://www.bestfunds.ca)

# THE BUSINESS, ENGINEERING, SCIENCE & TECHNOLOGY DISCOVERIES FUND INC.

## THE B.E.S.T. DISCOVERIES FUND

### CLASS A SHARES, SERIES I, CLASS A SHARES, SERIES II AND CLASS A SHARES, SERIES III

The Business, Engineering, Science & Technology Discoveries Fund Inc. (the “Fund”) is registered as a labour sponsored investment fund corporation under the *Community Small Business Investment Funds Act* (Ontario), S.O. 1992, c.18, as amended (the “Ontario Act”) and, as a result, is a prescribed labour-sponsored venture capital corporation under the *Income Tax Act* (Canada), as amended (the “Federal Act”). The Fund is sponsored by the International Federation of Professional and Technical Engineers-Local 164 (the “Sponsor”). The Sponsor, through a wholly-owned subsidiary, holds the only issued and outstanding Class B Share of the Fund. The Fund is managed by B.E.S.T. Investment Counsel Limited (the “Manager”). The Fund has also retained B.E.S.T. Investment Counsel Limited (“BIC” or the “Management Advisor”) to source investments for the Fund’s investment portfolio, to provide sales and marketing services and to provide accounting and administrative services to the Fund. The Fund and the Manager have retained Citigroup Fund Services Inc. (the “Registrar”) to provide registrar, transfer agency, shareholder reporting, fund accounting and other shareholder administrative services. The Management Advisor supervises the services provided by the Registrar.

Continuous Offering Price – Net Asset Value Per Share Minimum Initial and Subsequent Subscriptions – \$1000 initially and \$50 subsequently
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Three series of Class A Shares of the Fund (the “Series I Shares”, the “Series II Shares” and the “Series III Shares”) are offered separately hereunder. Each Series I Share, Series II Share and Series III Share (collectively the “Class A Shares”) is offered for sale at the net asset value per Class A Share for the applicable series. The difference between the three series of Class A Shares is the different sales commission, redemption fee and service fee structures associated with each series. See “METHOD OF DISTRIBUTION”.

The primary objective of the Fund is to achieve long-term capital appreciation for holders of the Fund’s Class A Shares. The Fund’s investments are selected on the basis of various criteria including a review of industry economics, management capability, product or service competitiveness and growth potential. The Fund primarily maintains an investment focus on niche businesses and other companies with a broader market focus which are capitalizing on innovative uses of engineering, science and technology. The Fund diversifies its portfolio by investing in eligible

companies that are in differing stages of development in a variety of high potential industries, which, from time to time, may include telecommunications, information technology, computers and life sciences.

A transfer of Class A Shares is restricted. In general, the Fund may register or otherwise recognize a transfer of Class A Shares only if the transferor gives notice in writing to the Fund that the Class A Shares are being transferred to certain specified transferees. See “SHARE CAPITAL OF THE FUND – Class A Shares – Transfer”.

The Fund may declare such dividends on the Class A Shares from time to time out of monies legally available for dividends as may be appropriate. No dividends have been declared by the Fund since its inception.

**These securities are highly speculative in nature. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. There is no guarantee that an investment in Class A Shares will earn a specific rate of return or any return in the short or long term. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares. Although the Fund is a mutual fund, some of the rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund. In particular, compliance with rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply to the Fund. The phasing out of the Ontario Credit (defined below) may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of the funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares. See “RISK FACTORS”.**

On December 15, 2005, the Ontario government passed legislation to phase out the Ontario Credit over six years. Individuals (other than trusts that are not Qualifying Trusts (defined below)) resident in Canada who purchase Class A Shares of the Fund directly will be eligible for a federal tax credit (the “Federal Credit”) equal to 15% of the cost of the Class A Shares to a maximum of \$750 per year (based on an annual \$5,000 investment). In addition, individuals (other than trusts that are not Qualifying Trusts) resident in Ontario at the end of a particular year or otherwise taxable in Ontario, who purchase Class A Shares directly will be eligible for an Ontario tax credit (the “Ontario Credit”) equal to 15% of the cost of the Class A Shares, to a maximum credit of \$750 per year (based on an annual \$5,000 investment). Investors who purchase Class A Shares on or after January 1 and during the first 60 days of the 2006 calendar year may elect to have their Federal Credits and Ontario Credits apply in respect of the 2005 taxation year instead of the 2006 taxation year. See “INCOME TAX CONSIDERATIONS”.

Under the Federal Act and the Ontario Act, a trust governed by a RRSP may purchase Class A Shares directly where: (i) in the case of a non-spousal RRSP, the individual is the annuitant; and (ii) in the case of a spousal RRSP, the individual or the individual’s Spouse is the annuitant and no other person has claimed the Federal Credit in respect of the Class A Shares (a “Qualifying Trust”). In such circumstances, the individual is entitled to the Ontario Credits and Federal Credits in respect of the Class A Shares.

An individual may also purchase Class A Shares and transfer the Class A Shares to a RRSP under which the individual or his or her Spouse is the annuitant. The individual may generally claim a deduction from income in accordance with the RRSP contribution limits in the Federal Act where the individual caused the Qualifying Trust to purchase the Class A Shares or transferred the Class A Shares to a RRSP. This deduction from income is in addition to the Federal Credits and Ontario Credits referred to above. An individual who purchases Class A Shares and transfers these shares to a trust governed by a RRIF under which the individual or his or her Spouse is the annuitant is also entitled to the Federal Credits and Ontario Credits referred to above. See “INCOME TAX CONSIDERATIONS”.

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, so long as the Fund is registered as a labour sponsored investment fund corporation under the Ontario Act at the time the Class A Share is acquired by the RRSP or RRIF and subject to qualifications as discussed under the heading “INCOME TAX CONSIDERATIONS – Federal Income Tax Considerations – Transfer of Class A Shares to and Holding Class A Shares through RRSPs and RRIFs” and “ELIGIBILITY FOR INVESTMENT”, Class A Shares are qualified investments for RRSPs and RRIFs provided the annuitant owns, or is a member of a related group that owns, directly or indirectly, less than 10% of the issued shares of any class or series of the Fund or any other corporation related to the Fund or if the annuitant owns, directly or indirectly, 10% or more of such shares, the cost to such holder of the shares is less than \$25,000 and the annuitant deals at arm’s length with the Fund. In determining whether these 10% and \$25,000 limits are exceeded, the annuitant may be deemed to own shares held by non-arm’s length persons and certain other entities or that may be acquired by virtue of certain purchase rights, whether they be absolute or contingent, present or future.

The Fund may have liability for the repayment of tax credits in certain circumstances. In most cases investors must repay any tax credit received under the Federal Act and the Ontario Act if such Class A Shares are sold or redeemed within eight years of purchase. Under the Ontario Act, any Class A Share issued in February or March that is redeemed in February or on March 1 is deemed to be redeemed on March 31. In addition, a holder who wishes to redeem Series I Shares or Series II Shares within eight years from the date on which such shares are issued will be charged an early redemption fee payable to the Fund. Once Class A Shares have been held for eight years, investors will generally be able to request the Fund redeem their Class A Shares at any time at the Net Asset Value per Series I Share, the Net Asset Value per Series II Share, or the Net Asset Value per Series III Share as applicable. In any financial year, the Fund is not required to, but may at its option if sufficient liquid assets are available, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund calculated as of the last day of the preceding financial year. See “REDEMPTION OF CLASS A SHARES”.

In addition to this prospectus, investors are entitled to receive, upon request and when they are available, audited annual financial statements of the Fund for its last completed financial year, semi-annual financial statements for the current financial year and annual and semi-annual management reports of fund performance. Investors should read this prospectus and review the financial statements and management reports of fund performance carefully before making an investment decision. Careful consideration should be given to the risk factors associated with making an investment in the Fund. See “RISK FACTORS”. Investors should also consult with a professional advisor prior to making an investment in the Class A Shares.

Mutual funds generally value their investments at the closing market price at which they can be bought and sold. Although the value of the Fund’s assets is determined on a quarterly basis by the Board of Directors these values may not reflect the prices at which the investments can actually be sold, particularly after taking into account associated selling costs such as sales commissions and legal fees. See “VALUATION OF INVESTMENTS”.

There are restrictions imposed by applicable law on the redemption and transfer of Class A Shares. Investors may not be able to sell their Class A Shares as there is no formal market, such as a stock exchange, through which Class A Shares may be sold. See “SHARE CAPITAL OF THE FUND”.

There is no direct sales charge to investors on the purchase of Class A Shares, however, the Fund will pay a sales commission and service fees to registered dealers selling such Class A Shares as follows:

Series I Shares: A commission of 6.25% of the original issue price is paid by the Fund to registered dealers selling Series I Shares. In addition, such dealers are paid a service fee equal to 0.50% annually of the Net Asset Value of the Series I Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

Series II Shares: A commission of 10% of the original issue price is paid by the Fund to registered dealers selling Series II Shares. After the eighth anniversary of the date of issue of the Series II Shares such dealers will be paid a service fee equal to 0.50% annually of the Net Asset Value of the Series II Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

Series III Shares: No commission is paid to registered dealers selling Series III Shares. In lieu of a commission the Fund pays to such registered dealers an annual service fee of 1.25% of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears for the first eight years from the date of issue. After the eighth anniversary of the date of issue of the Series III Shares such dealers will be paid a service fee equal to 0.50% annually of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

As a result of the implementation of Section 1100 of the CICA handbook, it is no longer acceptable, in financial statements issued in accordance with Generally Accepted Accounting Principles (GAAP), for labour sponsored funds to defer and amortize commissions paid on the sale of shares. As a result, commissions on the sale of Class A, Series I and Class A, Series II shares issued will be charged to share capital as a share issue cost as they occur. In conjunction with these changes in GAAP, the Ontario Securities Commission issued Staff Notice 81-706 to provide exemptive relief for the transition from the deferral and amortization method to the direct charge method. Under this relief, any unamortized balance in the deferred account as at December 31, 2003 will continue to be amortized in accordance with the previously established amortization method in the calculation of the Net Asset Value per share for sales and redemptions of shares (the “Pricing NAV”). As a result, the Pricing NAV per share will differ from the calculation of the Net Asset Value per share under GAAP for a period of up to eight years. It is expected that all other elements of the calculation of the Pricing NAV will be in accordance with GAAP.

As at December 31, 2005, the Fund had 6,086,452.169 Series I Shares, 730,734.488 Series II Shares, 30,949.812 Series III Shares, one Class B Share and no Class C Shares issued and outstanding.

Class A Shares are offered for sale through registered dealers in Ontario. The offering price per Class A Share is equal to the Net Asset Value per Class A Share for the applicable series. Determination of the Net Asset Value per share for each series of Class A Shares is made not less frequently than on a weekly basis. See "METHOD OF DISTRIBUTION".

## SUMMARY OF FEES AND EXPENSES

### Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data

#### Type and Amount of Fee

#### Description

##### **Management Fee (Annually)**

1.5% of Net Asset Value of the Fund; plus 4% of gains and income realized on eligible investments in excess of a 15% average annual rate of return, subject to satisfying certain performance conditions.

For managing, operating and administering the Fund. The annual management fee is calculated and paid monthly in arrears. The annual performance fee is calculated and, if payable, paid quarterly in arrears.

See “MANAGEMENT COMPENSATION – Management Fees” and “MANAGEMENT COMPENSATION – Performance Fees”.

##### **Management Advisor Fee (Annually)**

1.75% of Net Asset Value of the Fund; plus 100% of gains and income realized on eligible investments in excess of a 12% annual average rate of return to a 15% annual average rate of return, plus 16% of gains and income realized on eligible investments in excess of the 15% annual average rate of return, subject to satisfying certain performance conditions.

For advising on the Fund’s investments. The annual management advisory fee is calculated and paid monthly in arrears. The annual performance fee is calculated and, if payable, paid quarterly in arrears.

See “MANAGEMENT COMPENSATION – Management Advisor Fees”, “MANAGEMENT COMPENSATION – Performance Fees”.

##### **Sponsorship Fee (Annually)**

0.15% of Net Asset Value of the Fund

The Fund pays the Sponsor, through a wholly-owned subsidiary, an annual sponsorship fee calculated and paid monthly in arrears.

See “THE SPONSOR”.

##### **Sales Commissions (Paid at the time of investment)**

6.25% of the selling price of Series I Shares; 10% (being a 6.25% sales commission plus an additional 3.75% commission in lieu of any service fees payable before the eighth anniversary of the date of issue of the shares) of the selling price of Series II Shares; nil for Series III Shares.

Investors who purchase Class A Shares will not pay any sales commissions directly. The Fund pays a sales commission to registered dealers on sales of Class A Shares.

See “SUMMARY OF FEES AND EXPENSES – Summary of Dealer Compensation – Service Fees”

##### **Service Fees (Annually)**

Series I: 0.50% annually of the Net Asset Value of Series I Shares held by clients.

The Fund pays to registered dealers selling Class A Shares annual service fees for so long as those shares are outstanding. The services fees are calculated daily and paid quarterly in arrears.

See “METHOD OF DISTRIBUTION – Additional Dealer Compensation”.

Series II: No service fee is paid before the eighth anniversary of date of issue; after the eighth anniversary of issue, 0.50% annually of the Net Asset Value of Series II Shares held by clients.

Series III: 1.25% annually of the Net Asset Value of Series III Shares held by clients for first eight years from the issue date, and 0.50% annually of the Net Asset Value of Series III Shares held by clients thereafter.

**Type and Amount of Fee****Description****Sales, Marketing and Administration  
Fees and Commissions  
(Annually)**

Sales and Marketing: 0.425% of first \$50 million Net Asset Value of Fund, plus 0.4% on next \$50 million, plus 0.375% on next \$50 million, plus 0.35% on any Net Asset Value of Fund above \$150 million, less \$96,000.

Accounting and Administration: \$96,000

The Fund has retained the Registrar to provide registrar, transfer agency, shareholder reporting, fund accounting and other shareholder administrative services. The Fund pays the Registrar an amount based upon the number of accounts plus other administrative fees.

The annual sales and marketing fee, payable to the Management Advisor, is calculated on a daily basis and paid monthly in arrears.

The annual accounting and administrative fee is payable to the Management Advisor monthly in arrears.

See "SHAREHOLDER FINANCIAL REPORTING".

**Other Fees and Expenses  
(As incurred)**

The Fund pays all of its operating expenses, including legal, audit and valuation costs, sales commissions and expenses and the fees payable to the Manager out of working capital, which includes income earned on investments and the shareholders' capital of the Fund. The Fund has retained CIBC Mellon Global Securities Services Company (and certain of its affiliates), as custodian (the "Custodian") and pays for custodial services on a direct cost basis. The Fund, from time to time, retains registered investment dealers to execute liquid portfolio trades and the Fund pays for such services on a direct cost basis.

See "OPERATING EXPENSES" and "IMPLEMENTATION OF INVESTMENT STRATEGY AND MONITORING – Liquid Investments".

**Management Expense Ratio**

2005 (including commissions)

6.76% for Series I Shares

8.18% for Series II Shares

6.84% for Series III Shares

2005 (before commissions)

6.61% for Series I Shares

6.55% for Series II Shares

6.84% for Series III Shares

2004 (including commissions)

6.34% for Series I Shares

7.26% for Series II Shares

6.94% for Series III Shares

2004 (before commissions)

6.26% for Series I Shares

6.74% for Series II Shares

6.94% for Series III Shares

2003 (before commissions)

6.75% for Series I Shares

6.50% for Series II Shares

7.41% for Series III Shares

2002 (before commissions)

6.75% for Series I Shares

6.82% for Series II Shares

7.68% for Series III Shares

2001 (before commissions)

6.55% for Class A Shares

The management expense ratio is based on total expenses, including all fees and expenses paid or payable on the statement of operations, including interest charges, Goods and Services Tax, capital tax, performance fees, if applicable, and selling costs, excluding deferred charges amortized to retained earnings. Because of the nature of the investments that the Fund makes, it is anticipated that the management expense ratio for the Series I Shares, Series II Shares and Series III Shares of the Fund will continue to be higher than that of conventional mutual funds.

See "OPERATING EXPENSES".

**Type and Amount of Fee****Sales Incentives  
(As incurred)****Annual Returns  
(Not compounded)**

2005

-15.76% for Series I Shares

-15.01% for Series II Shares

-14.38% for Series III Shares

2004

5.50% for Series I Shares

5.48% for Series II Shares

5.61% for Series III Shares

2003

-17.52% for Series I Shares

-17.14% for Series II Shares

-16.33% for Series III Shares

2002

-10.14% for Series I Shares

-9.64% for Series II Shares

-8.68% for Series III Shares

2001

-24.70% for Class A Shares

**Description**

The Fund or the Manager may enter into co-operative advertising programs with registered dealers providing for the reimbursement of expenses incurred by the registered dealers in promoting sales of Class A Shares. The Manager or the Fund pays no more than 50% of such expenses.

See "METHOD OF DISTRIBUTION – Additional Dealer Compensation".

This information shows the annual performance of the Fund for each of the financial years shown. How the fund has performed in the past does not necessarily indicate how it will perform in the future.

### **Summary of Investor Expenses**

**Sales Commissions**

There is no direct sales charge to investors on the purchase of Class A Shares. Sales commissions are paid indirectly by the investor through the Fund, which pays sales commissions out of the proceeds from the sale of Class A Shares.

See “METHOD OF DISTRIBUTION” and “OPERATING EXPENSES”.

**Early Redemption Fee**

An early redemption fee (deferred sales charge) must be paid to the Fund by purchasers of the Class A Shares as follows:

Series I Shares: one eighth of 6.25% of the redemption price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue.

Series II Shares: 1.25% of the redemption price of such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue.

Series III Shares: No early redemption fee is payable upon redemption of the Series III Shares.

See “REDEMPTION OF CLASS A SHARES”.

**Transfer Fee**

Nil.

See “SHARE CAPITAL OF THE FUND – Class A Shares – Transfer”.



### **Summary of Dealer Compensation**

#### **Sales Commissions**

The Fund pays a sales commission to registered dealers on sales of Class A Shares as follows:

Series I Shares: A commission of 6.25% of the original issue price is paid by the Fund to registered dealers selling Series I Shares.

Series II Shares: A commission of 10% of the original issue price is paid by the Fund to registered dealers selling Series II Shares. The commission consists of a 6.25% sales commission plus an additional 3.75% sales commission of the original issue price of the Series II Shares. The 3.75% commission is in lieu of any service fees payable before the eighth anniversary of the date of issue of the shares.

Series III Shares: No commission is paid to registered dealers selling Series III Shares.

See “SUMMARY OF FEES AND EXPENSES – Summary of Dealer Compensation – Service Fees”.

#### **Service Fees**

The Fund pays to registered dealers selling Class A Shares service fees as follows:

Series I Shares: A service fee equal to 0.50% annually of the Net Asset Value of the Series I Shares held by the customers of the sales representatives of the dealers, calculated daily and paid quarterly in arrears.

Series II Shares: No annual service fee is paid to registered dealers of Series II Shares for the first eight years from the date of issue. After the eighth anniversary of the date of issue of the Series II Shares such dealers will be paid a service fee equal to 0.50% annually of the Net Asset Value of the Series II Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

Series III Shares: A service fee equal to 1.25% annually of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the dealers, calculated daily and paid quarterly in arrears for the first eight years after the date of issue. After the eighth anniversary of the date of issue of the Series III Shares such dealers will be paid a service fee equal to 0.50% annually of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

#### **Sales Incentive**

The Fund or the Manager may enter into co-operative advertising programs with registered dealers providing for the reimbursement of expenses incurred by the registered dealers in promoting sales of Class A Shares. The Manager or the Fund pays no more than 50% of such expenses.

See “METHOD OF DISTRIBUTION – Additional Dealer Compensation”.

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## SELECTED DEFINITIONS

“**Board of Directors**” means the board of directors of the Fund;

“**Business Day**” means a day other than a Saturday, a Sunday or a public holiday on which the banks are not open for business in Toronto, Ontario;

“**CRA**” means the Canada Revenue Agency;

“**Cut-Off Date**” means, in any given year, the last day on which Class A Shares of a Labour-Sponsored Venture Capital Corporation or a Labour Sponsored Investment Fund may be acquired so as to entitle the purchaser to a federal and Ontario tax credit (for purchasing such Class A Shares) for the preceding year;

“**Federal Act**” means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.), as amended, together with the regulations thereunder;

“**Investment Portfolio**” means, at any point in time, investments of the Fund in eligible businesses;

“**Labour-Sponsored Venture Capital Corporation**” means a prescribed labour-sponsored venture capital corporation under the Federal Act;

“**Labour Sponsored Investment Fund Corporation**” means a labour sponsored investment fund corporation registered under the Ontario Act;

“**Liquid Investments**” means, at any point in time, investments of the Fund in Reserves;

“**Net Asset Value of the Fund**” means the value of the Fund’s assets minus the value of the Fund’s liabilities, as determined in the manner described under the heading “VALUATION OF INVESTMENTS”;

“**Net Asset Value per Series I Share**” is the amount at which a Series I Share is issued or redeemed as determined in the manner described under the heading “VALUATION OF INVESTMENTS – Valuation of Assets – Calculation of Net Asset Value per Share”;

“**Net Asset Value per Series II Share**” is the amount at which a Series II Share is issued or redeemed as determined in the manner described under the heading “VALUATION OF INVESTMENTS – Valuation of Assets – Calculation of Net Asset Value per Share”;

“**Net Asset Value per Series III Share**” is the amount at which a Series III Share is issued or redeemed as determined in the manner described under the heading “VALUATION OF INVESTMENTS – Valuation of Assets – Calculation of Net Asset Value per Share”;

“**Ontario Act**” means the *Community Small Business Investment Funds Act* (Ontario) S.O. 1992, c.18, as amended, together with the regulations thereunder;

“**Ontario Tax Act**” means the *Income Tax Act* (Ontario) R.S.O. 1990, c.I.2 as amended, together with the regulations thereunder;

“**Portfolio Company**” or “**Portfolio Companies**” means an eligible business or eligible businesses in which the Fund has made an investment;

“**Qualifying Trust**” for an individual resident in Ontario means a trust that is governed by a RRSP where: (i) in the case of a non-spousal RRSP, the individual is the annuitant; and (ii) in the case of a spousal RRSP, the individual or the individual’s Spouse is the annuitant and no other person has claimed the federal tax credit in respect of the Class A Shares;

“**RRIFs**” means registered retirement income funds, as defined in Subsection 146.3(1) of the Federal Act;

“**RRSPs**” means registered retirement savings plans, as defined in Subsection 146(1) of the Federal Act;

“**Reserves**” means Canadian dollars in cash or on deposit with qualified Canadian financial institutions, debt obligations of or guaranteed by the Canadian federal government, debt obligations of provincial and municipal governments, Crown corporations and corporations listed on prescribed Canadian stock exchanges, guaranteed

investment certificates issued by Canadian trust companies, qualified investment contracts or any other prescribed investments, as defined in the Ontario Act;

“**Securities Act**” means the *Securities Act* (Ontario), R.S.O. 1990, c. S.5, as amended, together with all regulations and rules thereunder;

“**Spouse**” means a spouse as defined in the Federal Act, the Ontario Act or the Ontario Tax Act, as the context requires, and references to spouse includes a reference to common-law partner as defined in the Federal Act, the Ontario Act and the Ontario Tax Act, as the context requires; and

“**Tax Credit Certificate**” means the certificate issued, pursuant to Subsection 25(5) of the Ontario Act, to an individual (other than a trust) who has purchased Class A Shares in the capital of a Labour Sponsored Investment Fund Corporation or has caused a Qualifying Trust to purchase the Class A Shares.

## **ELIGIBILITY FOR INVESTMENT**

### **Registered Plans**

In the opinion of McMillan Binch Mendelsohn LLP, a Class A Share will generally be a qualified investment for a RRSP, including a locked-in retirement account, or (subject to the following paragraph) a RRIF, including a life income fund, provided that (i) at the time the Class A Share is acquired by the trust, the Fund is a Labour Sponsored Venture Capital Corporation under the Federal Act (which includes a corporation registered as a Labour Sponsored Investment Fund Corporation), (ii) immediately after the time the Class A Share was acquired by the trust, each annuitant and each beneficiary, if any of the RRSP or RRIF is not a “connected shareholder” of the Fund, and (iii) the RRSP or RRIF does not receive an amount in respect of the Class A Share which may reasonably be considered to be on account of or in lieu or in satisfaction of payment for services to or for the Fund or a person related to the Fund or in respect of the acquisition of goods or services from the Fund or a person related to the Fund. An annuitant or beneficiary will generally be a connected shareholder of the Fund if the annuitant or beneficiary owns, directly or indirectly, 10% or more of the issued shares of any class or series of the Fund or of any corporation related to the Fund. For these purposes a taxpayer is deemed to own shares owned by any other persons with whom he or she does not deal at arm’s length for the purposes of the Federal Act, his or her proportionate share of shares owned by a partnership of which he or she is a member, and all or part of the shares owned by a trust of which he or she is a beneficiary, depending on the terms of the trust. An annuitant or beneficiary will not be a connected shareholder of the Fund if the annuitant or beneficiary deals at arm’s length with the Fund and the cost amount (normally the adjusted cost base) of all shares of the Fund or of any corporation related to the Fund owned by the annuitant (or deemed to be owned by the annuitant) is less than \$25,000. For purposes of determining whether an annuitant or beneficiary is a connected shareholder of the Fund, a right to acquire a share is treated as a share, whether the right is absolute or contingent, or present or future, and the cost amount of a right is treated as if it were the cost amount of the share. See “INCOME TAX CONSIDERATIONS”.

Although, as described above, Class A Shares will generally be qualified investments for RRIFs, an RRIF is not permitted to subscribe directly for Class A Shares and may generally only acquire such shares from certain RRSPs or other RRIFs.

## PROSPECTUS SUMMARY

*The following is a summary only and reference is made to more detailed information appearing elsewhere in this prospectus.*

**The Fund:** The Business, Engineering, Science & Technology Discoveries Fund Inc. (the “Fund”) is a corporation incorporated under the laws of Canada and is registered as a Labour Sponsored Investment Fund Corporation under the Ontario Act.

The business of the Fund is restricted to assisting the development of eligible businesses and to creating, maintaining and protecting employment by making investments in such businesses and, when capital is not invested in eligible businesses, investing in Liquid Investments. The primary objective of the Fund is to achieve long-term capital appreciation for holders of the Fund’s Class A Shares. The Fund invests in equity and equity-related securities, such as preferred shares and debt obligations which are convertible into equities, of eligible businesses which have the greatest potential for long-term growth. The Fund primarily maintains an investment focus on niche businesses and other companies with a broader market focus which are capitalizing on innovative uses of engineering, science and technology. The Fund diversifies its portfolio by investing in eligible companies that are in differing stages of development in a variety of high potential industries, which from time to time may include telecommunications, information technology, computers and life sciences. The Fund’s investments are selected on the basis of various criteria including a review of industry economics, management capability, product or service competitiveness and growth potential. The Fund is subject to certain investment restrictions under the Ontario Act. Capital not invested in eligible businesses is invested in Liquid Investments and used for the general corporate purposes of the Fund. See “INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND”.

**Minimum Investment:** The minimum initial subscription is \$1,000 and minimum subsequent subscriptions are increments of \$50 to a maximum of 10% of the Net Asset Value of the Fund. The Fund may waive minimum initial and subsequent subscription amounts in order to accommodate pre-authorized contribution plans established by registered dealers. See “PURCHASE OF CLASS A SHARES”.

**The Manager:** The Fund entered into a management agreement with B.E.S.T. Capital Management Ltd. dated August 1, 2002 which was assigned to B.E.S.T. Investment Counsel Limited (“BIC” or the “Manager”) effective September 1, 2003 (the “Management Agreement”). Pursuant to the Management Agreement, BIC is responsible for all aspects of the management, operation and administration of the Fund all subject to the direction and control of the Board of Directors. See “THE MANAGER”.

**Management Advisor:** BIC (also referred to herein as the “Management Advisor”) has been retained as the management advisor by the Fund pursuant to an agreement dated August 1, 2002 (the “Management Advisor Agreement”). The Management Advisor identifies, screens, monitors and manages the Fund’s investments. It is actively involved with investee companies, including sitting on the board of directors of investee companies. The Management Advisor makes investment recommendations to the Fund concerning the timing, terms and methods of acquisition and disposition of investments in eligible businesses. See “THE MANAGEMENT ADVISOR”.

**Administration:** The Fund has retained Citigroup Fund Services Inc. (the “Registrar”) to provide registrar, transfer agency, shareholder reporting, fund accounting and other shareholder administrative services. The Fund has retained the Management Advisor to provide certain sales and marketing services, accounting and administrative services to the Fund and to supervise services provided by the Registrar. See “SHAREHOLDER FINANCIAL REPORTING”.

**The Sponsor:** The sponsor of the Fund is the International Federation of Professional and Technical Engineers – Local 164 (the “Sponsor”). The International Federation of Professional and Technical Engineers is an international union representing approximately 80,000 members including approximately 6,000 members in Ontario and approximately 120 members in

Local 164. The Sponsor, through a wholly-owned subsidiary 1208733 Ontario Inc., holds the only issued and outstanding Class B Share of the Fund. The Fund has six directors and the Sponsor is currently entitled to elect four of such directors. Pursuant to an agreement between the Sponsor, its wholly-owned subsidiary (1208733 Ontario Inc.), the Manager and the Fund (the “Sponsor Agreement”), the Sponsor has agreed to support the election of directors on the basis that two directors will be nominated by the Sponsor, two directors will be nominated by the Sponsor upon the recommendation of the Manager, and that the remainder of the directors will be elected by the holders of Class A Shares. The Sponsor is paid an annual fee equal to 0.15% of the Net Asset Value of the Fund, calculated and paid monthly in arrears. While members of the Sponsor may subscribe for Class A Shares, neither the Sponsor nor its members are required to make any investment in the Fund. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsor. See “THE SPONSOR” and “SHARE CAPITAL OF THE FUND”.

**The Custodian:** The Fund has retained CIBC Mellon Global Securities Services Company and certain of its affiliates (the “Custodian”) to act as custodian of the Fund’s Investment Portfolio and the Reserves.

**Offered Securities:** Series I Shares, Series II Shares and Series III Shares of the Fund are being offered, each being a separate series of the Class A Shares. Series I Shares, Series II Shares and Series III Shares will be issued only to individuals (other than trusts) and to certain RRSPs. Each of the three series of Class A Shares has a different sales commission, redemption fee and service fee structure. See “SHARE CAPITAL OF THE FUND”.

Series I Shares, Series II Shares and Series III Shares are offered on a continuous basis at the Net Asset Value per Series I Share, Net Asset Value per Series II Share and Net Asset Value per Series III Share respectively, as of the next valuation of the Fund. The Net Asset Value per Series I Shares, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share are determined not less frequently than on a weekly basis. See “VALUATION OF INVESTMENTS”.

**Valuation:** The Board of Directors is responsible for determining the value of the Fund’s investments in accordance with the policies of the Fund as set out herein. As of the last day of March, June, September and December in each year, the Board of Directors determines the value (the “Quarterly Valuation”) of the Fund’s assets, on the basis of policies and procedures developed and approved by the Board of Directors for determining the estimated fair market value of such assets. The Fund updates the Quarterly Valuations on the last Business Day of each week prior to the next Quarterly Valuation and at such other times as the Chief Executive Officer and the Chief Financial Officer of the Fund may in their discretion deem appropriate (“Weekly Valuation Update”). The Weekly Valuation Updates will be based on the most recent Quarterly Valuation and will take into account any material change in the assets of the Fund. See “VALUATION OF INVESTMENTS”.

**Use of Proceeds:** The proceeds of this offering are invested in small and medium-sized eligible Canadian businesses engaged in the engineering, science, and technology sectors and all operating expenses of the Fund are paid out of the Fund’s working capital, which includes the proceeds of this offering.

**Transfer:** A transfer of Class A Shares is restricted. In general, the Fund may register or otherwise recognize a transfer of Class A Shares only if the transferor gives notice in writing to the Fund that the Class A Shares are being transferred to certain specified transferees. See “SHARE CAPITAL OF THE FUND – Class A Shares – Transfer”.

**Dividend Policy:** The Fund may declare such dividends on the Class A Shares from time to time out of monies legally available for dividends as may be appropriate. No dividends have been declared by the Fund since its inception.

**Redemptions:** There are restrictions on the redemption of Class A Shares. Except in certain special circumstances, a holder who wishes to redeem Class A Shares within eight years after the date on which such shares are issued will be subject to certain taxes generally equal to Federal

Credits (defined below) and Ontario Credits (defined below) received on the purchase of such Class A Shares. Under the Ontario Act, any Class A Share issued in February or March that is redeemed in February or on March 1 is deemed to be redeemed on March 31. In addition, a holder who wishes to redeem Series I Shares or Series II Shares within eight years from the date on which such shares are issued will be charged an early redemption fee payable to the Fund. The redemption fee payable upon redemption of the Series I Shares is one eighth of 6.25% of the redemption price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue. The redemption fee payable upon redemption of the Series II Shares is 1.25% of the redemption price of such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue. No such redemption fee is payable upon redemption of Series III Shares. No redemption fee is payable upon redemption of a Series I Share or Series II Share where the redemption occurs after the eighth anniversary of the date of issue of such shares. In any financial year, the Fund is not required to, but may at its option if sufficient liquid assets are available, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund calculated as of the last day of the preceding financial year. See "REDEMPTION OF CLASS A SHARES".

**Tax Benefits:**

On December 15, 2005, the Ontario government passed legislation to phase out the Ontario provincial tax credit over six years. Individuals (other than trusts that are not Qualifying Trusts (defined herein)) resident in Canada who purchase Class A Shares of the Fund directly will be eligible for a federal tax credit (the "Federal Credit") equal to 15% of the cost of the Class A Shares to a maximum of \$750 per year (based on an annual \$5,000 investment). In addition, individuals (other than trusts that are not Qualifying Trusts) resident in Ontario at the end of a particular year or otherwise taxable in Ontario, who purchase Class A Shares directly will be eligible for an Ontario tax credit (the "Ontario Credit") equal to 15% of the cost of the Class A Shares, to a maximum credit of \$750 per year (based on an annual \$5,000 investment). Investors who purchase Class A Shares on or after January 1 and during the first 60 days of the 2006 calendar year may elect to have their Federal Credits and Ontario Credits apply in respect of the 2005 taxation year instead of the 2006 taxation year. To claim the Ontario Credit, an investor must file with his or her tax return the Tax Credit Certificate issued to him or her in respect of the acquisition of Class A Shares. See "INCOME TAX CONSIDERATIONS".

The maximum Federal Credits and Ontario Credits apply in respect of an individual's aggregate purchase of Class A Shares issued by prescribed Labour-Sponsored Venture Capital Corporations and by Labour Sponsored Investment Fund Corporations, respectively.

Under both the Federal Act and Ontario Act, a Qualifying Trust for an individual may purchase Class A Shares. In such circumstances, the individual will be entitled to claim the Ontario Credits and Federal Credits in respect of the Class A Shares acquired by the Qualifying Trust. In addition, an individual who purchases Class A Shares and elects to transfer such Class A Shares to a RRSP under which the individual or his or her Spouse is the annuitant may be entitled to treat such transfer as a deductible contribution to the RRSP, subject to the contribution limits in the Federal Act. Any deduction from income arising from a contribution to a RRSP is in addition to the Federal Credits and Ontario Credits referred to above. See "INCOME TAX CONSIDERATIONS".

The Fund may have liability for the repayment of tax credits in certain circumstances. In most cases investors must repay any tax credit received under the Federal Act (defined herein) and the Ontario Act if such Class A Shares are sold or redeemed within eight years of purchase. Under the Ontario Act, any Class A Share issued in February or March that is redeemed in February or on March 1 is deemed to be redeemed on March 31. Once Class A Shares have been held for eight years, investors will generally be able to request the Fund redeem their Class A Shares at any time at the Net Asset Value per Series I Share, the Net Asset Value per Series II Share, or the Net Asset Value per Series III Share as applicable. See "REDEMPTION OF CLASS A SHARES".

**Risk Factors:**

These securities are highly speculative in nature. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long



period of time and who have the capacity to absorb a loss of some or all of their investment. There are restrictions on the redemption of Class A Shares. Class A Shares may not be transferred except in certain limited circumstances. In any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund calculated as of the last day of the preceding financial year. See "SHARE CAPITAL OF THE FUND". There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or the long term. There is no formal market, such as a stock exchange, through which Class A Shares may be sold and none is expected to develop. Investors in Class A Shares will be relying upon the business judgment, expertise and integrity of the Board of Directors and on the Manager. The values the Fund places on its investments may not reflect the amounts for which they can actually be sold. Many of the businesses that the Fund will invest in are developing products which will require significant additional development, testing and investment prior to any final commercialization and therefore should be considered early stage investments with greater levels of risk than investments typically made by other investment funds. There can be no assurance that such products will be successfully developed, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed. Investments will be made by the Fund from time to time based upon covenants by investee companies that the proceeds of such investments will be used for purposes permitted by the Ontario Act. In the event the investee company does not use the proceeds for such purposes, the Fund may be subject to certain penalties. There is no assurance that sufficient suitable investments in eligible businesses will be found in order for the Fund to continue to fulfil its investment objective within prescribed time periods. As a result, the Fund may be subject to certain penalty taxes and, if the Fund's registration is revoked, investors who acquire Class A Shares after the revocation will not be eligible for Federal Credits or Ontario Credits. Changes may be introduced to federal or Ontario legislation providing for tax credits for investments in the Fund which, if unfavourable, could impair the Fund's investment performance and its ability to attract future investment capital. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares. Many of the rules normally applicable to mutual funds operating in Ontario are not applicable to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply. The Fund may take positions in small and medium-sized businesses which represent a larger percentage of equity than a mutual fund would normally be permitted to take, and this may increase the risk per investment. Venture capital investments in eligible Canadian businesses according to the investment restrictions and policies applicable to the Fund requires a greater commitment to investment analysis than investments in most other securities. In addition, the cost to determine the value of the Fund's assets for which no published market exists will be greater than valuation costs for mutual funds which primarily invest in listed securities. Consequently the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles. Investors should consult with a professional advisor. The Class A Shares are issuable in series. Depending upon the performance of the Investment Portfolio, the Series I Shares, the Series II Shares, and the Series III Shares may achieve different returns. The phasing out of the Ontario Credit may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of the funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares. See "RISK FACTORS".

## INCOME TAX SENSITIVITY ANALYSIS

The following table provides a sensitivity analysis of the total Federal Credits and Ontario Credits and savings available at progressive income levels to an individual who purchases \$5,000 worth of Class A Shares and then transfers such shares to a RRSP:

Taxable Income <sup>(1)</sup>	Up to \$34,757	\$34,758 to \$36,377	\$36,378 to \$61,205	\$61,206 to \$69,516	\$69,517 to \$72,101	\$72,102 to \$72,755	\$72,756 to \$118,284	Over \$118,284
Amount of RRSP contributions and Class A Shares purchased <sup>(2)</sup>	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Federal Credit <sup>(3)(6)</sup>	\$750	\$750	\$750	\$750	\$750	\$750	\$750	\$750
Ontario Credit <sup>(3)(6)</sup>	\$750	\$750	\$750	\$750	\$750	\$750	\$750	\$750
Combined Federal and Ontario Credit <sup>(3)(6)</sup>	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
Combined Federal and Ontario personal income tax rate <sup>(4)</sup>	up to 21.05%	24.15%	31.15%	32.98%	35.39%	39.41%	43.41%	46.41%
Additional tax savings through RRSP contribution <sup>(5)</sup>	up to \$1,053	\$1,208	\$1,558	\$1,649	\$1,770	\$1,971	\$2,171	\$2,321
Total tax credits and tax savings	up to \$2,553	\$2,708	\$3,058	\$3,149	\$3,270	\$3,471	\$3,671	\$3,821
Net investment after tax credits	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
Net investment after tax credits and tax savings	at least \$2,447	\$2,292	\$1,942	\$1,851	\$1,730	\$1,529	\$1,329	\$1,179

Notes:

- (1) Taxable income is gross income less income tax deductions allowed by the Federal Act and the Ontario Tax Act.
- (2) The RRSP contribution assumes that the investor is within his or her contribution limit and can deduct the entire contribution.
- (3) The Federal Credits and Ontario Credits are generally available provided that the investor has tax otherwise payable against which to offset the tax credits. Maximum tax credits apply in respect of all purchases of shares of prescribed labour-sponsored venture capital corporations or labour sponsored investment fund corporations.
- (4) The income tax rates are based on the federal and Ontario income tax legislation as at January 1, 2006 and any proposals to amend such legislation announced prior to such date and are the marginal tax rates for 2006 for investment income other than capital gains and dividends for individuals resident in Ontario.
- (5) Additional tax savings result from the RRSP deduction reducing taxable income and are calculated at the marginal income tax rates. RRSP tax savings are not unique to labour-sponsored investment funds and are available on any RRSP eligible investment, provided the investment is within contribution limits. Income taxes are payable on the withdrawal of funds from RRSPs.
- (6) The Federal Credits and Ontario Credits may be required to be repaid if the Class A Shares are redeemed within eight years from the date of purchase.

**THE BUSINESS, ENGINEERING, SCIENCE & TECHNOLOGY DISCOVERIES FUND INC.  
THE B.E.S.T. DISCOVERIES FUND**

The Business, Engineering, Science & Technology Discoveries Fund Inc. (the “Fund”) is a corporation incorporated under the laws of Canada by articles of incorporation dated November 21, 1996, as amended December 31, 1996. The articles of incorporation of the Fund were further amended on January 30, 1998 to create a new class of shares, designated Class C Shares and issuable in series. The articles of incorporation were most recently amended on January 4, 2002 to redesignate the Class A Shares as issuable in series, to designate three series of Class A Shares, being the Series I Shares, the Series II Shares and the Series III Shares and to convert old Class A Shares into Series I Shares on a one for one basis. The Fund is sponsored by the International Federation of Professional and Technical Engineers – Local 164 (the “Sponsor”), and is registered as a Labour Sponsored Investment Fund Corporation under the Ontario Act. The Fund is a prescribed Labour Sponsored Venture Capital Corporation for the purposes of the Federal Act. The head office and principal place of business of the Fund is at 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6, telephone: 1.800.795.2378, facsimile: (416) 203-6630, internet: www.bestfunds.ca.

The name, municipality of residence, position with the Fund and principal occupation of each of the directors and officers of the Fund are set out below:

<u>Name and Municipality of Residence</u>	<u>Position with the Fund</u>	<u>Principal Occupation</u>
JOHN M.A. RICHARDSON Waterdown, Ontario	Chief Executive Officer	Chief Executive Officer of the Fund and of B.E.S.T. Total Return Fund Inc., President and a director of B.E.S.T. Investment Counsel Limited, President and a director of B.E.S.T. Capital Management Ltd.
MICHAEL S. ISRAELS Mississauga, Ontario	President	President of the Fund and of B.E.S.T. Total Return Fund Inc.
THOMAS W.R. LUNAN Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of the Fund and of B.E.S.T. Total Return Fund Inc., Vice-President of B.E.S.T. Investment Counsel Limited
HAROLD F. JONES Toronto, Ontario	Chairman and Director	Retired
DR. GRANT A.T. ALLAN NanOOSE Bay, B.C.	Director	Consultant
JOCELYNE M. CÔTÉ-O’HARA Toronto, Ontario	Director	President of The Cora Group
WILLIAM D. DUNCAN, P.Eng <sup>(1)</sup> Guelph, Ontario	Director	Senior Mechanical Design Engineer and Manufacturing Co-ordinator, ABB Inc.
PETER T. HUBENAAR <sup>(1)</sup> Brampton, Ontario	Director	Advisor to the Sponsor
GEORGE R. PATERSON <sup>(1)</sup> Toronto, Ontario	Director	Consultant

(1) Member of the Audit Committee

The following is a brief biographical description, including principal occupation for at least the last five years, of each of the directors and officers of the Fund:

**John M.A. Richardson** is the Chief Executive Officer of the Fund and the Chief Executive Officer of B.E.S.T. Total Return Fund Inc. He is also the President and a director of B.E.S.T. Capital Management Ltd. and the founder, President and a director of B.E.S.T. Investment Counsel Limited, an asset management firm focused on private equity and venture capital serving the institutional marketplace. Currently, he serves as a director on a number of private company boards. He is a Chartered Accountant and a Chartered Business Valuator and holds a Masters in Business Administration from the State University of New York and a Certificate Pratique de la Langue Françaises from the Université de Savoie in France.

**Michael S. Israels** is the President of the Fund, the President of B.E.S.T. Total Return Fund Inc., and a director of B.E.S.T. Capital Management Ltd. Mr. Israels is also a director of Absolute Private Counsel Limited and of B.E.S.T. Investment Counsel Limited. Prior to joining the Fund, Mr. Israels spent 16 years at Ernst & Young LLP where most recently he managed claims in support of Ernst & Young partnerships around the world as part of that firm's professional indemnity liability insurance program. Mr. Israels also has experience at Ernst & Young LLP in both the Audit and Mergers & Acquisitions Transaction Support practices focused on a broad spectrum of industries in Canada, the United Kingdom and the Caribbean. He has an Honours Business Administration Degree from the University of Western Ontario's Richard Ivey School of Business and is a Chartered Accountant and a Chartered Business Valuator.

**Thomas W.R. Lunan** is the Chief Financial Officer of the Fund and of B.E.S.T. Total Return Fund Inc. as well as the Vice President of B.E.S.T. Investment Counsel Limited. He is also the Vice-President and a director of Absolute Private Counsel Limited. Prior to joining B.E.S.T. Investment Counsel Limited, Mr. Lunan was a Manager, Company Listings at the Toronto Stock Exchange (the "TSX") where he was involved in the review and analysis of companies in all sectors for compliance with original listing and continued listing requirements and prior to that Mr. Lunan was at the Ontario Securities Commission in the Corporate Finance Branch. Mr. Lunan is a past director of the Toronto Society of Financial Analysts. Mr. Lunan is also a director of the Canadian World Fund Limited, a TSX listed closed-end fund and a director of several private companies. Mr. Lunan is a Chartered Accountant and has been awarded the Chartered Financial Analyst designation.

**Harold F. Jones** (retired) was an investment counsellor and portfolio manager and was in the investment industry for 35 years. He is involved in numerous merchant banking and international business consulting projects in North America and abroad. Mr. Jones is a director of certain public and private Canadian companies.

**Dr. Grant A.T. Allan** is a consultant to universities and industry on collaborative research and education. He was on a number of selection committees of the National Science and Engineering Research Council and the Canada Foundation for Innovation, major federal research granting councils to Canadian universities, including chairmanship of a committee for intellectual property management providing funds to the Technology Transfer offices of Canadian universities. Dr. Allan also recently served on the Board of the Centre for Automotive Materials and Manufacturing and was the Chairman of the Board of the Advanced Design and Manufacturing Institute, an initiative involving four universities to offer an executive masters degree in advanced design and manufacturing. In June 2000, Dr. Allan retired as President and Chief Executive Officer, Materials and Manufacturing Ontario, a provincial Centre of Excellence which supports leading edge research in a wide variety of materials and manufacturing technologies at 10 Ontario universities. Dr. Allan holds a doctorate in physics.

**Jocelyne M. Côté-O'Hara** is President of The Cora Group, a corporate strategy and performance consulting firm. Ms. Côté-O'Hara is a former President and Chief Executive Officer of Stentor Telecom Policy Inc. and served for seven years as an executive and an officer of BC TEL. Over a period of ten years (1984-1994), she served in the credit union movement, including six years as a director and Chair of the Board of Directors of the Civil Service Credit Union and three years as a director of the Ontario Deposit Insurance Corporation. She is currently a director of a number of companies and other organizations including Manitoba Telecom Services Inc., Xerox Canada Inc. and Ryerson University. She is a graduate of the University of Ottawa and has completed the Advanced Management Program at the Harvard Business School.

**William D. Duncan, P. Eng** is the Senior Mechanical Design Engineer and Manufacturing Co-ordinator at ABB Inc.'s ("ABB") power transformer plant located in Guelph, Ontario. He has held various positions in the power transformer business, including several years in ABB's Research and Development Department providing direction to ABB power transformer plants throughout the world. Mr. Duncan is also presently the Chairman of the ABB Professional Engineers branch of the International Federation of Professional and Technical Engineers and President of the Sponsor.

**Peter T. Hubenaar** is an advisor to the Sponsor and from 1985 to 2001 was the Business Manager of the Sponsor. Mr. Hubenaar is a Technical Engineer and worked with Massey-Ferguson from 1962 to 1985. During his 23-year tenure at Massey-Ferguson, he worked in a variety of positions including Draftsman, Design Specialist and Group Leader-Design. Mr. Hubenaar has played an innovative role in the design and development of engines and drives, and in prototype engine applications.

**George R. Paterson** retired as Treasurer of IBM Canada Ltd. in 1990 and has worked as a consultant since that time. He held a number of senior management positions with IBM including Director of Finance and Administration in Europe, Canada and Asia. Mr. Paterson serves on several boards including B.E.S.T. Total Return Fund Inc., The Northern Trust Company Canada and Electrovaya Inc. as well as a number of private companies, and provides strategic and management assistance to emerging technology corporations.

## THE SPONSOR

The sponsor of the Fund is the International Federation of Professional and Technical Engineers – Local 164. The International Federation of Professional and Technical Engineers is an international union representing approximately 80,000 members including approximately 6,000 members in Ontario and approximately 120 members in Local 164. The Sponsor, through a wholly-owned subsidiary, 1208733 Ontario Inc., holds the only issued and outstanding Class B Share of the Fund. The Fund has six directors and the Sponsor is currently entitled to elect four of such directors. Pursuant to an agreement between the Sponsor, its wholly-owned subsidiary (1208733 Ontario Inc.), B.E.S.T. Investment Counsel Limited and the Fund (the “Sponsor Agreement”), the Sponsor has agreed to support the election of directors on the basis that two directors will be nominated by the Sponsor, two directors will be nominated by the Sponsor upon the recommendation of the Manager, and that the remainder of the directors will be elected by the holders of Class A Shares. The articles of incorporation of the Fund provide that one-third of the directors are elected by the holders of the Class A Shares and the balance of the directors are elected by the holders of Class B Shares, provided that such balance shall be not less than a majority of the directors. The Sponsor is paid an annual fee equal to 0.15% of the Net Asset Value of the Fund, calculated and paid monthly in arrears. While members of the Sponsor may subscribe for Class A Shares, neither the Sponsor nor its members are required to make any investment in the Fund. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsor. See “SHARE CAPITAL OF THE FUND”.

## THE MANAGER

The Fund is managed by B.E.S.T. Investment Counsel Limited (the “Manager” or “BIC”) which was incorporated on November 4, 1998 under the *Business Corporations Act* (Ontario). The Manager was retained by the Fund pursuant to an agreement dated August 1, 2002 assigned from B.E.S.T. Capital Management Ltd. to the Manager effective September 1, 2003 (the “Management Agreement”). Pursuant to the Management Agreement, the Manager is responsible for all aspects of the management, operations and administration of the Fund, all subject to the direction and control of the Board of Directors. Under the Securities Act the Manager is regarded as a promoter of the Fund.

The Management Agreement, unless terminated as described below, will continue in effect until October 1, 2009 and is renewable for successive two year periods thereafter. The Fund may terminate the Management Agreement in the event that: i) the Manager breaches its standard of care, ii) the Manager breaches in a material way the provisions thereof and such breach has not been cured within 20 business days’ notice of such breach to the Manager or (iii) if the Manager becomes bankrupt or insolvent.

The Manager shall not, without written notice to the Chairman of the Fund, engage in other activities similar to those relating to the activities performed under the Management Agreement for the Fund.

The Manager carries on business at 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6. The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

<u>Name and Municipality of Residence</u>	<u>Position with BIC</u>	<u>Principal Occupation</u>
JOHN M.A. RICHARDSON Waterdown, Ontario	President and Director	Chief Executive Officer of the Fund and of B.E.S.T. Total Return Fund Inc., President and a director of the Manager, President and a director of B.E.S.T. Capital Management Ltd.
THOMAS W.R. LUNAN Toronto, Ontario	Vice President	Chief Financial Officer of the Fund, Chief Financial Officer of B.E.S.T. Total Return Fund Inc., Vice-President of the Manager
RICHARD A. BROWN Toronto, Ontario	Director	Consultant
MICHAEL S. ISRAELS Mississauga, Ontario	Director	President of the Fund and of B.E.S.T. Total Return Fund Inc.

A brief biographical description for Messrs. Richardson, Lunan and Israels are set out under the heading “THE BUSINESS, ENGINEERING, SCIENCE & TECHNOLOGY DISCOVERIES FUND INC.”. The following is a brief biographical description for Mr. Brown:

**Richard A. Brown** is a consultant to and an investor in various finance, security software and manufacturing companies. Mr. Brown was the founder of H.D. Brown Enterprises Ltd., one of the largest sporting goods distributors and manufacturers in Canada until its sale in 1995. Mr. Brown is also a director of various private companies.

The Manager’s fee is paid by the Fund. John Richardson is an officer and a director of the Manager and an officer of the Fund. Thomas Lunan is an officer of the Manager and of the Fund. Michael Israels is a director of the Manager and an officer of the Fund. See “MANAGEMENT COMPENSATION – Management Fees”.

## **THE MANAGEMENT ADVISOR**

B.E.S.T. Investment Counsel Limited (the “Management Advisor”), the Fund and B.E.S.T. Capital Management Ltd. entered into an agreement, dated August 1, 2002 (the “Management Advisor Agreement”) in connection with advising on the Fund’s investments. The Management Advisor Agreement is in effect until October 1, 2009 and is renewable for successive two year periods thereafter provided that the Fund may in certain circumstances, including in the event of default, terminate the Management Advisor Agreement.

Under the Management Advisor Agreement, the Management Advisor is responsible for identifying, screening and analysing investment opportunities for the Fund. Analysis of investment opportunities by the Management Advisor includes assessing growth potential, anticipated profit levels and management shareholder teams of potential investee companies. The Management Advisor then conducts follow-up due diligence upon selected investment opportunities which are in line with the Fund’s investment objectives and practices and in accordance with applicable statutory requirements. The Management Advisor presents investment opportunities for the Fund’s investment portfolio in a manner consistent with the policies and strategies as set forth in the Management Advisor Agreement. The Management Advisor monitors the investments and provides quarterly reports to the Board of Directors. The Management Advisor’s on-going monitoring and active involvement with investee companies often includes sitting on the board of directors of investee companies. The Management Advisor makes investment recommendations to the Fund concerning the timing, terms and methods of acquisition and disposition of investments in eligible businesses. The Management Advisor also provides liquid portfolio investment management services to the Fund on a discretionary basis.

The services of the Management Advisor (and its employees) are not exclusive to the Fund. Accordingly, the Management Advisor (and its employees) may provide services to other parties similar to those services provided to the Fund, subject to the restrictions and provisions contained in the Management Advisor Agreement.

### **Co-investment/Conflict of Interest Policy**

The Management Advisor has adopted a conflict of interest policy, which is scheduled to the Management Advisor Agreement (the “Conflict of Interest Policy”) regarding its relationship with the Fund. Pursuant to the Conflict of Interest Policy, the Management Advisor and its employees must disclose to the Fund any interest which the Management Advisor or any of its employees own or have in a proposed investment opportunity brought to the Fund for consideration. The Management Advisor and its employees may co-invest at the same time and on the same terms as the Fund to a maximum of 10% of the available investment with prior written notice to the Board of Directors. The Management Advisor and its employees shall not dispose of any co-investments with the Fund without the prior written consent of the Board of Directors, which consent shall not be unreasonably withheld or delayed. The Fund shall have a right of first refusal and tag along rights with respect to the disposal of any co-investment by the Management Advisor or its employees.

As a general principle, the Management Advisor shall, in providing investment management and/or advisory services, treat all its clients and any conflicts that may arise in a fair and equitable manner. In the event that the Management Advisor is aware of or involved in a proposed investment opportunity which it believes meets the investment criteria of more than one client, then the investment opportunity shall be offered to all clients of the Management Advisor on a pro rata basis based on the amount each client is willing to invest. However, if the Fund requires such investment to meet its pacing requirements, the investment opportunity will be offered to the Fund based on the amount the Fund has then committed to invest in order to meet its pacing requirements. In addition, if one of the Management Advisor’s clients has a pre-existing stake in a proposed investment opportunity, such client may

participate in the investment opportunity, in priority to other of the Management Advisor's clients, to the extent necessary to maintain its proportionate undiluted ownership interest in the investment.

B.E.S.T. Capital Management Ltd. and Absolute Private Counsel Limited ("Absolute") are affiliates of the Management Advisor and act as manager of and provide investment advisory services to B.E.S.T. Total Return Fund Inc., another labour sponsored investment fund.

The Management Advisor carries on business at 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6. The name and municipality of residence, office and principal occupation of each of the directors and officers of the Management Advisor are set above under "THE MANAGER".

The Management Advisor's fee is paid by the Fund. John Richardson is an officer and a director of the Management Advisor and an officer of the Fund. Thomas Lunan is an officer of the Management Advisor and of the Fund. Michael Israels is a director of the Management Advisor and an officer of the Fund. See "MANAGEMENT COMPENSATION – Management Fees".

## **INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND**

### **Investment Objectives**

The primary objective of the Fund is to achieve long-term capital appreciation for holders of the Fund's Class A Shares ("Class A Shareholders"). The Fund invests in equity and equity-related securities, such as preferred shares and debt obligations which are convertible into equities, of eligible businesses which have the greatest potential for long-term growth. The Fund primarily maintains an investment focus on niche businesses and other companies with a broader market focus which are capitalizing on innovative uses of engineering, science and technology. The Fund diversifies its portfolio by investing in eligible companies that are in differing stages of development in a variety of high potential industries, which, from time to time, may include telecommunications, information technology, computers and life sciences.

A material change in the fundamental investment objectives of the Fund will be subject to shareholder approval.

### **Investment Characteristics**

Markets for investment are changing rapidly as new technologies emerge and as applications of existing technologies enable new segments to appear. The Fund is most interested in rapidly growing emerging markets and in eligible businesses that can achieve dominance in their respective niches. Desirable investment opportunities are businesses that provide opportunities for return on investment commensurate with the perceived risk, and which possess as many of the following characteristics as possible:

- A capable management team with a clear market orientation.
- A feasible business strategy which fully describes the business and its growth potential in terms of revenues, profits, assets, and cash flow.
- The promise of a sustained competitive advantage for the business product or services associated with superior technology, patented products or niche position.
- Evidence of a market for the business technology, product or services and a national and/or world-wide strategy for the business' core technology, product or service (this will normally involve strategic alliances and links with existing organizations).
- A commitment to innovation, rapid market expansion and capability of obtaining a dominant market position.
- The opportunity for at least one representative of the Fund to be elected as a member of the board of directors or to participate as an observer at meetings of the board of directors of the investee company.
- A reasonable expectation that the Fund will be able to exit from its investment in five to eight years or sooner since most of the investments will initially be in securities for which no active market exists.

## **Source of Investment Opportunities**

The success of the Fund will depend largely on its ability to identify attractive investment opportunities and to invest in the most appropriate of them. The Management Advisor relies on networks in the investment community to assist in identifying appropriate investment opportunities for the Fund. The Fund also receives proposals directly from businesses seeking financing and co-operates with other investors in identifying, structuring and negotiating investments. Participation with other investors in well structured attractive investments increases the Fund's investment opportunities. The Fund also invites other investors to participate in selected transactions originated by the Management Advisor or the Fund.

## **The Investment Review Process**

Evaluation of potential investments is undertaken in three stages: Screening, Measuring, and Due Diligence.

### **1. Screening**

Initial analysis includes an evaluation of management, review of the company's existing business plan, site visits, review of trade literature, and conversations with industry participants, and analysis of company profile. The profile is framed in terms of:

#### *Stage of Development*

The Fund is most able to help facilitate positive change when a company is on the verge of or undergoing rapid growth or organizational change.

#### *Product or Service*

Product development should be substantially complete and initial marketing plans developed. The exception is the biotechnology sector which can take years before regulatory approval is received. Service businesses should be established and profitable, with a model that allows for substantial and ongoing growth.

#### *Market*

The potential for winning market share in a rapidly growing market is the key issue and one to which other success factors are strongly correlated.

#### *Exit Potential*

Expectation of liquidity is critical, and the investee company must go public or be sold within the investment horizon. Investments are selected on the basis of probable acceptability to the capital markets and an acquisition partner's investment criteria.

### **2. Measuring**

In evaluating prospective investments, the financial plan is measured against the Fund's investment criteria and the assumptions are tested for reasonableness and plausibility.

### **3. Due Diligence**

The due diligence phase confirms the findings of the measuring and screening process. The due diligence process that the Management Advisor undertakes is top down: they work from validity of market and industry assumptions; through the strategic operating plan, management capability, and exit potential; to legal and technical issues such as analysis of contracts, licenses and agreements. The aim is to discover weaknesses or flaws in the business model and identify potential corrections as well as provide a fully supported justification for value and structure.

## **Statutory Investment Restrictions**

Although the Fund is a mutual fund, it is not subject to a variety of securities regulatory policies and restrictions which would otherwise govern a public mutual fund. In this respect, certain or some of the policies applicable to the incorporation and capitalization of mutual funds, the frequency of determining Net Asset Value and



suspension of redemptions do not apply. In addition, the Fund is exempt from certain or some of the investment restrictions applicable to mutual fund investments, including restrictions in respect of illiquid investments, the borrowing or lending of monies or the provision of guarantees for the debts or obligations of other persons or companies. The Fund is permitted to exceed certain investment thresholds normally applicable to mutual funds.

The Fund is subject to investment restrictions contained in the Ontario Act. The Ontario Act requires Labour Sponsored Investment Fund Corporations to maintain their assets in one or more of: eligible investments, investments that were eligible investments at the time they were acquired, shares of any corporation the Fund is otherwise permitted to hold under the Ontario Act and Reserves.

Under the Ontario Act, an investment of a labour sponsored investment fund corporation is an eligible investment if, in general terms, (a) the investment is in an eligible business or (b) the investment is the purchase from an eligible business of: (i) shares or a qualifying debt obligation issued by the eligible business or an ownership interest in the eligible business for consideration paid in money; (ii) a guarantee provided by the Fund in respect of a debt obligation that would, if the debt obligation had been issued to the Fund at the time the guarantee was provided, have been a qualified debt obligation issued by the eligible business; or (iii) an option or right granted by an eligible business that is a corporation, in conjunction with the issue of a share or a debt obligation that is an eligible investment, to acquire a share of the eligible business that would be an eligible investment if the share were issued at the time the option or right was granted.

The Ontario Act defines an “eligible business” to mean, in general terms, a taxable Canadian corporation or a Canadian partnership which, together with related corporations or partnerships, does not have more than \$50 million in total gross assets or more than 500 employees at the time the relevant investment is made and, of which 50% or more of its full-time employees are employed in respect of its eligible business activities carried on in Ontario and 50% or more of its wages and salaries are paid to employees whose ordinary place of employment is a permanent establishment of the eligible business located in Ontario. For purposes of determining whether the 500 employee limit is exceeded, each employee who normally works 20 hours or more per week will count as one employee. An employee that normally works less than 20 hours per week will count as one-half of an employee. In addition, the corporation or partnership must either have been engaged in eligible business activities for at least two years, or for such shorter period of time that it has been in business. Alternatively, an “eligible business” also includes a taxable Canadian corporation or Canadian partnership that is not an “eligible business” only because it not primarily engaged in eligible business activities, but that, within a reasonable number of days after the Labour Sponsored Investment Fund Corporation makes an investment in the corporation or partnership, it invests all or substantially all of the amount of the investment in a corporation or partnership that meets the definition of “eligible business”.

The Ontario Act defines “eligible business activity” to mean, in general terms, any business carried on by the corporation which is an active business as defined in the Federal Act. The Fund’s investment may not be used by the investee corporation or partnership to, among other things: carry on business outside Canada; subject to certain exceptions, re-lend; pay the principal amount of outstanding liabilities owing to shareholders of the Fund or related persons; or invest in land, except land that is incidental and ancillary to the eligible business activity in which the investee corporation or partnership is primarily engaged. The purpose of such restrictions is to ensure that monies raised from investors are available to assist the growth of eligible Canadian businesses and thereby to create new employment opportunities.

A “qualifying debt obligation” is defined in the Ontario Act to mean a debt obligation that:

- (a) if secured, is secured solely by a floating charge on the assets of the entity or by a guarantee given by an investment corporation;
- (b) does not restrict the entity by the terms of the debt obligation or by the terms of any agreement related to that obligation from incurring other debts; and
- (c) by its terms or by any agreement relating to that obligation is subordinate to all other debt obligations of the entity, except that, where the entity is a corporation, the particular debt obligation need not be subordinate to:
  - (i) a debt obligation issued by the corporation that is prescribed to be a small business security for the purposes of paragraph (a) of the definition of “small business property” in Subsection 206(1) of the Federal Act; or

- (ii) a debt obligation owing to a shareholder of the corporation or to a person related to the shareholder.

The Ontario Act requires that on December 31 of each year, a Labour Sponsored Investment Fund Corporation hold eligible investments that have an aggregate cost of not less than 70% of the aggregate equity capital received by the corporation on the issue of Class A Shares that are outstanding at the end of the applicable calendar year and that were issued prior to the sixty-first day of that year, excluding:

- (a) equity capital in respect of Class A Shares outstanding for at least eight years; and
- (b) 20% of the aggregate amount of equity capital received by the corporation on the issue of Class A Shares issued during the period beginning on the sixty-first day of the preceding calendar year and ending on the sixtieth day of the applicable year and that are outstanding at the end of that year.

The minimum investment level is further adjusted to take into account gains and losses arising on the disposition of eligible investments and certain other amounts.

The Ontario Act also requires the Fund to hold a minimum level of eligible investments in small businesses. A “small business” for purposes of the Ontario Act is a business where, at the time of the investment: (i) it is an eligible business; (ii) the total gross assets of the business and of each corporation and partnership related to it do not exceed \$5 million; and (iii) the total number of employees of the business and of each corporation and partnership related to it does not exceed 50. Under the Ontario Act, an employee who works at least 20 hours per week will be counted as one employee, and an employee who normally works less than 20 hours per week will be counted as half an employee. At the end of each calendar year, the Fund is required to hold eligible investments in small businesses which have an aggregate cost of not less than 70% of the sum of specified percentages of equity capital received on the issue of Class A Shares, which are still outstanding at the end of the year and which have been outstanding for less than eight years. The specified percentages are as follows:

- (a) 10% of the aggregate amount of equity capital received on the issue of Class A Shares that were issued after May 6, 1996 and before March 2, 1997;
- (b) 15% of the aggregate amount of equity capital received on the issue of Class A Shares that were issued after March 1, 1997 and before March 2, 1999; and
- (c) 20% of the aggregate amount of equity capital received on the issue of Class A Shares that were issued after March 1, 1999.

The requisite minimum investment level in small businesses is reduced by 4% of the equity capital received by the Fund on the issue of Class A Shares that were issued during the period beginning on the sixty-first day of the preceding calendar year and ending on the sixtieth day of the applicable calendar year, and which are still outstanding at the end of the applicable calendar year. Further adjustment is made to take into account gains and losses arising on the disposition of eligible investments and certain other amounts.

In addition to the minimum investment requirements in respect of eligible investments and eligible investments which are small businesses, the Ontario Act also places restrictions on the amount the Fund may invest in eligible investments which are “listed companies”. A business is a “listed company” in relation to the Fund if, when the Fund makes an eligible investment in the business, any of the shares of the business are listed on a stock exchange prescribed by regulations under the Federal Act. The Ontario Act provides that, during each calendar year, a labour sponsored investment fund corporation shall not make investments in eligible businesses that are listed companies to the extent that the cost of those investments exceeds 25% of the total cost of all investments made in eligible businesses by the corporation in that calendar year or previous calendar year, whichever is greater.

In addition to the various investment level requirements, the Ontario Act also prohibits the Fund from investing in or maintaining investments in eligible businesses where:

- (a) the Fund or any of its directors do not deal at arm’s length with the eligible business, unless the business either would deal at arm’s length with the Fund but for the Fund’s interest as the holder of investments in the eligible business or the investment was approved by special resolution of the shareholders of the Fund before such investment was made; or

- (b) the aggregate of all investments made by the Fund in the eligible business and any related businesses exceeds \$15 million.

The Fund is required each year to certify to the Minister of Finance (Ontario) that the investment requirements under the Ontario Act have been met. If the Fund fails to certify its compliance with these investment requirements, the Fund will be considered not to be in compliance, no further Tax Credit Certificates will be issued in respect of the Class A Shares, and the Fund may be liable to a penalty equal to 30 percent of the equity capital received on the issue of the Class A Shares by the Fund during the time of non-compliance. Further, if the Fund does not meet the investment restrictions contained in the Ontario Act, it could be subject to penalty taxes and/or lose its registration as a Labour Sponsored Investment Fund Corporation. If the Fund becomes subject to penalty taxes under the Ontario Act for failure to meet the investment requirements under the Ontario Act, the Fund will be subject to penalties under the Federal Act in the same amount. See "INCOME TAX CONSIDERATIONS".

Further, if the Minister of Finance (Ontario) is of the opinion that the Fund has directly or indirectly through a transaction or series of transactions contravened the spirit and intent of the Ontario Act, the Minister of Finance (Ontario) is required to make an order that the particular investment is not an eligible investment as of the date of such transaction or series of transactions and may revoke the registration of the Fund.

In addition to the investment restrictions contained in the Ontario Act, the Fund is prohibited by its articles of incorporation from lending money, guaranteeing a loan or providing other financial assistance to a shareholder of the Fund, to a person related to a shareholder of the Fund, or to a trade union, an association or federation of trade unions, or an association or federation of worker co-operatives.

On August 29, 2005 the Ontario government announced that it will propose amendments to the Ontario Act, including lowering the requirement to invest in eligible businesses from 70% to 60% of capital raised and removing investment requirements unique to the Ontario Act, such as restrictions on investments in listed companies. On September 30, 2005, the Ministry announced that it will consult with the industry on transition rules governing pacing, eligibility and other reporting requirements. Any proposed amendments have yet to be enacted into law and there is no guarantee that they will be enacted in the future.

The Fund is currently in compliance with all investment restrictions contained in the Ontario Act.

### **Other Investment Restrictions**

The Fund has adopted the following investment restrictions and policies:

- The Fund will not pledge or mortgage any of its assets or borrow money, except as a temporary measure for the purpose of accommodating requests for redemption of Class A Shares while effecting an orderly liquidation of portfolio securities, provided that after giving effect to such borrowing the outstanding amount of all such borrowings does not exceed 5% of its net assets valued at market value at the time of such borrowing.
- The Fund will not lend its portfolio assets.
- The Fund will not make loans except in the ordinary course of making investments through the acquisition of debt obligations.
- The Fund will not make short sales of securities or purchase securities on margin.
- The Fund will not act as an underwriter of securities.
- The Fund will not create, issue or purchase puts, calls or combinations thereof except that it may obtain options to acquire additional securities or rights to sell securities of the entities in which it invests.
- The Fund will not make an investment in securities which are not fully paid, except that the Fund may purchase or agree to purchase securities in instalments or subject to conditions, or in securities which may require the Fund to make a contribution in excess of the price of the security which is unascertained at the time of acquisition of the security.

- The Fund will not invest in mortgages unless such mortgages are secured or guaranteed by the Government of Canada or any Canadian province or any agency thereof and no more than 10% of the total assets of the Fund will be invested in such mortgages.
- The portfolio assets of the Fund will be held in the custody of a Canadian chartered bank, or federally or provincially registered trust company.

**The investment restrictions and policies described above may be varied from time to time by the Fund, provided that any such variation is permissible under the Ontario Act and all other applicable legislation.**

## INVESTMENTS OF THE FUND

### Summary of Eligible Investments

As at September 30, 2005 the Fund had a trading net asset value of \$51,651,602. As at December 31, 2005, the Fund had a trading net asset value of \$49,167,851. As at such date, on a cost basis, approximately 85% of the Fund's assets were invested in eligible venture capital investments and the remainder is invested in Liquid Investments and other assets as permitted under the Ontario Act. The Fund is currently in compliance with the investment restrictions contained in the Ontario Act regarding minimum investments.

### Investments of the Fund

The following table contains information with respect to the Fund's eligible investments (together, the "Portfolio Companies", each a "Portfolio Company") current to December 31, 2005.

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>ASSETMETRIX INC.</b></p> <p><i>Business:</i> Founded in 2000 and headquartered in Ottawa, Canada, AssetMetrix provides an on-demand service for information technology business intelligence providing visibility into distributed information technology environments. AssetMetrix solutions aim to identify performance improvement opportunities, verify policy effectiveness and minimize risk. Customers use AssetMetrix solutions for software asset management, system lifecycle management and to manage information technology governance practices.</p> <p><i>CEO:</i> Jeffrey Campbell</p> <p><i>Employees:</i> 19</p>	<p><i>Address:</i> 505 March Road Suite 100 Ottawa, Ontario K2K 3A4</p> <p><i>Web Site:</i> www.assetmetrix.com</p> <p><i>Telephone:</i> (613) 599-1825</p> <p><i>Facsimile:</i> (613) 599-9613</p>	<p>Series A Preferred Shares</p> <p>Common Share Warrants</p> <p>77% of the Series A Preferred Shares</p> <p>77% of the Common Share Warrants</p>	<p>4.68%</p> <p>\$2,300,000</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>THE CANADIAN TRADING AND QUOTATION SYSTEM INC.</b></p> <p><i>Business:</i> The Canadian Trading and Quotation System Inc. ("CNQ") is an innovative new equity stock market for trading the equity securities of emerging companies. CNQ's unique market model matches enhanced disclosure and streamlined issuer regulation with leading edge technology and comprehensive regulatory oversight to meet the needs and characteristics of emerging companies, their investors and investment dealers.</p> <p><i>CEO:</i> Robert Cook</p> <p><i>Employees:</i> 12</p>	<p><i>Address:</i> 161 Bay Street Canada Trust Tower Suite 3850 Toronto, Ontario M5J 2S1</p> <p><i>Web Site:</i> www.cnq.ca</p> <p><i>Telephone:</i> (416) 572-2000</p> <p><i>Facsimile:</i> (416) 572-4160</p>	<p>Common Shares</p> <p>Class A Voting Shares</p> <p>Convertible Subordinated Debenture Series A</p> <p>Convertible Subordinated Debenture Series B</p> <p>8.39% of Common Shares</p> <p>16.75% of Class A Voting Shares</p> <p>65% of Convertible Subordinated Debenture Series A</p> <p>9.5% of Convertible Subordinated Debenture Series B</p>	<p>8.53%</p> <p>\$4,192,048</p>
<p><i>Name:</i> <b>CLAYMORE CAPITAL MANAGEMENT LTD.</b></p> <p><i>Business:</i> Claymore provides growth capital coupled with strategic management and revitalization skills to a broad base of undervalued, small and medium sized, Ontario private and public businesses. Claymore exercises direct management and effective operating control, combined with an investment instrument that has a strong security interest. Claymore's objective is to earn equity level total returns on its investments through a combination of current income and capital appreciation, while obtaining superior security for the funds invested.</p> <p><i>CEO:</i> Gordon Campbell</p> <p><i>Employees:</i> 50</p>	<p><i>Address:</i> 4120 Yonge Street Suite 312 Toronto, Ontario M2P 2B8</p> <p><i>Web Site:</i> N/A</p> <p><i>Telephone:</i> 416-218-3833</p> <p><i>Facsimile:</i> 416-218-3938</p>	<p>Senior Secured Debentures</p> <p>Common Shares</p> <p>20% of the Senior Secured Debentures</p> <p>13.33% of the Common Shares</p>	<p>10.17%</p> <p>\$5,000,000</p>
<p><i>Name:</i> <b>CYGNAL TECHNOLOGIES CORPORATION</b></p> <p><i>Business:</i> Cygnal is a leader in the design, integration, installation and maintenance of wired and wireless broadband, data and telecommunications networks. These networks allow Cygnal customers, who include cable companies, telephone companies, broadcasters, utilities and other corporations, to communicate effectively and economically. The company has expertise in all communications technologies including satellite, coaxial cable, fibre optic, twisted pair and microwave.</p> <p><i>CEO:</i> Joz Winterrmans</p> <p><i>Employees:</i> 600</p>	<p><i>Address:</i> 70 Valleywood Dr. Markham, Ontario L3R 4T5</p> <p><i>Web Site:</i> www.cygnal.ca</p> <p><i>Telephone:</i> (905) 944-6500</p> <p><i>Facsimile:</i> (905) 944-6520</p>	<p>Common Shares</p> <p>0.98% of the Common Shares</p>	<p>1.08%</p> <p>\$529,400</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>CYMAT CORPORATION</b></p> <p><i>Business:</i> Cymat produces Cymat SmartMetal™, a stabilized aluminum foam product. The production process combines alloyed aluminum with a metal matrix composite to create a material with a wide array of benefits, including a high strength-to-weight ratio, mechanical energy absorption, thermal and acoustic insulation and recyclability at a relatively low cost. Although the company's principal focus is on the automotive industry, Cymat's research and development group is collaborating with a number of partners to develop new applications.</p> <p><i>CEO:</i> Paul Tichauer</p> <p><i>Employees:</i> 14</p>	<p><i>Address:</i> 6320-2 Danville Road Mississauga, Ontario L5T 2L7</p> <p><i>Web Site:</i> www.cymat.com</p> <p><i>Telephone:</i> (905) 696-2420</p> <p><i>Facsimile:</i> (905) 696-9300</p>	<p>Common Shares</p> <p>3.08% of the Common Shares</p>	<p>4.03%</p> <p>\$1,981,250</p>
<p><i>Name:</i> <b>DRAGONWAVE INC.</b></p> <p><i>Business:</i> DragonWave designs, markets and supports high-performance broadband wireless networking products for both service provider and enterprise markets. The company's intelligent millimetre wave radios provide the building blocks that offer reliable and predictable interference free high bandwidth solutions for real-time internet protocol applications. DragonWave's solutions are used to rapidly introduce broadband access networks where fiber-optic or copper-line connectivity is either unavailable or impractical.</p> <p><i>CEO:</i> Peter Allen</p> <p><i>Employees:</i> 70</p>	<p><i>Address:</i> 411 Legget Drive Suite 600 Kanata, Ontario K2K 3C9</p> <p><i>Web Site:</i> www.dragonwaveinc.com</p> <p><i>Telephone:</i> (613) 599-9991</p> <p><i>Facsimile:</i> (613) 599-4225</p>	<p>Series A Preferred Shares</p> <p>Series B Preferred Shares</p> <p>Promissory Note</p> <p>5.34% of Series A Preferred Shares</p> <p>19.55% of Series B Preferred Shares</p> <p>6.10% of Promissory Note</p>	<p>5.39%</p> <p>\$2,649,730</p>
<p><i>Name:</i> <b>EVault INC.</b></p> <p><i>Business:</i> EVault provides online data backup and recovery software services to corporations worldwide. Businesses located across five continents use EVault's service and enjoy benefits over traditional tape systems – including better security, greater convenience and reliability, reduced media and human error, as well as cost savings. The Fund's investment is in VNRAND Inc., which is the wholly owned and operated subsidiary of EVault Inc.</p> <p><i>CEO:</i> Phil Gilmour</p> <p><i>Employees:</i> 179</p>	<p><i>Address:</i> 2421 Bristol Circle Unit 100 Oakville, Ontario L6H 5S9</p> <p><i>Web Site:</i> www.evault.com</p> <p><i>Telephone:</i> (905) 844-4453</p> <p><i>Facsimile:</i> (905) 844-5606</p>	<p>Series B, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>Series C, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>Series D, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>100% of the Series B, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>100% of the Series C, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>50% of the Series D, Non-voting Exchangeable Shares of VNRAND Inc.</p>	<p>12.88%</p> <p>\$6,332,847</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>GRIDIRON SOFTWARE INC.</b></p> <p><i>Business:</i> Established in February 2001, GridIron is a software development company located in Ottawa, Canada. GridIron's mission is to foster mainstream adoption of high performance computing by making it simple to develop and use software applications with the added speed of distributed computing.</p> <p><i>CEO:</i> Steve Forde</p> <p><i>Employees:</i> 13</p>	<p><i>Address:</i> 6 Antares Drive Phase 1, Suite 100 Ottawa, Ontario K2E 8A9</p> <p><i>Web Site:</i> www.gridironsoftware.com</p> <p><i>Telephone:</i> (613) 226-9445</p> <p><i>Facsimile:</i> (613) 226-5299</p>	<p>Series B Preferred Shares</p> <p>Series C Preferred Shares</p> <p>Convertible Debenture</p> <p>13.71% of Series B Preferred Shares</p> <p>100% of Series C Preferred Shares</p> <p>33% of Convertible Debenture</p>	<p>2.85%</p> <p>\$1,400,000</p>
<p><i>Name:</i> <b>INDIGO BOOKS &amp; MUSIC INC.</b></p> <p><i>Business:</i> Indigo is currently the largest bookstore business in Canada, where it operates over 250 Indigo, Chapters, Coles and Smithbooks retail stores. Indigo also operates an online book retailing business through an enhanced website. Indigo has designed its online business to access the same products provided in the stores as well as maintaining a dedicated team of journalists and critics who provide original content and customer service support.</p> <p><i>CEO:</i> Heather Reisman</p> <p><i>Employees:</i> 6,000</p>	<p><i>Address:</i> 468 King Street West Suite 500 Toronto, Ontario M5V 1L8</p> <p><i>Web Site:</i> www.indigo.ca</p> <p><i>Telephone:</i> (416) 364-4499</p> <p><i>Facsimile:</i> (416) 364-0355</p>	<p>Common Shares</p> <p>0.02% of the Common Shares</p>	<p>1.02%</p> <p>\$500,000</p>
<p><i>Name:</i> <b>IOGEN CORPORATION</b></p> <p><i>Business:</i> Iogen Corporation is a specialty chemical manufacturer who is a leading developer of ethanol-from-cellulose, a clean transportation fuel. An established player in the enzyme business since the early 1990's, Iogen also develops, manufactures, and markets industrial enzyme products for the pulp and paper, textiles, and animal feed industries.</p> <p><i>CEO:</i> Brian Foody</p> <p><i>Employees:</i> 281</p>	<p><i>Address:</i> 300 Hunt Club Road East Ottawa, Ontario K1V 1C1</p> <p><i>Web Site:</i> www.ioген.ca</p> <p><i>Telephone:</i> (613) 733-9830</p> <p><i>Facsimile:</i> (613) 733-0781</p>	<p>Common Shares</p> <p>Warrants</p> <p>6.14% of the Common Shares</p> <p>22.20% of the Warrants</p>	<p>6.10%</p> <p>\$3,000,010</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>NEWSTEP NETWORKS INC.</b></p> <p><i>Business:</i> Newstep (formerly Rev D Networks Inc.) is a software company with a platform that enables cost reduction and new revenues on service provider networks. Newstep, a spin off of Bell Canada, has developed a bridging technology between legacy telecom switching and signaling infrastructure, next generation switching equipment, and Internet-based applications. This technology is called a Multi-Network Soft Switch (MNSS).</p> <p><i>CEO:</i> Neil Baimel</p> <p><i>Employees:</i> 64</p>	<p><i>Address:</i> 276 King Street West Suite 200 Toronto, Ontario M5V 1J2</p> <p><i>Web Site:</i> www.newstepnetworks.com</p> <p><i>Telephone:</i> (416) 979-5404</p> <p><i>Facsimile:</i> (416) 977-2880</p>	<p>Series A Exchangeable Preferred Shares</p> <p>Series A Special Voting Shares</p> <p>Series B Exchangeable Preferred Shares</p> <p>Series B Special Voting Shares</p> <p>Canadian Special Voting Shares</p> <p>10.26% of the Series A Exchangeable Preferred Shares</p> <p>10.26% of the Series A Special Voting Shares</p> <p>10.26% of the Series B Exchangeable Preferred Shares</p> <p>10.26% of the Series B Special Voting Shares</p> <p>5.58% of the Canadian Special Voting Shares</p>	<p>3.98%</p> <p>\$1,954,723</p>
<p><i>Name:</i> <b>PIXELINK CORPORATION</b></p> <p><i>Business:</i> PixelINK (formerly Vitana Corporation) designs, manufactures and markets digital imaging technologies. The company's top product line, PixelINK, quickly captures an image to be stored or displayed in real-time video, with applications in the medical, dental and scientific fields. PixelINK allows doctors, for example, to keep a detailed visual history of a patient. PixelINK's unique imaging solutions enable businesses such as manufacturers and software developers to design better products faster thereby reducing the time-to-market.</p> <p><i>President:</i> Michael McKay</p> <p><i>Employees:</i> 17</p>	<p><i>Address:</i> 3030 Conroy Road Ottawa, Ontario K1G 6C2</p> <p><i>Web Site:</i> www.vitana.com</p> <p><i>Telephone:</i> (613) 247-1211</p> <p><i>Facsimile:</i> (613) 247-2001</p>	<p>Convertible Preferred Shares</p> <p>30% of Convertible Preferred Shares</p>	<p>3.05%</p> <p>\$1,500,000</p>



DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>PROTUS IP SOLUTIONS INC.</b></p> <p><i>Business:</i> Protus is a leading provider of business class messaging services including email, voice and fax broadcast and virtual fax. The company has built an Internet-based network that provides a full suite of cost effective services, including virtual fax and voice broadcasting. This enables clients worldwide to share information using their preferred medium. Protus has developed and licensed its technology to service provider partners and Internet service providers in over 40 countries. Clients include Bell Mobility and TELUS Mobility.</p> <p><i>CEO:</i> Joseph Nour</p> <p><i>Employees:</i> 94</p>	<p><i>Address:</i> 2379 Holly Lane Suite 210 Ottawa, Ontario K1V 7P2</p> <p><i>Web Site:</i> www.protus.com</p> <p><i>Telephone:</i> (613) 733-0000</p> <p><i>Facsimile:</i> (613) 737-6643</p>	<p>Class B Preferred Shares</p> <p>Class A Preferred Shares, Series 1</p> <p>Class A Preferred Shares, Series 2</p> <p>50.00% of Class B Preferred Shares</p> <p>12.00% of Class A Preferred Shares, Series 1</p> <p>23.44% of Class A Preferred Shares, Series 2</p>	<p>4.27%</p> <p>\$2,100,000</p>
<p><i>Name:</i> <b>SOLITON INC.</b></p> <p><i>Business:</i> Soliton develops software that enables financial services firms to manage historical capital markets data, such as trading histories for stock, financial statements, current and historical earning estimates, analysts' reports and press releases. The company is targeting the financial services market with its newly developed TimeSquare software product. The company also maintains a legacy business based on the maintenance and support of financial applications written in the APL software language for mainframes.</p> <p><i>CEO:</i> Nazir Noormohamed</p> <p><i>Employees:</i> 24</p>	<p><i>Address:</i> 44 Victoria Street Suite 2100 Toronto, Ontario M5C 1Y2</p> <p><i>Web Site:</i> www.soliton.com</p> <p><i>Telephone:</i> (416) 364-9355</p> <p><i>Facsimile:</i> (416) 364-6159</p>	<p>Class A Series 1 Preference Shares</p> <p>50% of Class A Series 1 Preference Shares</p>	<p>2.03%</p> <p>\$1,000,000</p>
<p><i>Name:</i> <b>WELLINGTON POLYMER TECHNOLOGY INC.</b></p> <p><i>Business:</i> Wellington Polymer Technology Inc., founded in 1998, developed Enviroshake, a rubber shingle product, which it markets in direct competition to natural cedar shakes and other premium roofing products. Wellington Polymer Technology Inc. has a patented process to produce high quality rubber shingle roofing material from reclaimed crumb rubber.</p> <p>Upon its bankruptcy in 2005, the parent company of Wellington Polymer Technology Inc., Unisphere Inc., transferred its remaining assets to 2070452 Ontario Inc. The Fund received common shares of 2070452 Ontario Inc. in connection with a convertible debenture that Wellington Polymer Technology Inc. had issued to the Fund. 2070452 Ontario Inc. does not otherwise carry on an active business.</p> <p><i>CEO:</i> Dan Warrenner</p> <p><i>Employees:</i> 50</p>	<p><i>Address:</i> 650 Riverview Drive Unit #1 Box 1462 Chatham, Ontario N7M 5W8</p> <p><i>Web Site:</i> www.enviroshake.com</p> <p><i>Telephone:</i> (519) 380-9265</p> <p><i>Facsimile:</i> (519) 380-0689</p>	<p>Series A Convertible Debenture</p> <p>Series B Convertible Debenture</p> <p>Common Shares of 2068051 Ontario Inc.</p> <p>Common Shares of 2070452 Ontario Inc.</p> <p>3.43% of the Series A Convertible Debenture</p> <p>3.43% of the Series B Convertible Debenture</p> <p>3.08% of the Common Shares of 2068051 Ontario Inc.</p> <p>3.43% of the Common Shares of 2070452 Ontario Inc.</p>	<p>1.20%</p> <p>\$589,920</p>

## **IMPLEMENTATION OF INVESTMENT STRATEGY AND MONITORING**

### **Evaluating Investment Opportunities**

As part of the overall investment strategy outlined above, the Board of Directors of the Fund and the Management Advisor evaluate each investment opportunity according to the following criteria:

- growth potential – the ability to realize and sustain long-term, profitable growth;
- competitiveness – the ability to compete in the global marketplace as a result of competitive advantage of some kind, such as technological leadership;
- management team – a capable, committed, visionary and motivated team of senior managers; and
- knowledge – the ability of management to understand the business and the market in which it operates.

### **Due Diligence**

In evaluating investment opportunities, the due diligence performed by the Manager and the Management Advisor generally includes the following:

- in-depth meetings or interviews with company management;
- lengthy discussions with employees, customers and suppliers;
- research on the products, services and technology of the company;
- research on the industry and market which the company serves;
- analysis of the competitive advantage of the company;
- analysis of the company's financial history and prospects for future growth and profitability;
- analysis of potential return on investment; and
- establishment of thorough legal documentation regarding the investment.

### **Exiting Investments**

Generally, the Fund anticipates holding investments over a sufficiently lengthy period of time to enable the Fund to benefit from the long-term upside potential of its Portfolio Companies. The Fund will seek to dispose of investments when the long-term outlook of a Portfolio Company deteriorates or when the Fund is able to replace the investment with an investment in another eligible business with greater potential for long-term growth. Due to the size of the Fund's typical Portfolio Company, there is no guarantee that the size of the market for the securities of Portfolio Companies will be large enough to enable the Fund to dispose of securities on favourable terms, if at all. The Fund's investments may be subject to minimum hold periods imposed under the Securities Act or imposed by a stock exchange, as applicable, which will limit the Fund's ability to dispose of those investments promptly. See "IMPLEMENTATION OF INVESTMENT STRATEGY AND MONITORING – Form of Investments".

### **New Investments**

The Board of Directors is responsible for investment decisions with respect to investments other than the Liquid Investments of the Fund. The Management Advisor provides liquid portfolio investment management services to the Fund on a discretionary basis. The Management Advisor also advises the Board of Directors with regard to investment decisions other than with respect to Liquid Investments. The Board of Directors is also responsible for formulating investment policies and strategies, liaising with and monitoring the Management Advisor on the implementation of those investment policies and strategies and assessing the performance of the Fund on a quarterly basis.

The Board of Directors will be responsible for the compliance of the investments with the policies and strategies of the Fund.

### **Addressing Conflicts of Interest**

From time to time, a director of the Fund may face a potential conflict in connection with certain investment decisions. For example, a director's employer may have an interest in eligible businesses in which the Fund is considering investing. Where such conflicts arise, the director with such conflict must declare his or her conflict and abstain from participating in the investment decision.

### **Form of Investments**

The particular form of investments in Portfolio Companies will be negotiated after taking into account the legislative restrictions contained in the Ontario Act, the investment criteria and guidelines of the Fund, the long-term requirements of the Portfolio Company and tax considerations. Given the long-term growth objective of the Fund, it is anticipated that investments will be primarily in common shares or rights to acquire common shares; however, depending on the circumstances, investments may take the form of debt (with or without conversion features), debt with warrants to acquire shares, participation in cash flow or earnings or preferred shares (with or without conversion features). Certain investments may involve a combination of these instruments.

The Ontario Act provides, among other things, that an investment is an eligible investment for the purposes of the Fund if the Fund purchases shares or qualifying debt obligations (or rights or options granted in conjunction therewith) from the eligible business. Accordingly, the Fund will be limited to investing in treasury securities (or rights or options granted in connection therewith) issued by the investee business and will not be permitted to purchase securities in the secondary markets. See "INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND – Statutory Investment Restrictions".

Furthermore, there are restrictions on the Fund's ability to invest in securities that are listed on a stock exchange. Investments in Portfolio Companies whose securities are listed on a stock exchange will be governed by the rules of the particular stock exchange, including, without limitation, rules restricting the size of the discount from the market price for which securities may be issued and rules imposing a hold period on securities purchased by the Fund. In addition, investments in eligible businesses whose securities become publicly-traded will generally be subject to hold periods imposed under the Securities Act or imposed by a stock exchange, as applicable, which will result in a discounted valuation of the securities held and may create an inability to dispose of those securities promptly. In cases where such publicly-traded companies are not reporting issuers (as that term is defined in the Securities Act) in the Province of Ontario, the securities representing such investments cannot be resold without a prospectus, an available exemption or an appropriate ruling under the Securities Act. Securities of private companies held by the Fund are subject to similar resale restrictions.

The Fund will generally, where it is deemed by the Management Advisor to be appropriate, seek to protect invested capital through a floating charge security, financial covenants and/or a shareholders' agreement (where permitted by the Ontario Act).

### **Liquid Investments**

Pending investment in eligible businesses, the Fund's assets (including funds received on the liquidation of investments) are invested in Liquid Investments. The Fund may, from time to time, retain registered investment dealers to execute trades of the Liquid Investments for the Fund. The Management Advisor provides liquid portfolio investment management services to the Fund on a discretionary basis.

### **Management of Investments**

The Management Advisor monitors individual investments closely to ensure that the interests of the Fund are being protected. Pursuant to the Management Advisor Agreement, the Management Advisor provides to the Board of Directors, on a quarterly basis, a detailed report on the Fund's performance including a discussion of significant events and management plans and recommendations with respect to the continued management of the Fund's investments.

## **VALUATION OF INVESTMENTS**

The Board of Directors is responsible for determining the value of the Fund's investments in accordance with the policies of the Fund as set out below.

## **Valuation of Assets**

### *Quarterly Valuations*

As of the last day of March, June, September and December in each year, the Board of Directors determines the value (the “Quarterly Valuation”) of the Fund’s assets, on the basis of policies and procedures developed and approved by the Board of Directors for determining the estimated fair market value of such assets.

The value of the Fund’s investments for which there exists a published market (being a market on which such securities are traded if the prices are regularly published in a newspaper or other publication of general and regular paid circulation) is generally the quoted prices in such market.

In determining the value of assets for which there does not exist a published market, the Board of Directors is guided, where appropriate, but not bound by, the following criteria:

- Investments are valued at estimated fair market value (the highest price available in an open and unrestricted market between fully informed and prudent parties, acting at arm’s length, under no compulsion to transact, expressed in terms of cash).
- The estimated fair market value of investments is determined on the basis of expected realizable value of the investments on a going concern basis or if they were disposed of in an orderly disposition over a reasonable period of time, as appropriate.
- Investments are written down to net realizable value where appropriate.
- Where the investment is progressing satisfactorily in relation to the Fund’s expectations, a reasonable multiple of sustainable earnings, cash flow, revenue or discounted cash flow (as considered appropriate) with a cross-reference to, and an assessment of, tangible asset value may be used. Such valuation multiples will be developed through reference to comparable public entities discounted to reflect the inherent differences between private and public holdings such as size, performance and lack of marketability. Where appropriate, consideration will be given to the planned timing of an initial public offering of the investee company.
- New investments are normally carried at cost for at least six months to one year, unless there is a substantial arm’s length transaction which establishes a different value or there is a significant change from the Fund’s expectations.
- If there is a significant arm’s length enforceable offer or transaction with respect to an investment, values used in such offer or transaction may be used in the valuation of the investment. In such circumstances, consideration will be given to whether new or existing investors participated in the offer or transaction and the current level of market interest in the investment. Similarly, if there is a valuation prepared by a qualified independent party, such valuation will be considered to provide a valid indication of the estimated fair market value of an investment.
- Where an investment is held in a publicly-traded entity, a reasonable discount to market will normally be used if the size of the investment is large relative to trading volumes of such shares or if trading is restricted in any way.
- Debt instruments, other than short-term liquid debt instruments will initially be valued at their principal amount (with accrued interest and discounts earned included in interest receivable) and thereafter by comparison to yields of debt instruments of similar risk having regard to whether the instrument is in arrears or whether a write-down or other provision is considered prudent due to the unlikelihood of full realization on the investment.
- Short-term liquid debt instruments (having a term to maturity of 365 days or less) are valued at cost with accrued interest or discounts earned included in interest receivable.
- Convertible securities will generally be valued at the greater of their principal amount and their estimated fair market value as if they have been converted, in each case with such estimated fair market value being determined on the bases described above.

- In the unusual event that the valuation policies and procedures described above are not appropriate for the particular investee's circumstance then the Board of Directors can approve appropriate valuation techniques for that investment.
- Actual value realized when the Fund ultimately disposes of assets will vary from the current estimated fair market value and the variation may be material.

The Board of Directors will determine the valuation of the Fund's investments in Portfolio Companies for which no published market exists on a quarterly basis and will approve the valuation of the Net Asset Value of the Fund and the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

#### *Weekly Valuation Updates*

The Fund updates the Quarterly Valuations on the last Business Day of each week prior to the next Quarterly Valuation and at such other times as the Chief Executive Officer and Chief Financial Officer (the "Senior Officers") of the Fund may in their discretion deem appropriate ("Weekly Valuation Update"). The Weekly Valuation Updates will be based on the most recent Quarterly Valuation and will take into account any material change in the assets of the Fund. A Weekly Valuation Update shall apply until such time as the next Weekly Valuation Update or Quarterly Valuation is published. The Board of Directors will approve a Weekly Valuation Update where the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share is expected to change by more than 5%. At the discretion of the Senior Officers, the Fund may update the valuation of its shares more often, including on a daily basis if warranted.

#### *Independent Valuation*

The Fund is required, by applicable securities legislation, to obtain, on an annual basis, a valuation by an independent qualified person of the Net Asset Value of the Fund. The Fund intends to satisfy this requirement by engaging PricewaterhouseCoopers LLP, the Fund's independent auditors, to perform certain procedures on the value of the Fund's investments for which no public markets exist as at September 30, 2005 as a part of PricewaterhouseCoopers LLP's audit of the Fund's September 30, 2005 financial statements. The PricewaterhouseCoopers LLP personnel responsible for performing the procedures described above are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. Such persons have no present or prospective financial interest in securities of the Fund and the fees paid to PricewaterhouseCoopers LLP in connection with such procedures were not contingent on the conclusion reached.

The above described procedures performed by PricewaterhouseCoopers LLP do not constitute an independent valuation (i.e. a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a "valuation service" as defined in the Canadian Institute of Chartered Accountants' Independence Requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation, to determine the value of the Fund's assets, the Net Asset Value of the Fund and the Net Asset Value of the Class A Shares and Class B Shares.

#### *Audit of Financial Statements and Audit Committee*

In the course of preparing its report in the Fund's annual financial statements, the Fund's auditors will conduct their audit of the financial statements in accordance with Canadian generally accepted auditing standards. Those standards require the auditor to plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The audit will include examining, on a test basis, evidence supporting the amounts reported for and the disclosure of the portfolio in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The Fund has implemented internal control mechanisms such that appropriate audit evidence is available. The Fund's auditors will rely on the report prepared by the independent qualified business valuers relating to the Fund's compliance with its stated valuation policy, if such a report is prepared, valuations approved by the Board of

Directors, and other information as required, as a source of audit evidence in forming their audit opinion on the financial statements. See “SHAREHOLDER FINANCIAL REPORTING”.

The Audit Committee of the Fund is composed of William D. Duncan, Peter T. Hubenaar and George R. Paterson (Chairman).

#### *Net Asset Value of the Fund*

The Net Asset Value of the Fund is determined as at the close of business on the last Business Day of each week and where the Cut-Off Date in a given year does not fall on the last Business Day of a week, as at 11:59 p.m. on the Cut-Off Date, by subtracting the aggregate amount of the Fund’s liabilities from the aggregate of: (a) the value of its assets for which a published market exists on the basis of the valuation of such assets as of the relevant date; (b) the value of its assets for which no published market exists on the basis of the valuation of such assets as of that date; and (c) the book value of any other assets of the Fund. The Board of Directors must approve the Net Asset Value of the Fund at least four times each year and the Senior Officers must approve the Net Asset Value of the Fund for each other Weekly Valuation Update.

#### *Calculation of Net Asset Value of the Series of Class A Shares*

The Net Asset Value of the Series I Shares, the Net Asset Value of the Series II Shares and the Net Asset Value of the Series III Shares are calculated by Citigroup Fund Services Inc. (the “Registrar”) as of each Weekly Valuation Update, as at the Cut-Off Date and at such other time as the Senior Officers may determine. The Board of Directors must approve the net asset value per share of each series of Class A Shares at least four times per year and the Senior Officers must approve the net asset value per series of Class A Shares in each other instance.

The Net Asset Value of the Series I Shares is determined by (i) subtracting the liabilities of the Fund (other than liabilities attributed to a particular series of Class A Shares) and the stated capital of the Class B Shares, from the assets of the Fund (other than assets attributed to a particular series of Class A Shares) (the “Unattributed Net Corporate Property”), (ii) multiplying that result by a fraction equal to the fraction of the value of the assets of the Fund attributable to the Series I Shares (other than the amounts listed in (iii) and (iv) below), as determined by the directors of the Fund, (iii) adding to that result the assets of the Fund attributed specifically to the Series I Shares as at such valuation date, and (iv) subtracting the liabilities of the Fund attributed specifically to the Series I Shares as at such valuation date.

The Net Asset Value of the Series II Shares is determined by (i) multiplying the Unattributed Net Corporate Property by a fraction equal to the fraction of the value of the assets of the Fund attributable to the Series II Shares (other than the amounts listed in (ii) and (iii) below), as determined by the directors of the Fund, (ii) adding to that result the assets of the Fund attributed specifically to the Series II Shares as at such valuation date, and (iii) subtracting the liabilities of the Fund attributed specifically to the Series II Shares as at such valuation date.

The Net Asset Value of the Series III Shares is determined by (i) multiplying the Unattributed Net Corporate Property by a fraction equal to the fraction of the value of the assets of the Fund attributable to the Series III Shares (other than the amounts listed in (ii) and (iii) below), as determined by the directors of the Fund, (ii) adding to that result the assets of the Fund attributed specifically to the Series III Shares as at such valuation date, and (iii) subtracting the liabilities of the Fund attributed specifically to the Series III Shares as at such valuation date.

#### *Calculation of Net Asset Value per Share*

The Net Asset Value per Series I Share is the amount obtained by dividing the Net Asset Value of the Series I Shares by the number of Series I Shares outstanding as of a particular valuation date. The Net Asset Value per Series II Share is the amount obtained by dividing the Net Asset Value of the Series II Shares by the number of Series II Shares outstanding as of a particular valuation date. The Net Asset Value per Series III Share is the amount obtained by dividing the Net Asset Value of the Series III Shares by the number of Series III Shares outstanding as of a particular valuation date. The Fund will make available for publication, in the financial press, including The National Post and The Globe and Mail, the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share as at each date of valuation.

The net asset value per series of Class A Share as determined in the foregoing manner from time to time may differ from the prices at which shareholders may sell (subject to the restrictions on transfer) Class A Shares to third party purchasers.

## **PURCHASE OF CLASS A SHARES**

### **General**

Series I Shares, Series II Shares and Series III Shares are offered on a continuous basis at the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share, respectively, as next determined after receipt of the purchase order in acceptable form by the Fund. The minimum initial investment in Class A Shares is \$1,000 and all subsequent investments in Class A Shares must be in increments of \$50 to a maximum of 10% of the Net Asset Value of the Fund. The Fund may waive minimum initial and subsequent subscription amounts in order to accommodate pre-authorized contribution plans established by registered dealers.

All subscriptions for Class A Shares are subject to acceptance or rejection by the Fund and the right is reserved to reject any subscription. The Fund may make arrangements with registered dealers providing for the sale of Class A Shares by such dealers. See "METHOD OF DISTRIBUTION". The Fund will not accept a purchase order placed directly by an applicant. The decision to accept or reject any subscription for Class A Shares will be made promptly and in any event within one Business Day of receipt of the subscription by the Fund. In the event that a subscription for Class A Shares is rejected, all money received with the subscription will be returned immediately to the applicant.

Pending the issuance of Class A Shares, the amount of the subscription price accompanying subscriptions will be held in trust for the subscribers by the Fund. Interest earned on funds held in trust will accrue for the account of the Fund. Share certificates will not be provided unless requested by investors.

Although the Fund expects to continue the offering of Series I Shares, Series II Shares and Series III Shares at prices equal to the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share, respectively, the Fund may suspend and re-commence offering any of the Series I Shares, Series II Shares or Series III Shares at any time the Fund deems appropriate in its sole discretion. The Fund may suspend the offering of any of the Series I Shares, Series II Shares or Series III Shares at any time when the Fund has more funds on hand than it can invest in suitable investments within a reasonable period of time and will re-commence the offering at such time as sufficient investment opportunities are available.

### **Registered Retirement Savings Plan**

Investors may arrange to purchase Class A Shares for, or transfer Class A Shares to, their own or their Spouse's self-directed RRSP. Investors may also establish a registered retirement savings plan through a Canadian chartered bank with whom the Fund has entered into a trust agreement for this purpose. Application forms are available from the dealer from whom Class A Shares are purchased.

## **REDEMPTION OF CLASS A SHARES**

Requests for redemption of Class A Shares may be made by completing the appropriate request for redemption form. All requests for redemption must be signed by the shareholder with the signature guaranteed by a Canadian chartered bank or trust company, a mutual fund dealer or by a member of a recognized stock exchange in Canada. No redemption will be effected until the written request for same has been duly completed and delivered to the Fund or a registered dealer distributing the securities, together with a duly endorsed share certificate (if any). Redemptions will be effective as of the tenth Business Day following the date of the Weekly Valuation Update next following the date on which the Fund receives (or is deemed to have received) the request for redemption or, in the case of the Cut-Off Date, as at the Cut-Off Date (the "Redemption Date"). The redemption price for a Series I Share, Series II Share and Series III Share is the Net Asset Value per Series I Share, Net Asset Value per Series II Share, and Net Asset Value per Series III Share, respectively, as at the Redemption Date (the "Redemption Price").

There are restrictions on the redemption of Class A Shares. Except in certain special circumstances, a holder who wishes to redeem Class A Shares within eight years after the date on which such shares are issued will be subject to certain taxes generally equal to Federal Credits (defined below) and Ontario Credits (defined below) received on the purchase of such Class A Shares. For these purposes, Class A Shares redeemed in February or on March 1 are deemed by the Ontario Act to have been redeemed on March 31. In addition, a holder who wishes to redeem Series I Shares or Series II Shares within eight years from the date on which such shares are issued will be charged an early redemption fee payable to the Fund. The redemption fee payable upon redemption of the Series I Shares is one eighth of 6.25% of the Redemption Price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue. The redemption fee payable upon redemption of the Series II Shares is 1.25% of the redemption price of

such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue. No such redemption fee is payable upon redemption of Series III Shares. No redemption fee is payable upon redemption of a Series I Share or Series II Share where the redemption occurs after the eighth anniversary of the date of issue of such shares. See “SHARE CAPITAL OF THE FUND – Class A Shares – Redemption by Holders”, “METHOD OF DISTRIBUTION” and “INCOME TAX CONSIDERATIONS”.

In any financial year, the Fund is not required to, but may at its option if sufficient liquid assets are available, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund calculated as of the last day of the preceding financial year. Requests for redemption will be accepted in the order in which they are received, however, holders who submit redemption requests in the same weekly period will be treated equally in the event the Fund does not or is not able to honour all redemption requests. Any unsatisfied redemption requests at the end of a weekly period will be honoured prior to any redemption requests submitted in a subsequent weekly period.

The Fund is entitled to suspend the right of holders of Class A Shares to redeem Class A Shares and/or delay the date for payment of the Redemption Price in respect to any redeemed Class A Share for the whole or any part of any period during which the consent of the Ontario Securities Commission has been obtained.

### **SHAREHOLDER FINANCIAL REPORTING**

Purchasers of Class A Shares will receive an acknowledgement of receipt of subscription and a transaction confirmation for each purchase of Class A Shares. Shareholders will receive annually a statement showing the number and current value of their Class A Shares. The Fund and the Manager have entered into a shareholder record keeping and administration agreement and a fund accounting agreement (the “Administration Agreements”) each with the Registrar and each dated as of December 30, 1999 pursuant to which the Registrar provides certain registrar, transfer agency, shareholder reporting, fund accounting and other shareholder administration services to the Fund, including services relating to shareholders relations, processing of sales orders, maintaining shareholders records at its principal place of business (including transfers of Class A Shares) and preparing shareholder reporting information. The Fund pays a fixed amount per account for services provided by the Registrar plus other administrative fees.

The Fund has retained the Management Advisor to provide certain sales and marketing services to the Fund pursuant to the terms of a sales and marketing services agreement dated July 10, 2003 between the Management Advisor and the Fund (the “Sales and Marketing Agreement”). The Fund pays the Management Advisor an annual sales and marketing fee (calculated daily and paid monthly in arrears) as follows: (1) the aggregate of 0.425% on the first \$50 million of the Net Asset Value of the Fund, 0.4% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount of the Net Asset Value of the Fund above \$150 million, (2) less \$96,000.

The Fund and the Manager have also retained the Management Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the Registrar pursuant to the terms of an accounting and administrative services agreement assigned by Carl Flintoff Services Inc. to the Management Advisor effective June 1, 2003 (the “Accounting and Administrative Services Agreement”). The Fund pays the Management Advisor an annual accounting and administrative fee (payable monthly in arrears) equal to \$96,000.

Upon request by a shareholder, the Fund will send to such shareholders audited annual financial statements, unaudited semi-annual interim financial statements of the Fund and annual and semi-annual management reports of fund performance. Such financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the Net Asset Value of the Fund on this basis at the date of the statements.

### **OPERATING EXPENSES**

The Fund pays all of its operating expenses, including legal, audit and valuation costs, sales commissions and expenses and the fees payable to the Manager out of working capital, which includes income earned on investments and the shareholders’ capital of the Fund, among other things. See “MANAGEMENT COMPENSATION” and “SHAREHOLDER FINANCIAL REPORTING”.

The nature of the investments to be made by the Fund requires a greater commitment to investment analysis, due diligence investigations and post-investment monitoring than investment in most other securities. In addition, the cost to determine the value of the Fund’s assets for which no published market exists is greater than valuation costs for



mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund are typically higher than many mutual funds and other pooled investment vehicles.

The prior approval of the shareholders of the Fund is generally required before, among other things, the basis of the calculation of a fee or expense that is charged to the Fund or directly to its shareholders by the Fund or the Manager in connection with the holding of securities of the Fund is changed in a way that could result in an increase in charges to the Fund or its shareholders. However, shareholder approval is not required to be obtained before making a change described in the preceding sentence where the Fund contracts at arm's length with the person or company charging the fee or expense described in the preceding sentence. Although shareholder approval will not be obtained in connection with the changes described above, shareholders will be sent a written notice at least 60 days before the effective date of the change that is to be made that could result in an increase in charges to the Fund.

## **USE OF PROCEEDS**

The proceeds of this offering are invested in small and medium-sized eligible Canadian businesses engaged in the engineering, science, and technology sectors and all operating expenses of the Fund are paid out of the Fund's working capital, which includes the proceeds of this offering. See "INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND – Investment Objectives". Pending investment in eligible Canadian businesses, the proceeds are invested in Liquid Investments. See "IMPLEMENTATION OF INVESTMENT STRATEGY AND MONITORING – Liquid Investments". Any capital gains and interest and other investment income earned on such investments will accrue to the benefit of the Fund.

## **MANAGEMENT COMPENSATION**

### **Remuneration of Directors**

Directors of the Fund (other than directors who are also officers of the Manager), are entitled to receive an annual fee of \$7,000. The chairman of the Audit Committee of the Board of Directors will receive an additional \$2,000 per annum. The Chairman of the Board will receive an additional \$4,000 per annum. In addition, each director will receive a fee of \$600 per meeting for each Board of Directors or Board of Directors' committee meeting attended.

### **Management Fees**

Pursuant to the Management Agreement, the Manager receives a management fee of 1.50% per annum of the Net Asset Value of the Fund. Management fees are calculated and paid monthly in arrears. See "THE MANAGER". In addition, the Manager is entitled to receive a performance fee. See "Performance Fees" below.

The Fund is required under the Management Agreement to indemnify the Manager for any losses it may incur as a result of its relationship to the Fund provided that the Manager has acted in good faith with a view to the best interests of the Fund and exercised a degree of care, diligence and skill that a reasonable person would exercise in comparable circumstances.

The Fund is responsible for all direct costs and expenses incurred in the operation of the Fund, including directors' fees, insurance, legal, audit and valuation costs, liquid portfolio management, marketing expenses and sales commissions. See "OPERATING EXPENSES".

During the fiscal year ended September 30, 2005, the Manager was paid an aggregate management fee of \$980,124 (inclusive of taxes) pursuant to the Management Agreement. No performance fees were paid for the fiscal years ended September 30, 2001, September 30, 2002, September 30, 2003, September 30, 2004 or September 30, 2005.

### **Management Advisor Fees**

The Fund pays the Management Advisor an annual management advisory fee of 1.75% of the Net Asset Value of the Fund, calculated and paid monthly in arrears, and a performance fee, if any. See "Performance Fees" below. During the fiscal year ended September 30, 2005, the Management Advisor was paid advisory fees of \$1,143,478 (inclusive of taxes) pursuant to the Management Advisor Agreement. No performance fees were paid for the fiscal years ended September 30, 2001, September 30, 2002, September 30, 2003, September 30, 2004 or September 30, 2005.

## **Performance Fees**

The Manager and the Management Advisor are entitled to receive an annual performance fee referred to as the incentive participation amount (the “IPA”) in respect of each fiscal year based on the realized gains and cumulative performance of the Fund. In order for the IPA to be payable by the Fund the following conditions must be satisfied:

- (a) the total net realized and unrealized gains and income from the Fund from its portfolio of eligible investments since January 1, 1997 must have generated a return greater than the annualized average rate of return on five year Guaranteed Investment Certificates offered by a Schedule 1 Canadian chartered bank plus 2%;
- (b) the compounded annual rate of return (including realized and unrealized gains and income) from the particular eligible investment since its acquisition by the Fund must equal or exceed 12% per annum; and
- (c) the Fund must have recouped an amount equal to all principal invested in the particular eligible investment.

Upon satisfying the above conditions, the IPA will be determined on the following basis:

The proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund, after deducting the costs of such investment, shall be allocated and paid as follows:

- (a) The Fund shall receive an amount equal to all gains and income earned from each particular eligible investment which provides a cumulative investment return at an annual average rate equal to 12% since investment.
- (b) The Management Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12% annual average rate of return contemplated in (a) above, up to and including 15% of the annual average rate of return earned from the particular eligible investment.
- (c) All gains and income earned on each particular eligible investment after deducting the amounts calculated in accordance with (a) and (b) above, shall be allocated and paid in the following proportions:
  - (i) 80% to the Fund;
  - (ii) 16% to the Management Advisor; and
  - (iii) 4% to the Manager.

The IPA will be calculated and paid to the Manager and Management Advisor quarterly in arrears based upon realized gains, calculated on the last day of the last month of each calendar quarter.

No performance fee was paid to the Manager or the Management Advisor for the fiscal years ended September 30, 2001, September 30, 2002, September 30, 2003, September 30, 2004 or September 30, 2005.

## **SHARE CAPITAL OF THE FUND**

The authorized capital of the Fund consists of an unlimited number of Class A Shares issuable in series, 25,000 Class B Shares and an unlimited number of Class C Shares, issuable in series, of which three series of Class A Shares have been designated, the Series I Shares, the Series II Shares and the Series III Shares, and no series of Class C Shares have been designated.

The Class A Shares may be issued only to individuals (other than trusts that are not Qualifying Trusts) and certain RRSPs which, at the time of subscribing for Class A Shares, meet all other conditions, if any, of the Ontario Act. See “INCOME TAX CONSIDERATIONS”. The Class B Shares may be issued only to the Sponsor or other permissible employee organizations. The Class C Shares, subject to any necessary regulatory approval, may be issued from time to time to corporate, institutional or other investors but the Class C Shares do not qualify for the tax credits applicable to investment in the Class A Shares.

The following is a summary of the material provisions attaching to each class of shares of the Fund.

### **Class A Shares**

#### *Issue*

The Class A Shares may be issued only to individuals (other than trusts that are not Qualifying Trusts) and certain RRSPs which, at the time of subscribing for Class A Shares, meet all other conditions, if any, of the Ontario Act.

#### *Transfer*

If a Tax Credit Certificate has been issued under the Ontario Act to an individual (a “Specified Individual”) the Fund may register or otherwise recognize a transfer of a Class A Share by a Specified Individual who is the original purchaser, or by a RRSP or RRIF under which a Specific Individual or his or her Spouse is the annuitant, only if:

- (a) the transferor gives notice in writing to the Fund that the Class A Share is being transferred:
  - (i) to be held as an investment of a RRSP or RRIF under which a Specified Individual or his or her Spouse is the annuitant; or
  - (ii) as a consequence of the death of a Specified Individual; or
  - (iii) at a time when the Specified Individual has, after acquiring the Class A Shares, become disabled and permanently unfit for work or terminally ill; or
  - (iv) to the Specified Individual or the Spouse of the Specified Individual; or
- (b) the transfer is otherwise permitted in any other circumstances for the purposes of the Ontario Act and approved by the Board of Directors.

#### *Redemption by Holders*

A Specified Individual, or a RRSP or RRIF to which the Class A Share has been issued or transferred and under which the Specified Individual or his or her Spouse is the annuitant, may not require the Fund to redeem the Class A Share unless such Specified Individual submits a request in writing to the Fund that the Fund redeem the Class A Share and has satisfied all other prescribed conditions, if any, of the Ontario Act, and the following:

- (a) where the Class A Share is held by a Specified Individual who is the original purchaser, the Fund is notified in writing that the original purchaser:
  - (i) has, after acquiring the Class A Share, become disabled and permanently unfit for work or terminally ill; or
  - (ii) has requested the Fund to redeem the Class A Share within 60 days after the day on which such Class A Share was issued and any Tax Credit Certificate issued to the holder has been returned to the Fund;
- (b) the Class A Share is held by an individual who notifies the Fund in writing that the Class A Share has devolved to such individual as a consequence of the death of a Specified Individual or the annuitant under a RRSP or a RRIF that was the holder of such Class A Share;
- (c) the Class A Share is held as an investment in a RRSP or a RRIF under which the original purchaser or the original purchaser’s Spouse is the annuitant and the original purchaser has died or, where the original purchaser is living, the Fund is notified in writing that the original purchaser has satisfied the conditions in clause (i) of paragraph (a) above;
- (d) the redemption occurs more than eight years following the date of issue of the Class A Share;
- (e) the redemption occurs within eight years of the date of issue of the Class A Share and the Fund has withheld all such amounts and the Fund and the holder have satisfied all such conditions under the Federal Act and, where applicable, all requirements in connection with the redemption imposed by the Ontario Act and any other provincial legislation having application to the holder or the Fund; or

- (f) the holder of the Class A Share has satisfied such other conditions as may be prescribed under the Federal Act and the Ontario Act and approved by the Board of Directors.

In any financial year, the Fund is not required to, but may at its option, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding financial year. Subject to the foregoing limitation, any such shares which the Fund has not redeemed in a particular financial year will be redeemed in the following financial year before the Fund redeems any other Class A Shares and, for such purposes, the requests to redeem such Class A Shares will be deemed to have been received by the Fund on the first day of the following financial year in the order that they were originally received by the Fund.

Redemptions of Class A Shares will be made at the Redemption Price as at the Redemption Date. See “REDEMPTIONS OF CLASS A SHARES”.

The Fund is entitled to suspend the right of holders of Class A Shares to redeem Class A Shares and/or delay the date for payment of the Redemption Price in respect to any redeemed Class A Share for the whole or any part of any period during which the consent of the Ontario Securities Commission has been obtained.

If the Fund is requested to redeem Series I Shares or Series II Shares before the eighth anniversary of the issue of such shares, holders of such shares so redeemed will be charged an early redemption fee payable to the Fund. The redemption fee payable upon redemption of the Series I Shares is one eighth of 6.25% of the Redemption Price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue. The redemption fee payable upon redemption of the Series II Shares is 1.25% of the Redemption Price of such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue. There is no early redemption fee payable to the Fund by holders of the Series III Shares. In each case the redemption fee otherwise payable will be deducted from the Redemption Price and will be retained by the Fund.

#### *Dividends*

Holders of Class A Shares are entitled to receive dividends at the discretion of the Board of Directors.

#### *Voting Rights*

Holders of Class A Shares are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only holders of a different class of shares of the Fund are entitled to vote separately as a class, are entitled to vote at any such meeting. Each Class A Share entitles the holder thereof to one vote per Class A Share held.

#### *Fractional Shares*

A holder of a fractional Class A Share is entitled to exercise voting rights and to receive dividends in respect of such fractional Class A Share to the extent of such fraction.

#### *Election of Directors*

Holders of Class A Shares voting as a class are entitled to elect one-third of the directors of the Fund, such directors to be elected at each annual meeting of the Fund.

#### *Dissolution*

On liquidation, dissolution or winding-up of the Fund or other distribution of the assets of the Fund for the purpose of winding-up its affairs (“dissolution”), the holders of Class A Shares and Class C Shares will be entitled to share on a pro rata basis all the assets of the Fund remaining after payment of all liabilities of the Fund and after the return of paid-up capital to the holders of outstanding Class B Shares.

#### **Differences between Series of Class A Shares**

Different sales commission, redemption fee and service fee structures apply to each of the Series I Shares, the Series II Shares and the Series III Shares.

Sales commissions on the Series I Shares and the Series II Shares are based on the initial subscription price and are paid by the Fund. A sales commission of 6.25% of the original issue price of the Series I Shares is paid to registered

dealers selling such shares. A sales commission of 10% of the original issue price of the Series II Shares is paid to registered dealers selling such shares. Such commission consists of a 6.25% sales commission plus an additional sales commission of 3.75% of the original issue price of the Series II Shares in lieu of any service fees payable before the eighth anniversary of the date of issue of the shares. There is no sales commission on the Series III Shares. See “METHOD OF DISTRIBUTION”.

Service fees are based on the net asset value of each series and will fluctuate over time with any changes in net asset value. A service fee equal to 0.50% annually of the Net Asset Value of the Series I Shares is paid to registered dealers in respect of Series I Shares held by the customers of the sales representatives of the registered dealers, calculated daily and paid quarterly in arrears. A service fee equal to 1.25% annually of the Net Asset Value of the Series III Shares is paid to registered dealers in respect of Series III Shares held by the customers of the sales representatives of the registered dealers, calculated daily and paid quarterly in arrears for the first eight years from the date of issue. No service fee is paid to registered dealers before the eighth anniversary of the date of issue of the Series II Shares. Following the eighth anniversary of the issue date of the Series II Shares and the Series III Shares, the Fund will pay a service fee equal to 0.50% annually of the Net Asset Value of the Series II Shares and the Net Asset Value of the Series III Shares, respectively, to registered dealers in respect of Series II Shares and Series III Shares, respectively, held by the customers of the sales representatives of the registered dealers, calculated daily and paid quarterly in arrears. See “METHOD OF DISTRIBUTION – Additional Dealer Compensation”.

Holders of Series I Shares or Series II Shares who elect to redeem such shares before the eighth anniversary of the date of issue of such shares will be charged an early redemption fee payable to the Fund. The redemption fee on the Series I Shares is one eighth of 6.25% of the Redemption Price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue. The redemption fee on the Series II Shares is 1.25% of the Redemption Price of such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue. There is no early redemption fee payable to the Fund by holders of the Series III Shares. See “REDEMPTION OF CLASS A SHARES”.

For investors who are sensitive to an increase in the amount of fees payable on the shares they purchase and who are confident that they will not redeem their shares within eight years of purchase, a series that offers lower service fees and higher redemption fees may be more suitable. For investors who may redeem their shares within eight years of purchase and who are not sensitive to an increase in the amount of service fees on the shares they purchase as the net asset value of the shares appreciates, a series that offers lower redemption fees and higher service fees may be more suitable. Investors should consult their professional advisors.

### **Class B Shares**

#### *Issue*

The Class B Shares may be issued only to the Sponsor (either directly or to a wholly-owned subsidiary), or such other organizations, entities or persons permitted under the Ontario Act to hold Class B Shares.

#### *Dividends*

The holders of the Class B Shares are not entitled to receive dividends.

#### *Voting Rights*

The holders of the Class B Shares are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only holders of a different class are entitled to vote separately as a class, are entitled to vote at any such meeting. Each Class B Share entitles the holder thereof to one vote per share.

#### *Election of Directors*

The holders of the Class B Shares are entitled to elect the number of directors of the Fund who are not elected by the holders of the Class A Shares, providing that such directors shall be not less than a majority of the directors.

#### *Redemption*

The Class B Shares are redeemable by the Fund at a redemption price equal to the purchase price paid for such Class B Shares.

### *Dissolution*

On dissolution, the holders of the Class B Shares are entitled to receive the purchase price paid for such shares before any assets are distributed to holders of Class A Shares but after payment of all liabilities of the Fund.

### **Class C Shares**

#### *Issue*

The Class C Shares are issuable in series, each series consisting of such number of shares as may be determined by the Board of Directors.

#### *Dividends*

Holders of Class C Shares are entitled to receive dividends at the discretion of the Board of Directors, provided that no dividends will be declared or paid unless the same dividend per share is declared or paid on Class A Shares.

#### *Dissolution*

On dissolution, the holders of Class C Shares and Class A Shares will be entitled to share on a pro rata basis all the assets of the Fund remaining after payment of all liabilities of the Fund and after the return of paid-up capital to the holders of outstanding Class B Shares.

#### *Non-Voting*

The holders of Class C Shares will be entitled to receive notice of and attend all meetings of shareholders of the Fund but, except as provided by law, will not be entitled to vote thereat.

#### *Other Rights*

Except as otherwise provided, the rights, privileges, restrictions and conditions attaching to each series of Class C Shares shall be determined by the Board of Directors, subject to the prior approval of the Minister of Finance (Ontario).

## **INCOME TAX CONSIDERATIONS**

### *Introduction*

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, the following summary presents fairly the principal Canadian federal and Ontario income tax considerations generally applicable to prospective purchasers of Class A Shares pursuant to this prospectus who, for the purposes of the Federal Act and the Ontario Tax Act are individuals resident in Canada and Ontario and who hold their Class A Shares as capital property and deal at arm's length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade.

This summary is based upon the current provisions of the Federal Act, the Ontario Act and the Ontario Tax Act, counsel's understanding of the current administrative and assessing practices of the CRA and the Ontario tax authorities publicly available as of the date hereof, and specific proposals for amendments to such legislation and regulations announced prior to the date hereof, but does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative action. This summary assumes that any proposed amendments will be enacted as and when proposed; however, no assurance can be provided in this regard.

This summary does not take into account foreign income tax legislation or considerations.

**This summary is of a general nature only and is not exhaustive of all possible federal and Ontario income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Therefore, prospective purchasers should consult their own tax advisors with respect to their individual circumstances.**

The Fund has obtained registration as a Labour Sponsored Investment Fund Corporation under the Ontario Act. This summary assumes that the Fund is qualified as a Labour Sponsored Investment Fund Corporation under the Ontario Act and will continue to be so qualified hereafter on a continuous basis.

### **Federal Income Tax Considerations**

#### **Federal Credit Available to First Purchaser**

An individual (other than a trust that is not a Qualifying Trust) resident in Canada who is the first person to be the registered holder of Class A Shares will be eligible for a federal labour-sponsored funds tax credit (the “Federal Credit”) in an amount equal to 15% of the individual’s net cost of the Class A Shares. Generally, the individual’s net cost of Class A Shares is the price paid in respect of the subscription for, or the acquisition of, the Class A Shares. The amount of the Federal Credit and the amount of the Ontario Credit (defined below) do not reduce the net cost of the Class A Shares to the holder for this purpose. The amount of any assistance received from a government, municipality or other public authority in respect of the acquisition of a Class A Share, other than a tax credit or a deduction in respect of a contribution to a RRSP, will reduce the individual’s net cost of the Class A Share. The individual will be eligible for an annual maximum Federal Credit of \$750 (based on an annual \$5,000 investment) in respect of his or her aggregate purchases of Class A Shares and any other shares of prescribed Labour-Sponsored Venture Capital Corporations, including other Labour Sponsored Investment Fund Corporations in the year or within 60 days after the end of the year.

The Federal Credit may be deducted from the individual’s tax payable only in respect of the calendar year in which the Class A Shares are subscribed for or acquired, unless the Class A Shares are subscribed for or acquired in the first 60 days of a calendar year, in which case the Federal Credit may, at the individual’s option, be deducted from the tax payable in respect of the preceding calendar year. In certain instances and upon the direction of the Minister of National Revenue, Class A Shares acquired at any time after the first 60 days of the calendar year will be deemed to have been acquired at the beginning of the year for the purpose of the 60 day rule. The Federal Credit is not refundable to the extent that it exceeds the individual’s tax otherwise payable and is not transferable by the individual. To be eligible for the Federal Credit, the individual must file with his or her tax return the Ontario Tax Credit Certificate issued by the Fund to shareholders in respect of the acquisition of the Class A Shares.

#### **Transfer of Class A Shares to and Holding Class A Shares through RRSPs and RRIFs**

An individual is also eligible for the Federal Credit under certain circumstances where the purchaser of the Class A Shares is a Qualifying Trust for the individual. A Qualifying Trust is a trust governed by a RRSP where: (i) in the case of a non-spousal RRSP, the individual is the annuitant; and (ii) in the case of a spousal RRSP, the individual or the individual’s Spouse is the annuitant and no other person has claimed the Federal Credit in respect of the Class A Shares.

An individual who acquires Class A Shares may transfer the Class A Shares to a RRSP under which the individual or his or her Spouse is the annuitant. On the transfer of Class A Shares to a RRSP, the holder of the Class A Shares will be deemed to have disposed of the Class A Shares and to have received proceeds of disposition equal to the fair market value of the Class A Shares at the date of transfer. If the fair market value of the Class A Shares is greater than the individual’s adjusted cost base of the Class A Shares, the excess will be the holder’s capital gain. If the fair market value of the Class A Shares is less than the individual’s adjusted cost base of the Class A Shares, any resulting capital loss will be denied. See “Taxation of Class A Shareholders – Disposition of Class A Shares” below. The individual may be eligible to treat an amount equal to the fair market value of the Class A Shares at the time of the transfer as a deductible contribution to the RRSP, subject to the contribution limits in the Federal Act. The determination of the fair market value of Class A Shares is a factual matter. In assessing the income tax return of an individual who has made such a transfer, the CRA has the right to review the fair market value of a Class A Share.

Contributions to RRSPs are deductible in accordance with the provisions of the Federal Act which place limits on the annual amount of deductible RRSP contributions. This deduction is in addition to the Federal Credit. Generally, for any year, an individual may deduct a RRSP contribution that does not exceed the amount by which the lesser of the RRSP dollar limit for the year and 18% of his or her earned income (as defined in the Federal Act) for the immediately preceding year exceeds the value of his or her pension or deferred profit sharing plan benefits determined in accordance with the Federal Act. For 2005 the RRSP dollar limit is \$16,500 and for 2006 it is \$18,000. Unused RRSP deduction room for 1991 and subsequent years can be carried forward to increase the amount of an individual’s deductible contribution to a RRSP.

In addition, an individual who acquires Class A Shares, or a RRSP under which the individual or his or her Spouse is the annuitant which acquires Class A Shares, may transfer the Class A Shares to a RRIF under which the individual or his or her Spouse is the annuitant. There is no tax deduction available for transfers of property from an individual to a RRIF. An individual who makes such a transfer of Class A Shares will be deemed to have disposed of the Class A Shares and to have received proceeds of disposition equal to the fair market value of the Class A Shares on the date of transfer. If the fair market value of the Class A Shares is greater than the individual's adjusted cost base of the Class A Shares, the excess will be the holder's capital gain. If the fair market value of the Class A Shares is less than the individual's adjusted cost base of the Class A Shares, any resulting capital loss will be denied. See "Taxation of Class A Shareholders – Disposition of Class A Shares" below. The determination of the fair market value of the Class A Shares is a factual matter. In assessing the income tax return of an individual who has made such a transfer, the CRA has the right to review the fair market value of the Class A Shares. Where such a transfer is made by a RRSP, generally no tax consequences will ensue as rules in the Federal Act permit tax sheltered contributions of property to a RRIF from RRSPs.

An RRIF is not permitted to directly subscribe for Class A Shares.

### **Taxation of Class A Shareholders**

#### *Dividends*

Dividends (other than capital gains dividends) paid on Class A Shares and received or deemed to be received by an individual will be included in computing the individual's income subject to the gross-up and dividend tax credit rules in the Federal Act applicable to dividends from taxable Canadian corporations. The amount of a capital gains dividend received or deemed to be received by an individual who holds Class A Shares will be deemed to be a capital gain of the holder from a disposition of capital property for the year in which the dividend is received. One-half of the amount of a capital gains dividend will be included in the holder's income as a taxable capital gain for the purposes of the Federal Act.

If and to the extent that the Fund increases the paid-up capital of the Class A Shares, as discussed below under the heading "Taxation of the Fund – Dividend Refunds and Capitalization of Income", an individual who holds Class A Shares will be deemed to have received a dividend equal to the amount of the paid-up capital increase in respect to his or her Class A Shares. The deemed dividend will be subject to the treatment generally applicable to dividends or capital gains dividends, as the case may be, paid on the Class A Shares.

**A holder of a Class A Share will not receive any cash distribution in respect of a deemed dividend or a deemed capital gains dividend. Accordingly, an individual holder may be liable to pay tax in respect of a deemed dividend even though the holder will not have received a cash distribution from the Fund with which to pay the tax.**

A holder of a Class A Share which is a RRSP or a RRIF is exempt from tax on the amount of any dividend, deemed dividend or deemed capital gains dividend.

#### *Disposition of Class A Shares*

In general, a disposition or a deemed disposition of a Class A Share which is capital property will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Class A Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Class A Share to the holder thereof. In calculating a holder's gain or loss, the cost to the holder of a particular Class A Share will be determined by averaging the cost of that Class A Share with the adjusted cost base of all Class A Shares of the same series held as capital property at that time by the holder. A holder's adjusted cost base of a Class A Share will be increased by the amount of any deemed dividend or deemed capital gains dividend arising as a result of the capitalization of income described below under the heading "Taxation of the Fund – Dividend Refunds and Capitalization of Income". The Federal Credit and the Ontario Credit will not reduce the adjusted cost base of the Class A Shares.

A capital loss that would otherwise arise on the disposition of a Class A Share will be reduced by the amount of the Federal Credit and the applicable Ontario Credit received in respect of the Class A Share by the holder of the Class A Share (or by a person with whom the holder does not deal at arm's length) to the extent that the amount of such tax credit has not previously reduced a capital loss in respect of the Class A Share.



Any capital loss realized by a holder of Class A Shares on the sale or transfer of Class A Shares to a RRSP under which the holder or the holder's Spouse is the annuitant, or to a RRIF under which the holder is the annuitant, will be deemed to be nil.

One-half of any capital gain or capital loss will be the holder's taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the holder's income. Allowable capital losses in excess of taxable capital gains for a particular year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

#### *Redemption of Class A Shares*

On the redemption of a Class A Share, the redemption proceeds will be treated as proceeds of disposition of the Class A Share and the holder thereof will be deemed to have received a capital gain (or capital loss) equal to the amount by which the redemption proceeds, net of any costs of disposition, exceed (or are less than) the adjusted cost base of the Class A Share to the holder thereof. There are restrictions on the redemption of Class A Shares. Except in certain special circumstances, a holder who wishes to redeem Class A Shares within eight years after the date on which such shares are issued will be subject to certain withholding taxes generally equal to the Federal Credit and the Ontario Credit received on the purchase of such Class A Shares. See "Disposition of Class A Shares" above.

#### *Minimum Tax*

The Federal Act provides for an alternative minimum tax applicable to individuals and trusts. Individuals and certain trusts are required to compute their "adjusted taxable income" which includes certain amounts which, for general income tax purposes, would be deductible or exempt. Taxable dividends (without application of the dividend gross-up) and 80% of capital gains dividends received or deemed to be received from the Fund and 80% of the amount of capital gains are included in "adjusted taxable income." Individuals and certain trusts are entitled to claim an annual basic exemption of \$40,000. A minimum tax is applied to the amount by which "adjusted taxable income" exceeds the basic exemption. An investor's "adjusted taxable income" is not reduced by the Federal Credit. If the minimum tax so calculated exceeds the tax otherwise payable, the minimum tax is payable; however, it may be carried forward to offset tax payable in a future year.

#### **Taxation of the Fund**

The Fund is a "private corporation" and, as a prescribed Labour-Sponsored Venture Capital Corporation, will be a "mutual fund corporation" for the purposes of the Federal Act. As a corporation resident in Canada, the Fund is required to calculate its income or loss for each taxation year, file income tax returns and is subject to tax at normal corporate rates.

#### *Dividends*

Any dividends received by the Fund from taxable Canadian corporations will generally not be subject to Part I tax.

#### *Capital Gains and Losses*

The Fund has elected to have each of its "Canadian securities" (as defined in the Federal Act) treated as capital property. Such an election ensures that gains or losses realized by the Fund on the sale of "Canadian securities" are treated as capital gains or capital losses.

When the Fund sells or otherwise disposes of a capital property, the Fund will realize a capital gain to the extent that the proceeds of disposition exceed the Fund's adjusted cost base of the property and the Fund's reasonable costs of disposition. If the proceeds of disposition are less than the adjusted cost base of the property, a capital loss will result. In certain circumstances, such a capital loss which arises in respect of a share disposed of by the Fund may be reduced by the amount of any dividends, including deemed dividends, which have been received by the Fund on such a share unless, generally: (a) the Fund owned the share for 365 days or longer before the loss was sustained; and (b) the Fund (and non-arm's length persons) did not, at the time the dividend was received, own in the aggregate, more than 5% of the issued shares of any class of the corporation which paid the dividend.

One-half of any realized capital gain or capital loss will be the Fund's taxable capital gain or allowable capital loss, as the case may be. The Fund's taxable capital gains for a year, net of any allowable capital losses, will be included in computing the Fund's income for tax purposes. Allowable capital losses in excess of taxable capital gains

for a particular year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years. As a mutual fund corporation, the Fund may be entitled to refunds in accordance with the provisions of the Federal Act of substantially all tax paid with respect to net taxable capital gains if it pays or is deemed to have paid capital gains dividends or redeems Class A Shares as discussed below.

#### *Interest and Other Investment Income*

Interest and investment income, other than dividends in respect of shares of taxable Canadian corporations, will be included, net of expenses, in calculating the Fund's income subject to tax. Provided that the Fund is a Canadian-controlled private corporation throughout a particular year, the Fund will be subject to an additional refundable tax in the year equal to 6 2/3% of such investment income. The Fund will be eligible for a refund of a portion of the normal corporate tax and for the 6 2/3% refundable tax paid by it on such income determined in accordance with the detailed rules in the Federal Act, if it pays or is deemed to have paid taxable dividends to its shareholders.

#### *Issue Expenses*

The issue expenses of the Fund and the sales commissions are generally not deductible in their entirety in the year incurred, but are deductible at the rate of 20% per year on a straight-line basis subject to a pro-rata reduction in the year incurred based on the proportion of the number of days in such year to 365.

#### *Dividend Refunds and Capitalization of Income*

The Fund has indicated that it intends to capitalize its retained earnings, as necessary. The Fund will then make appropriate elections under the Federal Act to enable it to capitalize, on a periodic basis, sufficient amounts of its capital gains and interest and other investment income in order to minimize taxes payable on net realized capital gains and on net investment income. In such a case, the Fund will be deemed to have paid a dividend on its then issued and outstanding Class A Shares equal to the amount added to the stated capital of the Class A Shares and each holder of Class A Shares will be deemed to have received a dividend, or if the Fund so elects, a capital gains dividend, equal to the holder's proportionate share thereof even though the holder will not receive a cash distribution from the Fund. The adjusted cost base of the holder's Class A Shares will be increased by the amount of the deemed dividend.

In the case of a deemed capital gains dividend, one-half of such amount will be included in the holder's income as a taxable capital gain for the purposes of the Federal Act. If the Fund makes the election referred to above but does not designate a deemed dividend as a capital gains dividend, the amount of the deemed dividend will be included in the holder's income as an ordinary dividend and will be subject to the gross-up and dividend tax credit rules in the Federal Act. See "Taxation of Class A Shareholders – Dividends" above.

A holder of a Class A Share will not receive any cash distribution in respect of a deemed dividend or a deemed capital gains dividend. The amount of any deemed dividend or deemed capital gains dividend resulting from an increase in the paid-up capital of the Class A Shares will entitle the Fund to a refund of tax otherwise payable on its interest and other investment income (other than dividends in respect of shares of taxable Canadian corporations) or realized capital gains, as the case may be. See "Capital Gains and Losses" and "Interest and Other Investment Income" above.

### **Ontario Income Tax Considerations**

#### **Taxation of the Fund**

Counsel has been advised by management of the Fund that the Fund does not intend to carry on business through a permanent establishment in any province other than the province of Ontario. Subject to this assumption, all of the Fund's aggregate income will be attributable to, and taxable in, the province of Ontario. The calculation of taxable income for Ontario purposes will generally parallel the taxation of the Fund under the Federal Act.

#### **Ontario Credit Available to First Purchaser**

An individual (other than a trust that is not a Qualifying Trust) resident in Ontario who is the first person to be the registered holder of Class A Shares will be eligible for an Ontario non-refundable tax credit (the "Ontario Credit") in an amount equal to 15% of the purchase price paid by the individual for the Class A Shares. The maximum annual Ontario Credit is \$750 in respect of the individual's aggregate purchases of Class A Shares and any other shares issued by Labour Sponsored Investment Fund Corporations and would be obtained upon the purchase of Class A Shares

costing \$5,000. In order to maintain its registration under the Ontario Act, the Fund must meet certain requirements relating to its investment activities including meeting minimum investment levels in Ontario businesses. See “Penalty Taxes” below.

An individual is eligible for the Ontario Credit under certain circumstances where the purchaser of the Class A Shares is a Qualifying Trust for the individual. A Qualifying Trust is a trust governed by a RRSP where: (i) in the case of a non-spousal RRSP, the individual is the annuitant; and (ii) in the case of a spousal RRSP, the individual or the individual’s Spouse is the annuitant and no other person has claimed the Federal Credit in respect of the Class A Shares.

To be eligible for the Ontario Credit, the individual must file with his or her tax return the Tax Credit Certificate issued to him or her in respect of the acquisition of Class A Shares. The Ontario Credit may be deducted from the individual’s tax payable only in respect of the calendar year in which the Class A Shares are paid for, unless the Class A Shares are paid for in the first 60 days of the calendar year, in which case the Ontario Credit may, at the individual’s option, be deducted from the tax payable in respect of the preceding calendar year. The Ontario Credit is non-refundable and is not transferable by the individual.

On December 15, 2005, the Ontario government passed legislation to phase out the Ontario provincial tax credit over 6 years as follows:

<b>Taxation Year</b>	<b>RSP Sales Season</b>	<b>LSIF Tax Credit%</b>
2005	2006	15%
2006	2007	15%
2007	2008	15%
2008	2009	15%
2009	2010	10%
2010	2011	5%

Based on this legislation, Ontario purchasers of Class A Shares will continue to be eligible to receive a 15% Ontario Credit up to and including the 2008 taxation year, a 10% Ontario Credit for the 2009 taxation year and a 5% Ontario Credit for the 2010 taxation year. The phase out of the Ontario provincial tax credit does not affect the Federal Credit available to purchasers of Class A Shares.

### **Transfer of Class A Shares to and Holding Class A Shares through RRSPs and RRIFs**

The Ontario tax treatment of an individual who makes a transfer of Class A Shares to a RRSP or RRIF under which the individual or the individual’s Spouse is the annuitant is generally the same as the federal tax treatment discussed above, as the discussion relates to transfers to RRSPs and RRIFs.

### **Taxation of Class A Shareholders**

Under the Ontario Tax Act, an individual who is resident in Ontario on the last day of a taxation year is generally liable for Ontario tax at specific percentages of the individual’s taxable income, as defined and determined in accordance with the Ontario Tax Act. The Ontario tax treatment of a holder of a Class A Shares will generally be similar to the individual’s tax treatment under the Federal Act discussed herein.

### **Penalty Taxes**

The Ontario Act imposes various investment restrictions on the Fund (see “INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND – Statutory Investment Restrictions”). On or before January 31, the Fund is required to provide the Minister of Finance (Ontario) with a certificate setting out the Fund’s status of its compliance with these restrictions during the previous calendar year. If the Fund fails to deliver such certificate, the Fund will be considered not to be in compliance with the investment restrictions and no further Tax Credit Certificates in respect of Class A Shares will be issued until the Fund delivers such certificate to the Minister of Finance (Ontario). Where the Fund is either considered not to be in compliance with the investment restrictions for failure to deliver the certificate or is not in compliance, the Fund will be liable for a penalty equal to 30 percent of the equity capital received on the issue of Class A Shares by the Fund during the time of the non-compliance.

If the Fund fails to meet or maintain the required level of eligible investments (see “INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND – Statutory Investment Restrictions”), the Fund will be liable for a penalty tax equal to the amount by which the greater of:

- (i) 15% of the amount by which the amount of the Fund's equity capital received on the issue of its Class A Shares that is required to be maintained in eligible investments as of the end of the calendar year exceeds the cost to the Fund of its eligible investments at the end of such calendar year; and
- (ii) the aggregate of: (a) 15% of the amount by which the cost of the investments by the Fund during the calendar year in eligible businesses that are listed companies exceeds the limit on investments in listed companies imposed by the Ontario Act, and (b) 15% of the amount by which the equity capital received on the issue of Class A Shares that is required to be invested at the end of the calendar year in eligible businesses that are Small Businesses exceeds the total of all amounts each of which is a cost to the Fund of its investment in such eligible small businesses at the end of the calendar year,

exceeds the amount of any tax paid by the Fund in any prior year that has not been rebated to the Fund other than an amount described in (ii)(a) above.

Penalty tax is refundable without interest if the Fund applies within three years after the end of the calendar year in which the tax was imposed and the Minister of Finance (Ontario) is satisfied that the Fund is maintaining the level of eligible investments and is complying with the restrictions and requirements for eligible investments in small businesses as required under the Ontario Act. If a penalty tax becomes payable by the Fund under the Ontario Act as a consequence of a failure to acquire sufficient properties of a character described in the Ontario Act's investment restriction, a penalty tax in the same amount will be payable under the Federal Act. Where an amount of penalty tax is rebated by the Minister of Finance (Ontario), the Fund is deemed to have paid at that time an amount equal to the rebate on account of its federal tax payable under the Federal Act.

These requirements also permit the Minister of Finance (Ontario) to order the Fund to stop issuing Tax Credit Certificates where he is of the opinion that the Fund is not in compliance with the investment requirements.

#### **Revocation of Registration Under the Ontario Act**

The Minister of Finance (Ontario) may revoke the registration of the Fund under the Ontario Act if the Fund, among other things:

- does not comply with the requirements imposed by its Articles;
- does not comply with or contravenes the requirements of the Ontario Act;
- in the opinion of the Minister of Finance (Ontario), the Fund, its officers, directors or shareholders are conducting their business or affairs in a manner contrary to the spirit and intent of the Ontario Act, or for the purpose of enabling an individual to obtain an Ontario Credit to which the individual would not otherwise be entitled.

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Finance (Ontario) an amount equal to the lesser of (i) 15% of the equity capital received by the Fund in respect of all Class A Shares then outstanding less than eight years immediately preceding the date of revocation of the registration, or (ii) the total amount that would be determined for the purpose of (i) if the equity capital received by the Fund on the issue of each of the Class A Shares had been an amount equal to the fair market value of the Class A Shares at the date of the revocation of registration.

The Minister of Finance (Ontario) must give notice to the Fund of any proposal, together with written reasons, to revoke the Fund's registration. The Fund will have an opportunity, within 60 days of the day of mailing the notice of proposal, to object to any proposed revocation of its registration. If the decision of the Minister of Finance (Ontario) to revoke the Ontario registration of the Fund is confirmed, the Fund may only appeal the confirmation if the Minister's decision to confirm the proposal involves the interpretation of a provision under the Ontario Act or is an issue solely of law. Investments in Class A Shares made after the revocation of the Fund's Ontario registration will not entitle purchasers to receive Ontario Credits.

## **DIVIDEND POLICY**

The Fund may declare such dividends on the Class A Shares from time to time out of monies legally available for dividends as may be appropriate. There has been no distribution made by the Fund since its inception.

The Fund intends to capitalize from time to time certain amounts of its interest and other investment income (other than dividends in respect of taxable Canadian corporations) and capital gains to the extent necessary to obtain a refund of the tax otherwise payable on its taxable capital gains and to reduce the tax otherwise payable by it on its interest and other investment income (other than dividends in respect of taxable Canadian corporations). Such capitalization will be effected by increasing the stated capital of the Class A Shares on a pro rata basis. If and to the extent that the Fund increases the stated capital of the Class A Shares, a holder of Class A Shares will be deemed to have received a dividend equal to the amount of the stated capital increase in respect of his or her Class A Shares. See “INCOME TAX CONSIDERATIONS – Federal Income Tax Considerations – Taxation of the Fund – Dividend Refunds and Capitalization of Income”.

## **METHOD OF DISTRIBUTION**

Series I Shares, Series II Shares and Series III Shares are distributed through registered dealers in Ontario on a best efforts basis. Sales commission on an investment will be paid by the Fund to registered dealers. The sales commission on Series I Shares is 6.25% of the amount invested. The sales commission on Series II Shares is 10%, consisting of a 6.25% sales commission plus an additional 3.75% sales commission of the original issue price of the Series II Shares. The 3.75% commission is in lieu of any service fees being payable before the eighth anniversary of the date of issue of the Series II Shares. No sales commission is payable on the sale of the Series III Shares. Series I Shares and Series II Shares will be subject to an early redemption fee (deferred sales charge).

Although the Fund expects to continue the offering of Class A Shares, from time to time the Fund may suspend offering Class A Shares or any of the three series thereof and re-commence offering Class A Shares or any of the three series thereof at any time the Fund deems appropriate in its sole discretion.

The Fund may suspend the offering of Class A Shares or any of the three series thereof at any time when the Fund has more funds on hand than it can invest in suitable investments within a reasonable period of time and will re-commence the offering at such time as sufficient investment opportunities are available.

An affiliate of the Manager currently pays a fee based on gross sales to a fund distribution company for its wholesale services in connection with the sale of Class A Shares.

### **Additional Dealer Compensation**

The Fund pays registered dealers a service fee equal to 0.50% annually of the Net Asset Value of the Series I Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears. After the eighth anniversary of the date of issue of the Series II Shares the Fund will pay registered dealers a service fee equal to 0.50% annually of the Net Asset Value of the Series II Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears. The Fund pays to registered dealers a service fee equal to 1.25% annually of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears for the first eight years from the date of issue. After the eighth anniversary of the date of issue of the Series III Shares such dealers will be paid a service fee equal to 0.50% annually of the Net Asset Value of the Series III Shares held by the customers of the sales representatives of the registered dealers calculated daily and paid quarterly in arrears.

Service fees are intended to compensate dealers for the expenses incurred by them in communicating on an ongoing basis, both by mail and in person, with their clients who are holders of Class A Shares with respect to investments made by the Fund and the investment strategies and investment performance of the Fund.

The Fund or the Manager may enter into co-operative advertising programs with registered dealers providing for the reimbursement of expenses incurred by the registered dealers in promoting sales of Class A Shares. The Manager or the Fund pays no more than 50% of such expenses.

## **PRINCIPAL HOLDERS OF SECURITIES**

The issued and outstanding Class A Shares are widely held. Directors and senior officers of the Fund hold a total of 4,724,090 Class A Shares of the Fund as of the date of this prospectus.

1208733 Ontario Inc., a wholly-owned subsidiary of the Sponsor, owns one Class B Share which constitutes all of the issued and outstanding Class B Shares of the Fund.

The Manager is a wholly-owned subsidiary of 1209762 Ontario Ltd. and Mr. Richardson owns all of the voting securities of 1209762 Ontario Ltd.

## **RISK FACTORS**

The following may be considered as risk factors pertaining to an investment in Class A Shares.

### **Nature of Investment**

The Class A Shares are highly speculative in nature. The business of the Fund is to make investments in small and medium-sized eligible Canadian businesses. There is no assurance that sufficient suitable investments will be found. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or the long-term. An investment in Class A Shares is only appropriate for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares.

Investments of the kind to be made by the Fund, by their nature, involve a longer investment time horizon than that which is typical for other types of investments. Many such investments require between five to ten years in order to mature and generate the returns expected by investors. Furthermore, despite diversification of the Fund's investment portfolio for purposes of distributing risk, the investments of the Fund are likely to mature at different times creating an irregular pattern in the Net Asset Value per Class A Share. In addition, certain of the investments may not mature and generate the returns expected, or indeed provide for a recoupment of the capital invested. As well, losses on unsuccessful investments are often realized before gains on successful investments are realized. See "INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND".

Venture capital investment in eligible Canadian businesses according to the investment restrictions and policies applicable to the Fund requires a greater commitment to investment analysis than investments in most other securities. In addition, the cost to determine the value of the Fund's assets for which no published market exists will be greater than valuation costs for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles. Investors should consult with a professional advisor.

### **Management**

Investors rely on the business judgment, expertise and integrity of the Board of Directors and the Manager.

Holders of Class A Shares are entitled to elect only one-third of the directors of the Fund. The Sponsor elects the remaining two-thirds of the directors of the Fund. See "SHARE CAPITAL OF THE FUND – Class A Shares".

### **External Factors**

The Net Asset Value of the Fund is based on the value of the securities and investments in the Fund's portfolio and therefore the value of the Class A Shares will increase or decrease with the value of such investments. The value of the securities and investments will fluctuate with general economic conditions including the level of interest rates, corporate earnings, economic activity, the Canadian dollar and other factors. Eligible technology businesses, by virtue of their size and stage of development, will be affected more than larger, more mature entities by external events, including downturns in general economic conditions.

### **Early Stage Portion of Portfolio**

Many of the businesses that the Fund invests in are developing products which will require significant additional development, testing and investment prior to any final commercialization and therefore should be considered early stage investments with greater levels of risk than investments typically made by other investment funds. There can be no assurance that such products will be successfully developed, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed.

### **Valuations**

The Fund offers Series I Shares, Series II Shares and Series III Shares at the Net Asset Value per Series I Share, the Net Asset Value per Series II Share and the Net Asset Value per Series III Share, respectively, as at the end of each Weekly Valuation Update period or such shorter period as may be approved by the Senior Officers. These valuation updates are based on estimates of the fair market value of the Fund's assets for which there is, in most cases, no published market. This valuation process is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. To the extent that these valuations are too high, new shareholder investment will provide a benefit to existing investors; similarly, to the extent these valuations are too low, existing investors will suffer a dilution in the value of their shares. The value attributed to investments of the Fund may be significantly lower than the value which may be actually realized in the event that the Fund has to liquidate such investments.

### **Lack of Liquidity**

No formal market, such as a stock exchange, exists at present through which the Class A Shares may be sold and none is expected to develop. There are restrictions on the redemption of Class A Shares. See "SHARE CAPITAL OF THE FUND – Class A Shares". Consequently, holders of Class A Shares may not be able to sell their Class A Shares and Class A Shares may not be accepted as collateral for loans. Class A Shares may not be transferred except in certain limited circumstances.

### **Redemptions**

In any financial year the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund calculated as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in such circumstances. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit referred to above. Although the Fund intends to maintain at all times sufficient liquid assets to honour redemption requests up to such 20% limit, it cannot guarantee that it will be able to honour all redemption requests in the week in which they are made. The Fund's ability to satisfy redemption requests on an ongoing basis will be influenced by a variety of factors, including the level of redemption requests experienced by the Fund, the effect of such requests upon the liquid assets of the Fund, and the ability of the Fund to generate and retain liquid assets.

### **Non-Compliance with Investment Requirements**

The Fund will be subject to special taxes and penalties if it does not comply with the investment requirements of the Ontario Act. Investments will be made by the Fund from time to time based upon covenants by investee companies that the proceeds of such investments will be used for purposes permitted by the Ontario Act. In the event the investee company does not use the proceeds for such purposes, the Fund may be subject to certain penalties. If a penalty tax becomes payable by the Fund under the Ontario Act, generally, a penalty tax in the same amount will be payable under the Federal Act. See "INCOME TAX CONSIDERATIONS." The investment performance of the Fund may be adversely affected if the Fund becomes subject to such special taxes and penalties or if its registration is revoked.

### **Revocation of Registration**

The Fund's registration may be revoked if it does not comply with the investment requirements in the Ontario Act. If the Fund's registration under the Ontario Act is revoked persons who acquire Class A Shares after the revocation will not be eligible for Ontario Credits or Federal Credits and Class A Shares will cease to be eligible investments for RRSPs and RRIFs. See "INCOME TAX CONSIDERATIONS – Ontario Income Tax Considerations – Revocation of Registration Under the Ontario Act" and "ELIGIBILITY FOR INVESTMENT".

## **Mutual Fund Rules**

Many of the rules normally applicable to mutual funds operating in Ontario do not apply to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply. The Fund may take positions in small and medium-sized businesses which will represent a larger percentage of the equity than a mutual fund would normally be permitted to take, and this may increase the risk per investment.

## **Legislative Changes**

Changes may be introduced to federal or Ontario legislation providing for tax credits for investment in prescribed Labour-Sponsored Venture Capital Corporations or Labour Sponsored Investment Fund Corporations and related matters. If such changes are unfavourable, the Fund's ability to attract future investment capital and its investment performance could be impaired. As a result, the availability of funds for investment by the Fund and the return to investors in the Fund could be reduced, thereby decreasing the Fund's ability to fulfil its investment objectives. There is no assurance that the proposed amendments announced by the Ontario government on August 29, 2005 discussed under "INVESTMENT OBJECTIVES AND PRACTICES OF THE FUND – Statutory Investment Restrictions", will be enacted or will not be materially changed.

The phasing out of the Ontario Credit may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of the funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares.

## **Conflicts of Interest**

The services of the Management Advisor and its officers, directors and employees are not exclusive to the Fund. Subject to compliance with the Management Advisor's conflict of interest policy regarding its relationship with the Fund, the Management Advisor and its officers, directors and employees will be providing similar services and devoting a portion of their time to other investment activities, directorships and offices. These activities may result in certain conflicts of interest in allocating investment opportunities available to the Management Advisor among the Fund and its other clients. See "THE MANAGEMENT ADVISOR".

## **Availability of Suitable Investments**

There is no assurance that sufficient suitable investments in eligible businesses will be found in order for the Fund to continue to fulfill its investment objectives within the prescribed time periods. The Fund may be required to invest in eligible investments with limited or no connection to industries on which it is focused in order to meet the investment pacing requirements of the Ontario Act and the Federal Act.

## **Non-cash Distributions**

Individuals holding Class A Shares not subject to a trust governed by a RRSP or a RRIF may be liable for the payment of tax upon the deemed receipt by the holder of a dividend in the amount added to the stated capital or a capital gain dividend for which the holder did not receive a distribution from the Fund with which to pay such tax.

## **Follow-on Financings**

It is likely that the Portfolio Companies will require additional financing after the investments made by the Fund in order to fully implement their business strategies. If the Fund is unable to raise additional capital after it has met the investment pacing requirements applicable to the Fund, it will be reliant upon third parties to provide such financing in order to realize on investments in the Portfolio Companies. The ability of the Fund to raise additional capital is dependent on a number of factors including the state of the capital markets and legislative changes.

## **Different Series of Class A Shares Net Asset Values**

Class A Shares are issuable in series because of the differing sales commissions, redemption fees and services fee structures. Depending upon the performance of the Investment Portfolio, the return achieved by each series may differ.



## PROXY VOTING GUIDELINES AND POLICIES

The Fund delegates proxy voting to the Management Advisor as part of the Management Advisor's general management of the Fund's assets.

As part of its investment advice and services provided to the Fund, the Management Advisor votes the proxies associated with the Fund's investments in a manner which it believes to be in the best interests of the Fund as follows. Because a decision to invest in an investee company is generally an endorsement of management of the investee company, the Management Advisor will generally vote the Fund's shares with management on routine matters, provided however, that the matter meets the corporate governance requirements applicable to that investee company. On non-routine matters, including those business issues specific to the investee company or those raised by shareholders of the investee company, the Fund's shares will be voted on a case by case basis, in a manner which the Management Advisor believes is in the best interests of the Fund having regard to the information available to it.

From time to time, apparent conflicts of interest may arise with respect to the exercise of voting rights of the Fund such as situations where employees and officers of the Management Advisor serve as directors of such an investee company. In all situations of conflict or apparent conflict, the Management Advisor will only exercise voting rights of the Fund uninfluenced by considerations other than the best interests of the Fund. In other words, the Management Advisor will vote the Fund's shares solely in the capacity as a representative of the Fund and not in any other legal capacity.

The Fund will prepare a proxy voting record on an annual basis for the period ending on June 30 of such year. The Fund will promptly send the most recent copy of its proxy voting policies and procedures and proxy voting record, without charge, to any shareholder upon a request made by the shareholder after August 31 in a given year.

## AUDITORS, REGISTRAR, TRANSFER AGENT AND CUSTODIAN

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario. The address of the auditors is Suite 3000, Royal Trust Tower, TD Centre, Toronto, Ontario, M5K 1G8.

The Registrar acts as the registrar and transfer agent for the Class A Shares. See "SHAREHOLDER FINANCIAL REPORTING". Under an agreement (the "Custodian Agreement") dated December 30, 1996 between the Fund, the Manager and CIBC Mellon Global Securities Services Company (and certain of its affiliates) (the "Custodian"), the Custodian has agreed to hold the portfolio securities of the Fund in safekeeping for the Fund. The address of the Custodian is 320 Bay Street, Sixth Floor, Toronto, Ontario M5H 4A6.

## INVESTMENT PORTFOLIO AND BROKERAGE ARRANGEMENTS

The table below indicates the cost of all securities purchased by the Fund during the fiscal year ended September 30, 2005.

Government or Government Guaranteed Securities	Short-Term Notes	Other Securities	Total
\$0	\$84,906,307	\$7,343,931	\$92,250,238

The total cost of all securities held by the Fund on September 30, 2005 was \$57,968,185.

### Percentage of Total Commissions

The following table lists the principal broker of the Fund, the dollar amount of the commissions paid and the percentage which that dollar amount bears to total commissions paid by the Fund during the fiscal years ended September 30, 2003, September 30, 2004 and September 30, 2005.

Year Ended	Broker	Commissions	Percentage of Total Commissions
September 30, 2003	Canaccord Capital Corporation	\$897	100%
September 30, 2004	Desjardins Securities Inc.	\$4,490	100%
September 30, 2005	Desjardins Securities Inc.	\$130	100%

### LEGAL MATTERS AND LEGAL PROCEEDINGS

Certain legal matters in connection with this offering will be passed upon on behalf of the Fund by McMillan Binch Mendelsohn LLP.

There are no legal proceedings material to the Fund to which the Fund is a party or to which any of its property is subject and no such proceedings are known to be contemplated.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Pursuant to the Management Agreement, the Manager has been retained as manager of the Fund and receives certain management fees (see “THE MANAGER” and “MANAGEMENT COMPENSATION – Management Fees” and “MANAGEMENT COMPENSATION – Performance Fees”). John Richardson is an officer and a director of the Manager and an officer of the Fund. Thomas Lunan is an officer of the Manager and of the Fund. Michael Israels is a director of the Manager and an officer of the Fund. The Manager is a wholly-owned subsidiary of 1209762 Ontario Ltd. and Mr. Richardson owns all of the voting securities of 1209762 Ontario Ltd.

Pursuant to the Management Advisor Agreement, B.E.S.T. Investment Counsel Limited has been retained as the management advisor of the Fund and receives certain management fees (see “THE MANAGEMENT ADVISOR”, “MANAGEMENT COMPENSATION – Performance Fees” and “MANAGEMENT COMPENSATION – Management Advisor Fees”). The Management Advisor also provides sales and marketing services to the Fund and receives an annual fee for such services (see “SHAREHOLDER FINANCIAL REPORTING”). John Richardson is an officer and a director of the Management Advisor and an officer of the Fund. Thomas Lunan is an officer of the Management Advisor and of the Fund. Michael Israels is a director of the Management Advisor and an officer of the Fund. The Management Advisor is a wholly-owned subsidiary of 1209762 Ontario Ltd. and Mr. Richardson owns all of the voting securities of 1209762 Ontario Ltd.

### MATERIAL CONTRACTS

The Fund has entered into the following contracts which are material to investors:

- (a) the Management Agreement referred to under “THE MANAGER”;
- (b) the Sponsor Agreement referred to under “THE SPONSOR”;
- (c) the Management Advisor Agreement referred to under “THE MANAGEMENT ADVISOR”;
- (d) the Administration Agreements referred to under “SHAREHOLDER FINANCIAL REPORTING”;
- (e) the Custodian Agreement referred to under “AUDITORS, REGISTRAR, TRANSFER AGENT AND CUSTODIAN”;
- (f) the Sales and Marketing Agreement referred to under “SHAREHOLDER FINANCIAL REPORTING”; and
- (g) the Accounting and Administrative Services Agreement referred to under “SHAREHOLDER FINANCIAL REPORTING”.

Copies of the foregoing contracts may be inspected during regular business hours at the principal place of business of the Fund at 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6.

## PURCHASERS' STATUTORY RIGHTS

Sections 71, 130, 137 and 138 of the Securities Act provide, in effect, that when a security is offered in the course of a distribution to the public:

- (a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the dealer from whom the purchaser purchased the security:
  - (1) not later than midnight on the second day, exclusive of Saturdays, Sundays and holidays, after the latest prospectus and any amendment to the prospectus offering such security is received or deemed to be received by the purchaser or his agent; or
  - (2) where the amount of the purchase does not exceed \$50,000, within 48 hours after receipt of a confirmation of purchase of such securities; and
- (b) if a prospectus together with any amendment to the prospectus contains a misrepresentation, a purchaser who purchases a security offered thereby during the period of distribution or distribution to the public has, without regard to whether the purchaser relied on the misrepresentation, subject to the limitations set forth in the Securities Act,
  - (1) a right of action for damages against:
    - a) the issuer or a selling security holder on whose behalf the distribution is made,
    - b) each underwriter of the securities who is required to sign the certificate required by Section 59 of the Securities Act,
    - c) every director of the issuer at the time the prospectus or the amendment to the prospectus was filed,
    - d) every person or company whose consent has been filed pursuant to a requirement of the regulations under the Securities Act but only with respect to reports, opinions or statements that have been made by them, and
    - e) every other person or company who signed the prospectus or the amendment to the prospectus,

but no action to enforce the right can be commenced by a purchaser after the earlier of 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action and 3 years after the date of the transaction that gave rise to the cause of action; or

- (2) where the purchaser purchased the security from a person or company referred to in (b)(1)(a) or (b)(1)(b) above or from another underwriter of the securities, the purchaser may elect to exercise a right of rescission against such person, company, or underwriter, in which case he or she shall have no right of action for damages against such person, company or underwriter, but no action to enforce this right can be commenced by a purchaser more than 180 days after the date of the transaction that gave rise to the cause of action.

Reference is made to the Securities Act for the complete text of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

## **AUDITORS' CONSENT**

We have read the Prospectus of The Business, Engineering, Science & Technology Discoveries Fund Inc. (the Fund) dated January 18, 2006 relating to the sale and issue of Class A Shares (Series I, II and III). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report, dated November 7, 2005, to the shareholders of the Fund on the statements of net assets as at September 30, 2005 and 2004, the statements of operations, changes in net assets and cash flows for the years then ended and the statement of investment portfolio as at September 30, 2005.

Signed "PricewaterhouseCoopers LLP"  
CHARTERED ACCOUNTANTS

Toronto, Ontario  
January 18, 2006

**The Business, Engineering, Science & Technology  
Discoveries Fund Inc.**

Financial Statements

**September 30, 2005 and 2004**

# PricewaterhouseCoopers

November 7, 2005

## Auditors' Report

**To the Shareholders of  
The Business, Engineering, Science & Technology Discoveries Fund Inc.**

We have audited the statement of investment portfolio of **The Business, Engineering, Science & Technology Discoveries Fund Inc.** (the "Fund") as at September 30, 2005, the statements of net assets as at September 30, 2005 and 2004 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2005 and 2004 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

Toronto, Ontario

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Statement of Investment Portfolio

As at September 30, 2005

Par value \$	Issuer	Maturity date	Cost \$	Market value \$
<b>Short-term investments (7.67%)*</b>				
2,118,000	Loblaw Companies Limited	October 11, 2005	2,113,686	2,113,686
852,000	TransAlta	October 31, 2005	849,957	849,957
852,000	Franchise Trust	November 2, 2005	849,810	849,810
<b>Total short-term investments</b>			<b>3,813,453</b>	<b>3,813,453</b>
<b>Fixed-term investments (6.03%)*</b>				
500,000	Emera Inc., 6.00%	April 17, 2006	497,650	506,630
1,000,000	Farm Credit Canada, floating rate	June 11, 2011	1,000,000	977,000
500,000	Farm Credit Canada, 6.00%	September 28, 2012	500,000	493,500
1,000,000	Farm Credit Canada, 4.40%	February 10, 2015	1,000,000	1,017,400
<b>Total fixed-term investments</b>			<b>2,997,650</b>	<b>2,994,530</b>
Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>Public company investments (2.71%)</b>				
264,900	Cygnal Technologies Corporation, common shares		529,800	307,284
1,600,000	Cymat Corporation, common shares		2,000,000	944,000
5,194	Indigo Books & Music Inc., common shares		500,000	44,928
165,000	OnX Enterprise Solutions Inc., common shares		1,000,000	30,525
416,667	Polyphalt Inc., common shares		250,000	20,833
<b>Total public company investments</b>			<b>4,279,800</b>	<b>1,347,570</b>
<b>Venture investments - expansion stage companies (81.40%)*</b>				
<b>Industrial and financial (39.73% of total venture investments)</b>				
<b>APEKS Limited</b>				
5,500	Class B, preferred shares		550,000	
113,040	Common shares		127,736	
<b>Canadian Trading and Quotation System Inc.</b>				
3,000,000	Debenture, nil%	March 3, 2011	3,000,000	
352,941	Class A shares		-	
198,616	Common shares		125,537	
650,000	Bridge loan, 12.00%	November 1, 2005	650,000	

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Statement of Investment Portfolio ...continued

As at September 30, 2005

Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>Industrial and financial ...continued</b>				
	Claymore Capital Management Inc.			
1,333	Common shares		-	
5,000,000	Debenture, 2.00%	December 10, 2007	5,000,000	
	Iogen Corporation			
148,662	Warrants	December 1, 2006	10	
3,000,000	Debenture, 10.00%	December 1, 2005	3,000,000	
13,539	Warrants	December 31, 2007	-	
150,000	Mar-Mex Canada Inc., nil%	October 1, 2006	150,000	
34,500	PixieLink Corporation, 'A' preferred shares		1,500,000	
	Wellington Polymer Technology Inc.			
311,353	2068051 Ontario Inc.		344,272	
311,353	2070452 Ontario Inc.		15,016	
61,725	2068051 Ontario, 8.00%	May 12, 2010	61,725	
168,907	2068051 Ontario Inc., 8.00%	May 12, 2010	168,907	
<b>Total industrial and financial</b>			<b>14,693,203</b>	<b>16,076,453</b>
<b>Technology (60.27% of total venture investments)</b>				
3,318,903	AssetMetrix Inc., Series A, preferred shares		2,300,000	
	DragonWave Inc.			
1,000,000	Series A, preferred shares		1,500,000	
4,103,297	Series B, preferred shares		783,730	
	GridIron Software Inc.			
114,090	Series B, preferred shares		200,000	
334,728	Series C, preferred shares		800,000	
400,000	Convertible debenture	January 1, 2006	400,000	
	iMPath Networks Inc.			
588,155	Common shares		750,000	
237,302	Series A, common shares		414,464	
874,440	InternetSecure Inc., common shares		1,326,089	
	Kaval Wireless Technologies Inc.			
775,500	Common shares		3,997,350	
465,116	Class A, convertible shares		763,676	
27,360	Class A, preferred shares		42	
	Necho Systems Corporation			
599,940	Common shares		750,000	
873,683	Class A, preferred shares		1,092,213	
246,649	Class B, preferred shares		308,342	
138,889	Class C, preferred shares		187,500	
750,000	Class D, preferred shares		750,000	
1,759,942	Class E, preferred shares		2,023,933	
666,667	Debenture, 15.00%	November 30, 2005	666,667	



# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Statement of Investment Portfolio ...continued

As at September 30, 2005

Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>Technology ...continued</b>				
	NetActive Inc.			
248,225	Class A shares		930,844	
397,100	Class B, preferred shares		750,880	
	Newstep Networks Inc.			
1,000,000	Special voting shares		1	
1,000,000	Series A, special voting shares		1	
1,000,000	Series A, exchangeable preferred shares		1,555,500	
	Protus IP Solutions Inc.			
750,000	Class A, preferred shares, Series 1		600,000	
625,000	Class A, preferred shares, Series 2		500,000	
2,083,333	Class B, preferred shares		1,000,000	
1,500,000	Soliton Inc., Class A, Series 1, preferred shares		1,500,000	
	VNRAND Inc.			
2,625,000	Series B, exchangeable shares		4,065,327	
6,892,591	Series C, exchangeable shares		1,777,173	
890,562	Series D, exchangeable shares		490,347	
<b>Total technology</b>			<u>32,184,079</u>	<u>24,392,802</u>
<b>Total venture investments</b>			<u>46,877,282</u>	<u>40,469,255</u>
<b>Total investments (97.81%)*</b>			<u>57,968,185</u>	<u>48,624,808</u>
<b>Other net assets (2.19%)*</b>			<u>1,088,235</u>	<u>1,088,235</u>
<b>Total net assets (100.00%)*</b>			<u>59,056,420</u>	<u>49,713,043</u>

\* Percentages shown relate investments at market value to total net assets.

The accompanying notes are an integral part of these financial statements.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Statements of Net Assets

As at September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Assets</b>		
<b>Investments</b> – at fair value (cost – \$57,968,185; 2004 – \$62,758,039)	48,624,808	58,810,523
<b>Cash</b>	499,035	735,160
<b>Accrued interest and other receivables</b>	988,109	1,000,572
	50,111,952	60,546,255
<b>Liabilities</b>		
<b>Accounts payable and accrued liabilities</b>	398,909	398,572
<b>Net Assets Representing Shareholders' Equity</b>	49,713,043	60,147,683
<b>Net asset value per class/series</b>		
Class A, Series I shares	44,344,000	54,946,795
Class A, Series II shares	5,129,431	5,112,067
Class A, Series III shares	239,611	88,820
Class B shares	1	1
	49,713,043	60,147,683
<b>Number of shares outstanding</b> (note 3)		
Class A, Series I shares	6,179,430	6,482,747
Class A, Series II shares	731,389	629,335
Class A, Series III shares	30,950	9,820
Class B shares	1	1
	6,941,770	7,121,903
<b>Net asset value per share</b> (note 6)		
Class A, Series I shares	7.18	8.48
Class A, Series II shares	7.01	8.13
Class A, Series III shares	7.74	9.04

The accompanying notes are an integral part of these financial statements.

## Approved by the Board of Directors

George R. Paterson Director  
George R. Paterson

Harold F. Jones Director  
Harold F. Jones

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

## Statements of Operations

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Income</b>		
Interest	973,051	1,075,914
Other	-	27,667
	<u>973,051</u>	<u>1,103,581</u>
<b>Expenses</b>		
Advisory fees	1,143,478	1,120,842
Management fees	980,124	960,719
Transfer agent, registrar and administrative	794,021	702,390
Custodian fees	42,817	32,339
Selling costs	542,559	595,702
Directors' fees and expenses	127,976	108,987
Sponsor's fees	98,012	96,072
Legal fees	97,810	38,706
Audit fees	80,650	51,930
Shareholder and broker communications	103,892	50,659
Capital taxes	5,818	16,199
	<u>4,017,157</u>	<u>3,774,545</u>
<b>Net investment loss for the year</b>	<u>(3,044,106)</u>	<u>(2,670,964)</u>
<b>Realized loss and unrealized depreciation on investments</b>		
Realized loss on sale of investments (note 5)	(363,572)	(557,011)
Change in unrealized depreciation on investments	(5,395,861)	7,285,696
	<u>(5,759,433)</u>	<u>6,728,685</u>
<b>Net realized and unrealized gain (loss) on investments</b>	<u>(5,759,433)</u>	<u>6,728,685</u>
<b>Increase (decrease) in net assets from operations for the year</b>	<u>(8,803,539)</u>	<u>4,057,721</u>
<b>Increase (decrease) in net assets from operations per series</b>		
Class A, Series I shares	(7,930,092)	3,662,874
Class A, Series II shares	(833,157)	390,042
Class A, Series III shares	(40,290)	4,805
<b>Earnings (losses) per share</b>		
Class A, Series I share	(1.25)	0.57
Class A, Series II share	(1.21)	0.63
Class A, Series III share	(1.82)	0.49

The accompanying notes are an integral part of these financial statements.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

## Statements of Changes in Net Assets

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Net assets - Beginning of year</b>		
Class A, Series I shares	54,946,795	51,225,236
Class A, Series II shares	5,112,067	4,501,893
Class A, Series III shares	88,820	84,015
Class B shares	1	1
	<u>60,147,683</u>	<u>55,811,145</u>
<b>Increase (decrease) in net assets from operations per series</b>		
Class A, Series I shares	(7,930,092)	3,662,874
Class A, Series II shares	(833,157)	390,042
Class A, Series III shares	(40,290)	4,805
	<u>(8,803,539)</u>	<u>4,057,721</u>
<b>Capital transactions</b>		
Proceeds from issue		
Class A, Series I shares	1,532,708	660,141
Class A, Series II shares	981,235	269,854
Class A, Series III shares	191,081	-
Commissions paid to agents, Class A, Series I	(84,389)	(41,259)
Commissions paid to agents, Class A, Series II	(61,327)	(26,985)
Payments on redemption		
Class A, Series I shares	(5,152,039)	(859,775)
Class A, Series II shares	(89,596)	(38,891)
Surplus of stated capital over amounts		
Class A, Series I shares	1,012,579	285,683
Class A, Series II shares	15,193	7,516
Redemption fee charged		
Class A, Series I shares	18,438	13,895
Class A, Series II shares	5,016	8,638
	<u>(1,631,101)</u>	<u>278,817</u>
<b>Increase (decrease) in net assets</b>		
Class A, Series I shares	(10,602,795)	3,721,559
Class A, Series II shares	17,364	610,174
Class A, Series III shares	150,791	4,805
	<u>(10,434,640)</u>	<u>4,336,538</u>
<b>Net assets - End of year</b>		
Class A, Series I shares	44,344,000	54,946,795
Class A, Series II shares	5,129,431	5,112,067
Class A, Series III shares	239,611	88,820
Class B shares	1	1
	<u>49,713,043</u>	<u>60,147,683</u>

The accompanying notes are an integral part of these financial statements.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

## Statements of Cash Flows

For the years ended September 30, 2005 and 2004

	2005 \$	2004 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net investment loss for the year	(3,044,106)	(2,670,964)
Net change in non-cash balances related to operations	12,800	(638,185)
	<u>(3,031,306)</u>	<u>(3,309,149)</u>
<b>Investing activities</b>		
Proceeds from sale of short-term investments	93,149,364	34,405,795
Proceeds from sale of fixed-term investments	991,800	11,014,645
Proceeds from sale of venture investments	2,535,356	8,802,301
Purchase of short-term investments	(84,906,307)	(43,462,546)
Purchase of fixed-term investments	(2,490,800)	(5,085,040)
Purchase of venture investments	(4,853,131)	(2,443,502)
	<u>4,426,282</u>	<u>3,231,653</u>
<b>Financing activities</b>		
Proceeds from issue of Class A, Series I shares	1,532,708	660,141
Proceeds from issue of Class A, Series II shares	981,235	269,854
Proceeds from issue of Class A, Series III shares	191,081	-
Amounts paid for Class A, Series I shares redeemed	(4,139,460)	(574,093)
Amounts paid for Class A, Series II shares redeemed	(74,403)	(31,375)
Commissions to agents on distribution of shares	(145,716)	(68,243)
Redemption fees charged	23,454	22,533
	<u>(1,631,101)</u>	<u>278,817</u>
<b>(Decrease) increase in cash during the year</b>	<b>(236,125)</b>	<b>201,321</b>
<b>Cash - Beginning of year</b>	<b>735,160</b>	<b>533,839</b>
<b>Cash - End of year</b>	<b><u>499,035</u></b>	<b><u>735,160</u></b>

The accompanying notes are an integral part of these financial statements.

# **The Business, Engineering, Science & Technology Discoveries Fund Inc.**

Notes to Financial Statements

**September 30, 2005 and 2004**

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## **1 Fund status and operations**

The Business, Engineering, Science & Technology Discoveries Fund Inc. (the “Fund”) was incorporated under the laws of Canada by articles of incorporation dated November 21, 1996, amended December 31, 1996, amended January 30, 1998 and further amended December 21, 2001. The Fund is registered as a Labour Sponsored Investment Fund Corporation under the Community Small Business Investment Funds Act (Ontario) (the “CSBIF Act”). The Fund is taxable as a mutual fund corporation and is a prescribed Labour Sponsored Venture Capital Corporation under the Income Tax Act (Canada).

The Fund makes investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation.

The sponsor of the Fund is the International Federation of Professional and Technical Engineers - Local 164 (the “Sponsor”).

Pursuant to a management agreement dated November 29, 1996, amended December 30, 1996, amended and restated effective October 1, 2000 and further amended and restated effective August 1, 2002 (the “Management Agreement”), B.E.S.T. Capital Management Limited (the “Manager”) manages all aspects of the Fund. Effective September 1, 2003, the Management Agreement was assigned to B.E.S.T. Investment Counsel Limited (the “Management Advisor”).

The Ontario Government announced on August 29, 2005 that it would end its involvement in the Labour Sponsored Investment Fund (“LSIF”) tax credit program by harmonizing certain requirements to help funds move to a federal government sponsored LSIF program. The province will phase out the 15% tax credit by the end of the 2010 taxation year.

## **2 Summary of significant accounting policies**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”).

A net asset value is calculated on every valuation date for each series of Class A shares. The net asset value of a particular series of shares is computed by calculating the value of the series’ proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged to that series. Other expenses are allocated proportionately to each series based upon the relative net assets of each series.

The significant accounting policies are as follows:

### **Short-term and fixed-term investments**

Short-term investments are valued at cost, which together with accrued interest approximates market value.

# **The Business, Engineering, Science & Technology Discoveries Fund Inc.**

Notes to Financial Statements

**September 30, 2005 and 2004**

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Bonds are valued based on quoted market prices. The difference between the market value and average cost of the bonds is recorded as an unrealized appreciation (depreciation) of investments.

Purchases and sales of marketable securities are recorded on a trade date basis.

## **Venture investments**

Venture investments, having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on the quoted market prices.

Investments in securities not having quoted market values or in restricted securities are recorded at estimated fair market value. Estimated fair market value is determined on the basis of the expected realizable value of the venture investments if they were disposed of in an orderly fashion over a reasonable period of time. Details regarding the Fund's valuation methodology are included in its annual prospectus.

PricewaterhouseCoopers LLP ("PwC") are the Fund's independent auditors. As part of their audit of the September 30, 2005 financial statements, PwC performed certain procedures on the value of the Fund's venture investment portfolio as at September 30, 2005. The PwC personnel responsible for performing the procedures are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. They have no present or prospective financial interest in the securities of the Fund and the fees to be received by PwC are not contingent on the conclusions reached.

The procedures performed by PwC do not constitute an independent valuation (i.e., a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a "valuation service" as defined in The Canadian Institute of Chartered Accountants' independence requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation and regulation, to determine the value of the Fund's assets, the net asset value of the Fund and the Class A and Class B shares of the Fund.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

## **Management's estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The process of valuing venture investments for which no quoted market values exist is inevitably based on inherent uncertainties and the resulting values may be higher or lower by a material amount than those that would have been used had a ready market existed for the investments.

# **The Business, Engineering, Science & Technology Discoveries Fund Inc.**

Notes to Financial Statements

**September 30, 2005 and 2004**

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## **Commissions to agents on distribution of shares**

Sales commission on Class A, Series I shares is 6.25% of the amount invested. Sales commission on Class A, Series II shares is 10.00% of the amount invested, consisting of a 6.25% sales commission plus an additional 3.75% sales commission in lieu of any service fees being payable before the eighth anniversary of the date of issue of the Series II shares. No sales commission is payable on the sale of Class A, Series III shares.

Sales commissions related to the sale of Class A, Series I and Class A, Series II shares are charged to share capital as a share issuance cost.

Fees for early redemption of shares by shareholders are netted against the amounts paid on redemption of shares.

## **Income recognition**

Interest and other income are recorded on an accrual basis.

## **Earnings (losses) per share**

Earnings (losses) per share from operations are disclosed in the statements of operations and represent for each class of shares, the increase or decrease in net assets from operations for the period attributable to the class divided by the average number of shares of the class outstanding during the period.

## **3 Share capital**

The following is a description of the authorized and issued share capital:

### **Authorized**

Unlimited number of Class A shares, issuable in series, with voting rights, discretionary dividend entitlement, restrictions on transfer and redemption, redeemable at the net asset value less applicable early redemption fee. As approved by the shareholders on December 21, 2001, three series of Class A shares have been designated, the Series I shares, the Series II shares and the Series III shares (collectively the "Class A shares"). Each of the three series of Class A shares has a different sales commission, redemption fee and service fee structure. The rights of the Class A, Series I shares are the same in all material respects as the rights of the former Class A shares. The offering of Class A, Series II shares and Class A, Series III shares commenced on January 4, 2002.

25,000 Class B shares, issuable only to the Sponsor or permissible employee organizations, with voting rights, no dividend entitlement



# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Notes to Financial Statements

September 30, 2005 and 2004

Unlimited number of Class C shares, issuable in series, without voting rights, with discretionary dividend entitlement and with such other terms as the Board of Directors may determine in respect of a particular series. The issuance of Class C shares is subject to prior approval of the Ministry of Finance (Ontario).

## Issued for cash

	2005		2004	
	Number	Amount \$	Number	Amount \$
Class A shares				
Series I				
Balance - Beginning of year	6,482,747	82,858,189	6,470,587	83,099,082
Issued during the year	173,819	1,532,708	80,265	660,141
Commissions to agents on distribution of shares	-	(84,389)	-	(41,259)
Redeemed during the year	(477,136)	(5,152,039)	(68,105)	(859,775)
Balance - End of year	6,179,430	79,154,469	6,482,747	82,858,189
Class A shares				
Series II				
Balance - Beginning of year	629,335	6,567,268	600,532	6,363,290
Issued during the year	110,560	981,235	32,500	269,854
Commissions to agents on distribution of shares	-	(61,327)	-	(26,985)
Redeemed during the year	(8,506)	(89,596)	(3,697)	(38,891)
Balance - End of year	731,389	7,397,580	629,335	6,567,268
Class A shares				
Series III				
Balance - Beginning of year	9,820	107,792	9,820	107,792
Issued during the year	21,130	191,081	-	-
Redeemed during the year	-	-	-	-
Balance - End of year	30,950	298,873	9,820	107,792

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Notes to Financial Statements

September 30, 2005 and 2004

	2005		2004	
	Number	Amount \$	Number	Amount \$
Class B shares				
Balance - Beginning of year	1	1	1	1
Issued during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Balance - End of year	1	1	1	1

## 4 Management fees and expenses

The Fund pays an annual fee to the Manager to manage all aspects of the Fund. In consideration of the performance by the Manager of its duties, the Manager receives a fee of 1.50% per annum of the net asset value of the Fund and subject to meeting certain conditions, an Incentive Participation Amount ("IPA"). The Fund also pays the Management Advisor an annual fee of 1.75% of the net asset value of the Fund and subject to certain conditions, an IPA. The Manager and the Management Advisor will not be entitled to receive the IPA unless: (1) the compound annual internal rate of return, including realized and unrealized gains and income, from an eligible investment since its acquisition equals or exceeds 12.00% per year; (2) the total net realized and unrealized gains and income from the portfolio of eligible investments since January 1, 1997 have generated a return greater than the annualized average rate of return on five-year GICs offered by a Schedule 1 Canadian chartered bank plus 2.00%; and (3) the Fund has recouped an amount equal to all principal invested in the particular eligible investment.

Upon satisfying the above conditions, the IPA will be determined on the following basis:

The proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund after deducting the cost of such investment shall be allocated and paid as follows:

- The Fund shall receive an amount equal to all gains and income earned from each particular eligible investment which provides a cumulative investment return at an annual average rate equal to 12.00% since investment.
- The Management Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12.00% annual average rate of return up to and including 15.00% of the annual average rate of return earned from the particular eligible investment.
- All gains and income earned on each particular investment after deducting the amounts calculated in accordance with (a) and (b) above shall be allocated as to 80.00% to the Fund; 16.00% to the Management Advisor; and 4.00% to the Manager.

For the years ended September 30, 2005 and 2004, no IPA fees have been incurred.

# **The Business, Engineering, Science & Technology Discoveries Fund Inc.**

Notes to Financial Statements

**September 30, 2005 and 2004**

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During the year, the Fund paid registered dealers a service fee equal to 0.50% per annum of the net asset value of the Class A, Series I shares and 1.25% per annum of the net asset value of the Class A, Series III shares held by their clients.

The Fund pays the Sponsor a fee of 0.15% of the net asset value on an annual basis.

The Fund has retained Unisen Inc. to provide fund accounting, shareholder recordkeeping and administration services, including registrar and transfer agency services. The Fund pays Unisen Inc. a fund accounting fee at a fixed amount and shareholder recordkeeping and administration fees at a fixed amount per account.

The Fund and the Manager have retained the Management Advisor to provide sales and marketing services to the Fund pursuant to the terms of a sales and marketing services agreement dated July 10, 2003 effective August 1, 2003. The Fund pays the Management Advisor an annual sales and marketing fee (calculated daily and paid monthly in arrears) as follows: (i) the aggregate of 0.425% on the first \$50 million of the net asset value of the Fund, 0.40% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount of the net asset value of the Fund above \$150 million, (ii) less \$96,000. Prior to August 1, 2003, the Fund and the Manager retained Clearview Investment Solutions Inc. to provide these services on the same terms.

The Fund and the Manager have also retained the Management Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the registrar pursuant to the terms of an accounting and administrative services agreement dated as of September 1, 2003. The Fund pays the Management Advisor an annual accounting and administrative fee (payable monthly in arrears) equal to \$96,000. From August 1, 2002 to August 31, 2003, the Fund and the Manager retained Carl Flintoff Services Inc. to provide these services on the same terms.

The Fund pays all direct costs and expenses incurred in the operation of the Fund, including directors' fees, custodian fees, insurance, legal, audit, valuation and marketing expenses.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Notes to Financial Statements

September 30, 2005 and 2004

## 5 Realized loss on sale of investments

The realized loss on sale of investments is as follows:

	2005 \$	2004 \$
Proceeds from sale of short-term investments	93,149,364	34,405,795
Proceeds from sale of fixed-term investments	991,800	11,014,645
Proceeds from sale of venture investments	2,535,356	8,802,301
	<u>96,676,520</u>	<u>54,222,741</u>
Less: Cost of investments sold		
Cost of investments - Beginning of year	62,758,039	66,546,703
Purchase of short-term investments	84,906,307	43,462,546
Purchase of fixed-term investments	2,490,800	5,085,040
Purchase of venture investments	4,853,131	2,443,502
	<u>155,008,277</u>	<u>117,537,791</u>
Investments, at cost - End of year	<u>(57,968,185)</u>	<u>(62,758,039)</u>
	<u>97,040,092</u>	<u>54,779,752</u>
Realized loss on sale of investments	<u>(363,572)</u>	<u>(557,011)</u>

## 6 Net asset value reconciliation

Historically, the Fund had adopted the industry practice of amortizing the 6.25% sales commission paid on sales of Class A shares against retained earnings (deficit) and the 3.75% additional commission paid on sales of Series II shares to selling costs on a straight-line basis over a period of eight years.

As a result of changes in GAAP, financial statements of a labour-sponsored investment fund for any financial year beginning on or after October 1, 2003 may not use the deferral and amortization method in respect of the commissions to agents on distribution of shares. Rather, sales commissions paid by labour-sponsored investment funds to registered dealers are now recorded as an immediate charge against the net asset value of the labour-sponsored investment fund through a reduction of share capital. The securities regulatory authorities in Ontario require labour-sponsored investment funds to follow GAAP requirements in preparing their financial statements. For transitional purposes, those securities regulatory authorities have issued a notice stating that, in determining the price at which shares of labour-sponsored funds are purchased and redeemed, a labour-sponsored investment fund may, on certain conditions, calculate the net asset value of its shares (the "trading net asset value") by continuing to defer and amortize the sales commissions paid prior to January 1, 2004, and treating sales commissions paid on or after January 1, 2004 as an immediate reduction in the trading net asset value.

# The Business, Engineering, Science & Technology Discoveries Fund Inc.

Notes to Financial Statements

September 30, 2005 and 2004

The adoption of the transition rules afforded by the securities regulatory authorities results in differences between the trading net asset value of the Class A shares and the net asset value of the Class A shares for the purposes of the Fund's financial statements (the "GAAP net asset value").

The reconciliation of the net asset value for trading purposes and the GAAP net asset value as at September 30, 2005 is as follows (NAVPS - net asset value per share, NAV - net asset value):

<b>2005</b>								
	<b>Series I</b>		<b>Series II</b>		<b>Series III</b>		<b>Class B shares</b>	<b>Total</b>
	<b>NAVPS</b>	<b>NAV</b>	<b>NAVPS</b>	<b>NAV</b>	<b>NAVPS</b>	<b>NAV</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
GAAP net asset value	7.18	44,344,000	7.01	5,129,431	7.74	239,611	1	49,713,043
Unamortized sales commissions	0.25	1,561,516	0.52	377,043	-	-	-	1,938,559
Trading net asset value	7.43	45,905,516	7.53	5,506,474	7.74	239,611	1	51,651,602
<b>2004</b>								
	<b>Series I</b>		<b>Series II</b>		<b>Series III</b>		<b>Class B shares</b>	<b>Total</b>
	<b>NAVPS</b>	<b>NAV</b>	<b>NAVPS</b>	<b>NAV</b>	<b>NAVPS</b>	<b>NAV</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
GAAP net asset value	8.48	54,946,795	8.13	5,112,067	9.04	88,820	1	60,147,683
Unamortized sales commissions	0.34	2,227,245	0.73	461,171	-	-	-	2,688,416
Trading net asset value	8.82	57,174,040	8.86	5,573,238	9.04	88,820	1	62,836,099

## 7 Income taxes

Under the Income Tax Act (Canada), generally no income taxes are payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. A portion of the income taxes payable on net interest income earned by the Fund is also refundable on payment or deemed payment of taxable dividends to the shareholders.

# **The Business, Engineering, Science & Technology Discoveries Fund Inc.**

Notes to Financial Statements

**September 30, 2005 and 2004**

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The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A shares. If and to the extent that the Fund increases the paid-up capital of the Class A shares, a holder of the shares will be deemed to have received a dividend and the adjusted cost base of that holder's shares will be increased by the amount of the deemed dividend.

The CSBIF Act sets minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met, the Fund will be subject to defined income taxes and penalties.

As at September 30, 2005, the Fund had non-capital losses available for carry-forward of \$21,788,000 of which approximately \$920,000, \$938,000, \$3,961,000, \$4,004,000, \$4,682,000, \$3,611,000 and \$3,672,000 will expire in 2006, 2007, 2008, 2009, 2010, 2014 and 2015, respectively. No benefit of these losses has been recognized in the financial statements.

The Fund also had net capital losses available for carry-forward of \$7,106,000 as at September 30, 2005 for which no expiry time exists.

## **8 Comparative figures**

Certain of the prior year's figures have been reclassified to conform with the presentation adopted in the current year.

## **CERTIFICATES**

Dated: January 18, 2006

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario), and the regulations thereunder.

### **THE BUSINESS, ENGINEERING, SCIENCE & TECHNOLOGY DISCOVERIES FUND INC.**

(signed) John M.A. Richardson  
Chief Executive Officer

(signed) Thomas W.R. Lunan  
Chief Financial Officer

On behalf of the Board of Directors

(signed) Harold F. Jones  
Chairman of the Board

(signed) Jocelyne Côté-O'Hara  
Director

### **1208733 ONTARIO INC., as Promoter**

(signed) Peter T. Hubenaar  
Secretary

### **B.E.S.T. INVESTMENT COUNSEL LIMITED, as Manager and Promoter**

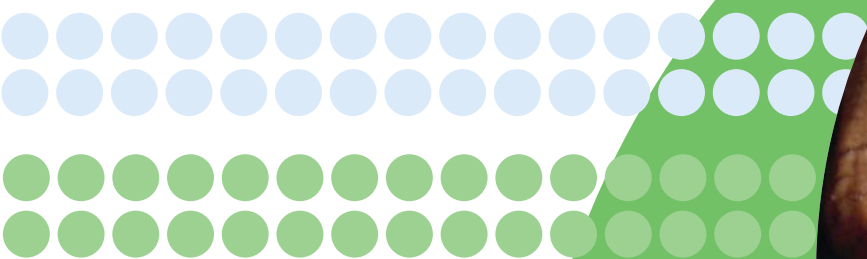
(signed) John M.A. Richardson  
President

(signed) Thomas W.R. Lunan  
Vice-President

On behalf of the Board of Directors

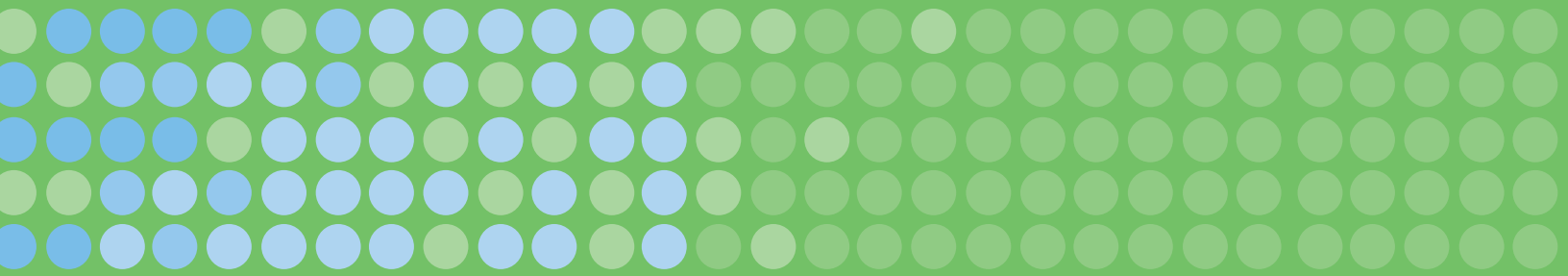
(signed) Michael Israels  
Director

**B E S T Funds**  
Building Equity & Shareholder Trust



**B.E.S.T. TOTAL RETURN FUND INC.**  
ANNUAL REPORT **2005**





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B.E.S.T. TOTAL RETURN FUND INC.

Dear Shareholder,

I am pleased to report that in fiscal 2005 the B.E.S.T. Total Return Fund continued to make strides towards fulfilling its investment objectives and mandate. The Fund's investment advisor, Absolute Private Counsel Limited, and its private equity specialist, Roynat Management Inc., completed several exciting investments on behalf of the Fund.

The year was also marked by a change in the Fund's name to B.E.S.T. Total Return Fund Inc. We believe that the new name more fully reflects the investment objectives of the Fund which include generating high returns for investors in the form of interest, dividends, capital gains and tax savings. The Fund remains committed to its core objectives and principles of best business practices and high ethical standards.

During fiscal 2005, the Fund invested in seven companies in the industrial, financial services and technology sectors. Four of these new investments include interest-bearing debt with yields ranging from 7.5% to 11.5%. A substantial portion of the Fund's holdings continue to have the potential to realize capital appreciation through equity investments.

During the coming year, the Fund will continue to seek appropriate investments that maintain a balanced mix of income and growth opportunities across a broad spectrum of industries.

We believe the Fund's portfolio has both a sustainable yield and considerable promise, and we remain confident in the Fund's long-term prospects.

Thank you for your continued support.

Yours Truly,



John M.A. Richardson  
Chief Executive Officer

## Management Report of Fund Performance For the year ended August 31, 2005

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-795-BEST (2378), by writing to us at 20 Adelaide Street East, Suite 400, Toronto, Ontario, M5C 2T6, by visiting our website at [www.bestfunds.ca](http://www.bestfunds.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or semiannual portfolio disclosure.

### Investment Objectives and Strategies

The Fund's primary objective is to generate interest and dividend income as well as long-term capital appreciation by investing in a diversified portfolio of small and medium-sized private and public companies. The Fund invests in convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of companies mainly involved in traditional industries such as service, distribution, manufacturing as well as some technology and special situations.

The Fund will attempt to diversify by investing geographically across Canada in businesses that have a demonstrated track record and which are expected to produce sustainable cash flows. In the technology-related sectors, the Fund will invest in companies that have commercialized products.

The Fund is a preferred partner of Roynat Capital Inc. which allows the Fund to participate on larger mezzanine debt financings.

All investments must meet the eligibility requirements as defined in the Income Tax Act (Ontario) and the Income Tax Act (Canada) and as further described in the Fund's prospectus.

### Risk

The Fund made investments in seven venture companies in the fiscal year ended August 31, 2005. Each of these investments was made in accordance with the stated investment objectives and strategies of the Fund. The completion of these investments is a change from the prior year when the Fund was invested mainly in commercial paper and bonds. The change in the composition of the portfolio is a result of the Fund beginning to fulfill its long-term mandate of investing in small and medium-sized private and public companies and does not represent a change in the investment objectives or strategy of the Fund. There is no change in the suitability of the Fund for investment from that stated in the Fund's prospectus.

### Results of Operations

During the fiscal year ended August 31, 2005, the Fund made investments in seven venture companies. This compares with the prior period ending August 31, 2004 when the Fund had completed only one venture investment. As at August 31, 2005, the Fund had 54% of the total net assets invested in private and public venture companies and 46% invested in liquid reserves and other assets. As at August 31, 2004, the Fund had 6% invested in venture companies and 94% invested in liquid reserves and other assets.

Interest and other income increased to \$257,013 for the year ended August 31, 2005 from \$82,165 for the period ended August 31, 2004. The significant increase is a result of the portfolio earning interest and other

income for a full year. With the addition of several interest bearing venture debt investments, the Fund is earning returns greater than those achieved by the liquid reserve portfolio.

The operating expenses of the Fund are higher than the previous period ending August 31, 2004 because the Fund was in operation for a full year and during the period April 1, 2004 to August 31, 2004, the Manager, Investment Advisor, Private Equity Specialist, Sponsors and directors of the Fund all agreed to waive their fees.

## Recent Developments

On November 2, 2005, the Ontario government proposed legislation to phase out the Ontario tax credit for investors as follows:

Taxation Year	RSP Sales Season	LSIF Tax Credit
2005	2006	15%
2006	2007	15%
2007	2008	15%
2008	2009	15%
2009	2010	10%
2010	2011	5%

Should the government implement legislation to this effect, investors who purchase the Fund after the date the credit is eliminated will no longer be eligible for a provincial tax credit equal to 15% of the purchase price of Class A Shares of the Fund. The Ontario government also announced that they will propose further changes to the rules governing pricing, eligibility and other reporting requirements.

## Related Party Transactions

B.E.S.T. Capital Management Ltd. (the "Manager"), Absolute Private Counsel Limited, (the "Investment Advisor"), Roynat Management Inc. (the "Private Equity Specialist") as well as the Christian Labour Association of Canada, The International Federation of Professional and Technical Engineers – Local 160 and The International Federation of Professional and Technical Engineers – Local 164 (the "Sponsors") are deemed to be related parties of the Fund. Please refer to the section titled "Management Fees" which outlines the fees paid to these related parties during the year.

The Private Equity Specialist is an affiliate of Roynat Capital Inc., which owns 95.9% of the outstanding Class C Shares of the Fund.

John Richardson, the Chief Executive Officer of the Fund, is a director, officer and indirectly controls the Manager and B.E.S.T. Investment Counsel Limited. The Investment Advisor is a wholly owned subsidiary of B.E.S.T. Investment Counsel Limited. John Richardson owns 4.10% of the outstanding Class C Shares of the Fund.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended August 31, 2005 and the period ended August 31, 2004. This information is derived from the Fund's audited annual financial statements.

### The Fund's Net Asset Value (NAV) per Class A Share

	Year ended August 31, 2005	Period from December 23, 2003 to August 31, 2004
Net Asset Value, beginning of the period	\$ 9.77	\$ 10.00
<b>Increase (decrease) from operations:</b>		
Total revenues	\$ 0.33	\$ 0.15
Total expenses /(recovery)	\$ (0.47)	\$ 0.36
Realized gains (losses) for the period	\$ 0	\$ 0
Unrealized gains (losses) for the period	\$ (0.44)	\$ .01
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>\$ (0.58)</b>	<b>\$ 0.52</b>
<b>Net Asset Value, end of the period</b>	<b>\$ 9.09</b>	<b>\$ 9.77</b>

### The Fund's Net Asset Value (NAV) per Class C Share

	Year ended August 31, 2005	Period from December 23, 2003 to August 31, 2004
Net Asset Value, beginning of the period	\$ 9.77	\$ 10.00
<b>Increase (decrease) from operations:</b>		
Total revenues	\$ 0.33	\$ 0.15
Total expenses	\$ (0.52)	\$ (0.47)
Realized gains (losses) for the period	\$ 0	\$ 0
Unrealized gains (losses) for the period	\$ (0.44)	\$ .01
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>\$ (0.63)</b>	<b>\$ (0.31)</b>
<b>Net Asset Value, end of the period</b>	<b>\$ 9.09</b>	<b>\$ 9.77</b>

1. Net Asset Value is based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

2. There were no distributions during the period ended August 31, 2004 or the year ended August 31, 2005.

### Ratios and Supplemental Data

#### Class A Shares

	2005	2004
Net assets <sup>(1)</sup>	\$ 3,202,587	\$ 2,492,075
Number of shares outstanding <sup>(1)</sup>	352,328	255,169
Management expense ratio <sup>(2)</sup>	4.85%	(3.77%)
Management expense ratio before waivers	4.85%	(2.19%)
Portfolio turnover <sup>(3)</sup>	30.37%	199%
Trading expense ratio <sup>(4)</sup>	0%	0%
Closing pricing NAV per share	\$ 9.09	\$ 9.77

**Class C Shares**

	2005	2004
Net assets <sup>(1)</sup>	\$ 3,990,188	\$ 4,883,185
Number of shares outstanding <sup>(1)</sup>	439,003	500,000
Management expense ratio <sup>(2)</sup>	5.35%	4.74%
Management expense ratio before waivers	5.35%	6.31%
Portfolio turnover <sup>(3)</sup>	30.37%	199%
Trading expense ratio <sup>(4)</sup>	0%	0%
Closing pricing NAV per share	\$ 9.09	\$ 9.77

1. This information is provided as at August 31 of the year shown.

2. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

3. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of securities, excluding securities having maturity dates at acquisition of one year or less, by the average market value of the portfolio, excluding short-term investments.

4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Management Fees

### Management Fee

The Fund pays the Manager an annual fee for its performance of administrative services of 1.50% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.25% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. One hundred percent (100%) of the management fee was attributed to the performance of administrative services performed by the Manager for the Fund. The fee is calculated and paid monthly in arrears. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund. During the year ended August 31, 2005, the Fund paid the Manager \$45,633 in management fees.

### Investment Advisor Fee

The Fund pays the Investment Advisory an annual fee for the performance of investment advisory services of 2% of the aggregate of the Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.75% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Investment Advisor is also entitled to be reimbursed for certain reasonable costs and expenses. During the year ended August 31, 2005, the Fund paid the Investment Advisor \$59,843 in advisory fees.

### Private Equity Specialist Fee

The Investment Advisor has retained the Private Equity Specialist to identify investment opportunities that meet the Fund's investment criteria, and structure and monitor investments for the Fund's portfolio. One-half of the fees earned by the Investment Advisor in any one year will be paid to the Private Equity Specialist provided that the Investment Advisor has received fees in that year in an aggregate amount of at least \$75,000. The Private Equity Specialist is also entitled to be reimbursed for certain reasonable costs and expenses. During the fiscal year ended August 31, 2005, the Private Equity Specialist was not paid any fees.

### Sponsorship Fee

The Fund is sponsored jointly by the Christian Labour Association of Canada ("CLAC"), The International Federation of Professional and Technical Engineers – Local 160 and The International Federation of Professional and Technical Engineers – Local 164. CLAC holds all the Class B Shares of the Fund. The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate Net Asset Value Per Share attributable to the Class A Shares of the Fund. During the year ended August 31, 2005, the Sponsors were paid aggregate fees of \$6,229.

### Performance Bonus

The Manager, the Investment Advisor and the Private Equity Specialist are also entitled to a performance bonus based on the gains and income earned from each eligible investment. The performance bonus is fully described in the prospectus. No performance bonus was paid during the year ended August 31, 2005.

## Past Performance

### General

The past performance is shown only for the year ended August 31, 2005 since the prior period ending August 31, 2004 was not a complete fiscal year for the Fund.

The performance information shown does not take into account sales, redemptions or income taxes or other charges that would have reduced returns or performance. Mutual funds are not guaranteed, their values change frequently and past performance is not indicative of future performance.

### Year by Year Return

The total return of the Fund for the year ended August 31, 2005 was negative 6.96%.

The total return of the Fund indicates in percentage terms how much an investment in the Fund made on September 1, 2004 would have decreased by August 31, 2005.

## Annual Compound Return of the Fund

Annual Compound Return	Fund	Globefund LSIF Peer Index
For the year ended August 31, 2005	(6.96%)	(0.89%)
From inception December 23, 2003 to August 31, 2005	(6.65%)	(3.18%)

The Globefund Labour-Sponsored Investment Fund Peer Index is an equally weighted average of mutual funds within the Labour-Sponsored Investment Fund asset class.

## Summary of Investment Portfolio

As at August 31, 2005 the Portfolio of the Fund consisted of the following investments:

Description	Maturity
<b>Short-Term Investments: (27.8% of the Total NAV)</b>	
General Electric Capital Corporation	September 26, 2005
Franchise Trust	October 5, 2005
<b>Fixed-Term Investments (18.0% of the Total NAV)</b>	
Farm Credit Corporation, 7.0%	August 5, 2015
Royal Bank of Canada, 4.0%	October 6, 2010
<b>Venture Investments: (53.7% of Total NAV)</b>	
Agile Systems Inc. Class A Voting Convertible Preferred Shares	
Arxx Building Products Ltd.	
10% Promissory Note	June 30, 2007
Rights	February 28, 2007
AssetMetrix Inc, Series A Preferred Shares	
Combat Networks Inc, 7.5% Debenture	April 15, 2010
Grey Horse Capital Corporation, 10.5% Convertible Debenture	December 15, 2010
T Base Communications Inc.	
11.5% Debenture	April 15, 2010
Common Shares	
A Warrants	
B Warrants	
VNRAND Inc., Series D Exchangeable Preferred Shares	
Wellington Polymer Technologies Inc.	
2068051 Ontario Inc. Common Shares	
2070452 Ontario Inc. Common Shares	
2068051 Ontario Inc., 8.0% Debenture, Series A	May 17, 2010
2068051 Ontario Inc., 8.0% Debenture, Series B	May 17, 2010

This summary of the portfolio investments of the Fund will change due to on-going transactions in the Fund. The summary will be updated on a semi-annual basis.

## Other Information

The Fund is required to produce a full long form prospectus on an annual basis. The prospectus contains full disclosure of the Funds securities, objectives and strategies, tax credits, valuation policies, a description of venture investments and risk factors among other detailed disclosure. The prospectus should be considered the main source of disclosure for the Fund.



# FINANCIAL STATEMENTS August 31, 2005 and 2004

## MANAGEMENTS RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **B.E.S.T. Total Return Fund Inc.** ("the Fund") and other financial information contained in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using management's best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the financial statements directly and through its Audit Committee. The Board of Directors has the responsibility for determining the value of the Fund's investments and the net asset value of the Fund on a consistent basis. The Board of Directors obtains, from its auditors, a report on the reasonableness of the valuation of the Fund's investments by the Fund's Board of Directors. The Audit Committee meets with management and with the external auditors to discuss the results of the audit examination with respect to the adequacy of internal accounting controls and to review the financial statements of the Fund. The external auditors have unrestricted access to the Audit Committee. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The accompanying financial statements have been approved by the Board of Directors and have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.



John M.A. Richardson, Chief Executive Officer



Thomas W. R. Lunan, Chief Financial Officer

October 17, 2005

## AUDITORS' REPORT

### To the Shareholders of B.E.S.T. Total Return Fund Inc.

We have audited the statement of investment portfolio of **B.E.S.T. Total Return Fund Inc.** (the "Fund") as at August 31, 2005, the statements of net assets as at August 31, 2005 and 2004 and the statements of operations, changes in net assets and cash flows for the year ended August 31, 2005 and the period from December 23, 2003 (commencement of operations) to August 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2005 and 2004 and the results of its operations, the changes in its net assets and its cash flows for the year ended August 31, 2005 and the period from December 23, 2003 (commencement of operations) to August 31, 2004 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants,  
Toronto, Ontario

## STATEMENT OF INVESTMENT PORTFOLIO As at August 31, 2005

Par value \$	Issuer	Maturity date	Cost \$	Market value \$
<b>SHORT-TERM INVESTMENTS (27.8%)*</b>				
<b>Commercial paper</b>				
1,000,000	General Electric Capital Corporation	September 26, 2005	998,109	998,109
1,001,000	Franchise Trust	October 5, 2005	998,396	998,396
<b>Total short-term investments</b>			1,996,505	1,996,505
<b>Fixed-term investments (18.00%)*</b>				
300,000	Farm Credit Corporation, 7.0%	August 5, 2015	300,000	295,950
1,000,000	Royal Bank of Canada, 4.0%	October 6, 2010	1,000,000	1,000,300
<b>Total fixed-term investments</b>			1,300,000	1,296,250
Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>VENTURE INVESTMENTS - EXPANSION STAGE (53.70%)*</b>				
<b>INDUSTRIAL AND FINANCIAL (36.86% of total venture investments)</b>				
Wellington Polymer Technology Inc.				
435,894	2068051 Ontario Inc., common shares		481,981	
435,894	2070452 Ontario Inc., common shares		21,022	
86,414	2068051 Ontario, 8.0%, convertible debenture	May 17, 2010	86,414	
236,470	2068051 Ontario Inc., 8.0%, convertible debenture	May 17, 2010	236,470	
318,182	Agile Systems Inc., Class A-1 voting, convertible, preferred shares	318,182		
Arxx Building Products Ltd.				
420,000	10%, promissory note	June 30, 2007	420,000	
420	Rights	February 28, 2007	-	
200,000	Grey Horse Capital Ltd., 10.5%, convertible debenture	December 15, 2010	200,000	
<b>Total industrial and financial</b>			1,764,069	1,424,438
<b>Technology (63.14% of total venture investments)</b>				
1,010,101	AssetMetrix Inc., Series A, preferred shares		700,000	
500,000	Combat Networks Inc., 7.5%, debenture	April 15, 2010	500,000	
T-Base Communications Inc.				
750,000	11.5%, debenture	April 15, 2010	750,000	
277,500	Common shares		-	
173,137	Series A warrants		-	
173,137	Series B warrants		-	
890,561	VNRAND Inc., Series D, exchangeable shares		490,345	
<b>Total technology</b>			2,440,345	2,440,345
<b>Total venture investments</b>			4,204,414	3,864,783
<b>Total investments (99.50%)*</b>			7,500,919	7,157,538
<b>Other net assets (0.50%)*</b>			36,892	35,247
<b>Total net assets (100.00%)*</b>			7,537,811	7,192,785

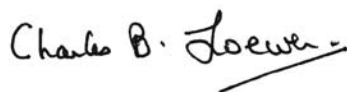
\* Percentages shown relate investments at market value to total net assets.

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF NET ASSETS As at August 31, 2005 and 2004

	2005	2004
	\$	\$
<b>ASSETS</b>		
<b>Investments</b> - at fair value (cost - \$7,500,919; 2004 - \$7,293,921)	7,157,538	7,298,059
<b>Cash</b>	89,100	76,453
<b>Accrued interest and other receivables</b>	23,775	28,470
	7,270,413	7,402,982
<b>LIABILITIES</b>		
<b>Accounts payable and accrued liabilities</b>	77,628	24,783
<b>Redemptions payable</b>	-	2,929
	77,628	27,712
<b>Net Assets Representing Shareholders' Equity</b>	7,192,785	7,375,270
<b>Net asset value per class</b>		
Class A shares	3,202,587	2,492,075
Class B shares	10	10
Class C shares	3,990,188	4,883,185
	7,192,785	7,375,270
<b>Number of shares outstanding</b> (note 3)		
Class A shares	352,328	255,169
Class B shares	1	1
Class C shares	439,003	500,000
	791,332	755,170
<b>Net asset value per share</b>		
Class A shares	9.09	9.77
Class B shares	10.00	10.00
Class C shares	9.09	9.77

Approved by the Board of Directors



Charles B. Loewen  
Director



David A. Copeland  
Director

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF OPERATIONS

	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>Income</b>		
Interest and other	257,013	82,165
<b>Expenses</b>		
Directors' fees and expenses	75,924	96,634
Transfer agent, registrar and administrative fees	66,522	27,369
Legal fees	62,216	3,313
Advisory fees	59,843	24,109
Management fees	45,633	17,832
Selling costs	33,192	5,941
Audit fees	27,921	10,000
Sponsors' fees	6,229	2,504
Custodian fees	5,505	2,483
Shareholders' reporting costs	4,047	852
Capital taxes	1,940	-
	388,972	191,037
<b>Expenses waived</b>	-	(87,319)
	388,972	103,718
<b>Net investment loss for the period</b>	(131,959)	(21,553)
<b>Unrealized (depreciation) appreciation on investments</b>		
Change in unrealized (depreciation) appreciation on investments	(347,519)	4,138
<b>Decrease in net assets from operations for the period</b>	(479,478)	(17,415)
<b>(Decrease) increase in net assets from operations per class</b>		
Class A share	(180,229)	99,400
Class C share	(299,249)	(116,815)
	(479,478)	(17,415)
<b>Earnings (losses) per share</b> (note 4)		
Class A share	(0.58)	0.52
Class C share	(0.63)	(0.31)

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS

	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>Net assets - Beginning of period</b>		
Class A	2,492,075	-
Class B	10	-
Class C	4,883,185	-
	7,375,270	-
<b>Increase (decrease) in net assets from operations</b>		
Class A	(180,229)	99,400
Class C	(299,249)	(116,815)
	(479,478)	(17,415)
<b>Capital transactions</b>		
Proceeds from issue		
Class A	975,955	2,548,515
Class B	-	10
Class C	-	5,000,000
Commission paid to agents on distribution of Class A shares	(57,828)	(152,911)
Payments on redemption		
Class A	(28,611)	(3,000)
Class C	(609,970)	-
Surplus of stated capital over amounts paid on Class A shares redeemed	1,225	71
Surplus of stated capital over amounts paid on Class C shares redeemed	16,222	-
	296,993	7,392,685
<b>Increase (decrease) in net assets</b>		
Class A	710,512	2,492,075
Class B	-	10
Class C	(892,997)	4,883,185
	(182,485)	7,375,270
<b>Net assets - End of period</b>		
Class A	3,202,587	2,492,075
Class B	10	10
Class C	3,990,188	4,883,185
	7,192,785	7,375,270

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating activities</b>		
Net investment loss for the period	(131,959)	(21,553)
Net change in non-cash balances related to operations	54,611	(758)
	(77,348)	(22,311)
<b>Investing activities</b>		
Proceeds from disposal of short-term investments	35,655,710	28,339,449
Proceeds from disposal of fixed-term investments	1,000,000	-
Purchase of short-term investments	(31,778,294)	(34,213,370)
Purchase of fixed-term investments	(1,300,000)	(1,000,000)
Purchase of venture investments	(3,784,414)	(420,000)
	(206,998)	(7,293,921)
<b>Financing activities</b>		
Proceeds from issue of Class A shares	975,955	2,548,515
Proceeds from issue of Class B shares	-	10
Proceeds from issue of Class C shares	-	5,000,000
Amounts paid for Class A shares redeemed	(27,386)	(2,929)
Amounts paid for Class C shares redeemed	(593,748)	-
Commissions paid to agents on distribution of shares	(57,828)	(152,911)
	296,993	7,392,685
<b>Increase in cash during the period</b>	12,647	76,453
<b>Cash - Beginning of period</b>	76,453	-
<b>Cash - End of period</b>	89,100	76,453

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS August 31, 2005 and 2004

### 1. FUND STATUS AND OPERATIONS

B.E.S.T. Total Return Fund Inc. (the "Fund") was incorporated under the laws of Canada by articles of incorporation dated October 31, 2003.

The Fund is registered as a Labour Sponsored Venture Capital Corporation under the Income Tax Act (Canada) and as a Labour Sponsored Investment Fund Corporation under the Community Small Business Investment Funds Act (Ontario) (the "CSBIF Act"), as amended.

The Fund makes investments in eligible Canadian businesses as defined in the Income Tax Act (Canada) and the CSBIF Act.

The Fund is sponsored jointly by the Christian Labour Association of Canada ("CLAC"), the Society of Energy Professionals and the International Federation of Professional and Technical Engineers - Local 164 (the "Sponsors"). CLAC holds all of the issued and outstanding Class B shares.

The Ontario Government announced on August 29, 2005 that it would end its involvement in the Labour Sponsored Investment Fund ("LSIF") tax credit program by harmonizing certain requirements to help funds move to a federal government sponsored LSIF program. The province will phase out the 15% tax credit by the end of the 2010 taxation year.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by B.E.S.T. Capital Management Ltd. (the "Manager") that may affect the reported amounts of assets, liabilities, income and expenses during the period reported. Actual results may differ from those estimates.

The significant accounting policies are as follows:

#### Non-venture investments

Short-term investments are valued at cost, which together with accrued interest approximates market value.

Bonds are valued based on the quoted market prices. The difference between the market values and average cost of the bonds is recorded as unrealized (depreciation) appreciation of investments.

Purchases and sales of marketable securities are recorded on a trade date basis.

#### Venture investments

Venture investments having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on the quoted market prices.

Investments in securities not having quoted a market value or in restricted securities are recorded at estimated fair market value.

Estimated fair market value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly fashion over a reasonable period of time. Details regarding the Fund's valuation methodology are included in its annual prospectus.

PricewaterhouseCoopers LLP ("PwC") are the Fund's independent auditors. As part of their audit of the August 31, 2005 financial statements, PwC performed certain procedures on the value of the Fund's venture investment portfolio as at August 31, 2005. The PwC personnel responsible for performing the procedures are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. They have no present or prospective financial interest in the securities of the Fund and the fees to be received by PwC are not contingent on the conclusions reached.

The procedures performed by PwC do not constitute an independent valuation (i.e., a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a "valuation service" as defined in The Canadian Institute of Chartered Accountants' independence requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation and regulation, to determine the value of the Fund's assets, the net asset value of the Fund and the Class A, Class B and Class C shares of the Fund.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

#### Income recognition

Interest and other income is recorded on an accrual basis.

#### Earnings (losses) per share

Earnings (losses) per share from operations are disclosed in the statements of operations and represent for each class of shares, the increase or decrease in net assets from operations for the period attributable to the class divided by the average number of shares of the class outstanding during the period.

### 3. SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Fund:

#### Authorized

Unlimited Class A shares, issuable in series, discretionary dividend entitlement, voting, restrictions on redemption, entitled to elect two directors

Unlimited Class B shares issuable only to an eligible labour body, as defined in the Income Tax Act (Canada), and an employee organization, as defined in the CSBIF Act that represents employees in more than one province, voting, restrictions on transfer, entitled to elect seven directors

Unlimited Class C shares, issuable only to the Private Equity Specialist (as defined in note 5) or its affiliates, discretionary dividend entitlement, restricted redemption rights, non-voting

#### Redemption of Class A shares

A shareholder may redeem all or part of the Class A shares held at the net asset value per share subject to certain restrictions. In any fiscal year, the Fund is not required to redeem Class A shares having an aggregate redemption price exceeding 20% of the net asset value of the Fund as at the last day of the preceding fiscal year. If the Fund

does not redeem Class A shares in the fiscal year requested, it will redeem those shares in the following fiscal year before it redeems any other Class A shares that it has been requested to redeem.

If the Fund is requested to redeem Class A shares before the eighth anniversary of their issue, an early redemption fee may be charged to investors.

#### Redemption of Class C shares

A shareholder may redeem all or part of the Class C shares held at the net asset value per share on March 2 of any year, based on the amount of capital raised from the sale of Class A shares. Redemptions are subject to certain restrictions and the Fund is entitled to suspend the right to redeem Class C shares in order to ensure that the Fund may maintain its investment pacing requirements or satisfy its other obligations.

#### Issued for cash

	2005		2004	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A shares				
Balance - Beginning of period	255,169	2,392,604	-	-
Issued during the period	100,050	975,955	255,469	2,548,515
Redeemed during the period	(2,891)	(28,611)	(300)	(3,000)
Commission to agents on distribution of shares	-	(57,828)	-	(152,911)
Balance - End of period	352,328	3,282,120	255,169	2,392,604
Class B shares				
Balance - Beginning of period	1	10	-	-
Issued during the period	-	-	1	10
Balance - End of period	1	10	1	10
Class C shares				
Balance - Beginning of period	500,000	5,000,000	-	-
Issued during the period	-	-	500,000	5,000,000
Redeemed during the period	(60,997)	(609,970)	-	-
Balance - End of period	439,003	4,390,030	500,000	5,000,000

The Fund pays commissions of 6.00% to registered dealers selling Class A shares. These commissions are charged to share capital as a share issuance cost. In addition, the Fund pays these dealers a service fee equal to 0.50% annually of the aggregate net asset value attributable to Class A shares held by its clients.

#### 4. EARNINGS (LOSSES) PER SHARE

In accordance with the Fund's articles of incorporation, the commissions paid to registered dealers selling Class A shares are paid by the Fund. These commissions are reflected in the statements of changes in net assets as a share issue cost. The articles of incorporation also specify that the net asset value for both Class A

and Class C shares are computed by dividing the total net assets of the Fund by the total number of outstanding Class A and Class C shares. As such, the allocation of decrease in net assets from operations to Class C shares has been increased to incorporate the Class C share of the commissions paid to agents on distribution of Class A shares.

#### 5. OPERATING ARRANGEMENTS

The Fund has entered into an agreement with the Manager to engage and supervise service providers to the Fund. The Fund will pay the Manager an annual fee for the performance of such administrative services of 1.50% of the aggregate net asset value



## NOTES TO FINANCIAL STATEMENTS (continued) August 31, 2005 and 2004

attributable to the Class A shares on the first \$100 million of the aggregate net asset value attributable to the Class A shares and 1.25% of the aggregate net asset value attributable to the Class A shares in excess of \$100 million.

The Fund and the Manager entered into an agreement (the "Investment Advisor Agreement") with Absolute Private Counsel Limited (the "Investment Advisor") to provide investment advisory services to the Fund. The Fund will pay the Investment Advisor an annual fee equal to 2.00% of the aggregate net asset value attributable to the Class A shares on the first \$100 million of the net asset value attributable to the Class A shares and 1.75% of the aggregate net asset value attributable to the Class A shares on the aggregate net asset value attributable to the Class A shares in excess of \$100 million.

The Investment Advisor and the Fund entered into an agreement (the "Private Equity Specialist Agreement") with Roynat Management Inc. (the "Private Equity Specialist") and Roynat Capital Inc. to assist in developing and refining the investment objectives and strategy and to assist the Fund with the implementation of that strategy. The Investment Advisor shall bear the costs of the services provided under the Private Equity Specialist Agreement.

The Fund must pay to each of the Sponsors an annual fee equal to 0.07% of the aggregate net asset value per share attributable to the Class A shares.

The Manager and the Private Equity Specialist are entitled to a performance bonus based on gains and income from each eligible investment subject to certain threshold returns on the individual eligible investment and the portfolio of investments. Any resulting performance bonus will be paid and allocated between the Manager and the Private Equity Specialist.

On August 23, 2004, the Fund announced that the Investment Advisor would begin to source and manage venture capital investments for the Fund. Pursuant to an Amending Agreement to the Investment Advisor Agreement dated August 18, 2004, the

Investment Advisor is entitled to the first \$75,000 of the fees paid under the Investment Advisor Agreement with the remaining fees and performance bonus, if any, split evenly with the Private Equity Specialist.

### 6. INCOME TAXES

Under the Income Tax Act (Canada), no income taxes are generally payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. A portion of the income taxes payable on net interest income earned by the Fund is also refundable on payment or deemed payment of taxable dividends to the shareholders.

The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A shares. If and to the extent that the Fund increases the paid-up capital of the Class A shares, the holders of the shares will be deemed to have received a dividend and the adjusted cost base of the holder's shares will be increased by the amount of the deemed dividend.

The Income Tax Act (Canada) and the CSBIF Act set minimum levels of investment for the Fund. If the minimum level of investments is not met, the Fund will be subject to defined taxes and penalties.

As at August 31, 2005, the Fund had non-capital losses available for carry-forward of \$157,000. No benefit has been recorded in these financial statements in respect of these unused losses.

### 7. COMPARATIVE FIGURES

Certain of the prior period's comparative figures have been reclassified to conform to the current year's financial statement presentation.

## Board of Directors

Edward Bosveld  
David Copeland  
Kendall Cork  
Charles Loewen  
Andrew Muller  
George Paterson

## Corporate and Shareholder Information

Executive Offices	<p>B.E.S.T. Total Return Fund Inc. 20 Adelaide Street East, Suite 400 Toronto, Ontario M5C 2T6 Telephone: 416.203.7331 Email: <a href="mailto:info@bestfunds.ca">info@bestfunds.ca</a> Website: <a href="http://www.bestfunds.ca">www.bestfunds.ca</a></p>
Notice of Annual Meeting	<p>Date: December 20, 2005 Time: 10:00am Location: McMillan Binch Mendelshon LLP BCE Place Bay Wellington Tower 181 Bay Street, Suite 4400 Toronto, Ontario M5J 2T3</p>
Legal Counsel	<p>McMillan Binch Mendelshon LLP BCE Place Bay Wellington Tower 181 Bay Street, Suite 4400 Toronto, Ontario M5J 2T3</p>
Auditors	<p>PricewaterhouseCoopers LLP Royal Trust Tower 77 King Street West, 25th Floor Toronto, Ontario M5K 1G8</p>
Sponsors	<p>Christian Labour Association of Canada Society of Energy Professionals International Federation of Professional and Technical Engineers – Local 164</p>



**B E S T Funds**  
Building Equity & Shareholder Trust

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The Ontario Securities Commission and the Government of Ontario make no recommendation concerning such an investment and assume no liability or obligation to any investor in these securities.*

## Prospectus

### Continuous Offering

December 22, 2005

### **B.E.S.T. TOTAL RETURN FUND INC.**

B.E.S.T. Total Return Fund Inc. (the “Fund”) is registered as a labour sponsored investment fund corporation (“LSIF Corporation”) under the *Community Small Business Investment Funds Act* (Ontario), as amended (the “Ontario Act”), and a labour-sponsored venture capital corporation (“Federal LSVCC”) under the *Income Tax Act* (Canada), as amended (the “Federal Act”). Certain management services will be provided to the Fund by B.E.S.T. Capital Management Ltd. (the “Manager”). The Manager has retained Absolute Private Counsel Limited to be the investment advisor (the “Investment Advisor”). The Investment Advisor has retained Roynat Management Inc. to help identify, structure and monitor eligible investments for the Fund (the “Private Equity Specialist”). The Class A Shares of the Fund (the “Class A Shares”) are offered for sale at a price equal to the Net Asset Value Per Share for the Class A Shares. See “Plan of Distribution”.

**Investment Objective:** The Fund’s investment objective is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. See “Investment Objectives and Strategy of the Fund”.

**Use of Proceeds:** The proceeds raised from the sale of Class A Shares will be invested in accordance with the objectives of the Fund upon the advice of the Investment Advisor with assistance from the Private Equity Specialist. The Investment Advisor and the Private Equity Specialist will identify, structure and monitor investments in eligible businesses in accordance with the investment objectives of the Fund and the investment criteria prescribed, as applicable, by the Federal Act, the Nova Scotia Act and the Ontario Act.

### **CLASS A SHARES**

#### **Continuous Offering Price – Net Asset Value Per Share**

**Minimum Initial Subscriptions – \$1,200**

**Minimum Subsequent Investments – \$50**

The Fund does not anticipate declaring any dividends for several years and thereafter any declaration of dividends will be at the discretion of the Board of Directors. See “Dividend Policy”.

**Federal Tax Benefits:** Pursuant to the Federal Act and subject to the limitations described below, individuals resident in Canada who are first purchasers of Class A Shares are eligible for a federal tax credit (the “Federal Tax Credit”) equal to 15% of the net cost to the individual (or to a Qualifying Trust (as defined herein) for the individual) of the Class A Shares and certain other qualifying shares purchased during the relevant period to a maximum credit of \$750 per year (based on an investment of \$5,000). The availability of the Federal Tax Credit is subject to specific exceptions and requirements described under “Canadian Federal Income Tax Considerations”. Investors who purchase Class A Shares on or before March 1, 2006 or any other date established by the Minister of National Revenue (Canada) (the “Cut-Off Date”) may elect to have their Federal Tax Credit apply in respect of the 2005 taxation year instead of the 2006 taxation year. The maximum Federal Tax Credits apply in respect of an investor’s aggregate purchases of class A shares issued by Federal LSVCCs and LSIF Corporations and certain similar entities registered under the laws of a province of Canada.

**Ontario Tax Benefits:** On November 2, 2005, the Ontario government proposed legislation to phase out the Ontario Tax Credit over six years. In addition to the Federal Tax Credit described above, pursuant to the *Income Tax Act* (Ontario) and subject to the limitations described below, individuals resident or otherwise taxable in Ontario will be eligible for an Ontario tax credit (the “Ontario Tax Credit”) equal to 15% of the purchase price to the individual (or to a Qualifying Trust for the individual) of Class A Shares and certain other qualifying shares of LSIF Corporations purchased during the relevant period, to a maximum credit of \$750 per year (based on an investment of \$5,000). Investors who purchase Class A Shares on or before March 1, 2006 may elect to have their Ontario Tax Credit, if applicable, apply in respect of the 2005 taxation year instead of the 2006 taxation year. The maximum Ontario Tax Credits apply in respect of an investor’s aggregate purchases

of class A shares issued by LSIF Corporations. See “Tax Incentives – Provincial – Ontario” and “Ontario Income Tax Considerations”.

**RRSPs and RRIFs:** In the opinion of McMillan Binch Mendelsohn LLP, subject to the qualifications discussed under the heading “Eligibility for Investment”, so long as the Fund is an LSIF Corporation or a Federal LSVCC, Class A Shares are qualified investments for trusts governed by registered retirement savings plans (“RRSPs”) and registered retirement income funds (“RRIFs”). RRIFs are not permitted to subscribe directly for Class A Shares and may generally only acquire such shares from certain RRSPs or other RRIFs. An RRSP may purchase Class A Shares directly from the Fund and is not subject to the restrictions that are applicable to RRIFs. Subject to the qualifications contained in this prospectus, an individual may generally claim the Federal Tax Credit and the Ontario Tax Credit for investments in Class A Shares made by his or her RRSP and an individual or his or her Spouse (as defined herein) may generally claim the Federal Tax Credit and the Ontario Tax Credit for investments in Class A Shares made by a spousal RRSP.

**The Manager:** B.E.S.T. Capital Management Ltd. has assisted in the organization and creation of the Fund. The Manager has worked with the Investment Advisor and the Private Equity Specialist to develop and refine the investment strategy and criteria for the Fund, and arranged for start-up financing for the Fund. The Manager was not entitled to have these costs reimbursed by the Fund. The Fund has retained the Manager to perform its daily administrative operations and to engage and supervise service providers to the Fund. See “The Manager”.

**The Investment Advisor:** The Manager has retained Absolute Private Counsel Limited, an affiliate of the Manager, to assist it to develop and refine the investment strategy and criteria of the Fund, to execute all investment decisions, to identify investment opportunities, structure and monitor investments for the Fund’s portfolio and to supervise the activities of the Private Equity Specialist. See “The Investment Advisor”.

**The Private Equity Specialist:** The Investment Advisor has retained Roynat Management Inc. as the Private Equity Specialist to assist it to develop and refine the investment strategy and criteria of the Fund, and to use its network of business contacts to identify investment opportunities, structure and monitor investments for the Fund’s portfolio. See “The Private Equity Specialist”.

**The Sponsors:** The Fund is sponsored jointly by the Christian Labour Association of Canada (“CLAC”), The International Federation of Professional and Technical Engineers - Local 160 (also known as and hereinafter referred to as “The Society of Energy Professionals”) and The International Federation of Professional and Technical Engineers - Local 164 (“IFPTE Local 164”) (CLAC, The Society of Energy Professionals and IFPTE Local 164, collectively, the “Sponsors”). CLAC holds all of the issued and outstanding Class B Shares of the Fund. See “The Sponsors”.

**The Class A Shares are highly speculative in nature. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or long term. There is no assurance that changes will not be introduced to federal or provincial legislation that, if unfavourable, could impair the Fund’s investment performance and its ability to attract future investment capital. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares. Although the Fund is a mutual fund in most of the provinces and territories of Canada, many of the rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply to the Fund. The Fund will require a greater commitment to initial analysis and to monitoring and support of ongoing developmental activities, relative to the amount of capital invested, than is required by most mutual funds. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles. The phasing out of the Ontario Tax Credit may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares. See “Risk Factors”. Investors may be required to pay share certificate fees in certain circumstances. See “Summary of Fees and Expenses – Summary of Fees, Charges and Expenses Payable by the Shareholder”.**

Mutual funds generally value their investments at the closing market price at which they can be bought and sold. A published market will not exist for many of the investments made by the Fund. The Fund has adopted a method of valuing both those investments for which a published market exists and those for which a published market does not exist. Citigroup Fund Services Canada Inc. (the “Registrar and Transfer Agent”) will calculate the Net Asset Value Per Share (as defined herein) attributable to the Class A Shares on each Business Day (as defined herein) using values for the shares determined in accordance with the Fund’s valuation methodology. The Fund is required, by applicable securities legislation, to obtain on

an annual basis, a valuation by an independent qualified person of the Net Asset Value of the Fund and the Net Asset Value Per Share. The Fund intends to satisfy this requirement by obtaining, on an annual basis, a report from its auditors as to the reasonableness of the valuation of the Fund's investments by the Board of Directors. The daily, weekly, semi-annual and annual valuations of the Fund's investments may not reflect the prices at which the investments can actually be sold, particularly after taking into account associated selling costs such as sales commissions and legal fees. The existence of a daily valuation of the Class A Shares is designed to establish the issue price for the continuous offering of the Class A Shares, and the daily and weekly valuations of the Fund are designed to allow investors to follow the performance of the Fund. See "Valuation of Investments" and "Risk Factors".

**In most cases, investors must repay all or a portion of any tax credit received as a result of their investment if their Class A Shares are redeemed within eight years of purchase and the Fund is required to withhold such amount from any proceeds payable to the investor upon redemption in such cases. Under the Ontario Act, any Class A Share issued in February or March that is redeemed in February or on March 1 is deemed to be redeemed on March 31. Pursuant to proposed legislation under the Federal Act, no amount need be withheld if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed. Once Class A Shares have been held for eight years, investors will normally be able to request that the Fund redeem their Class A Shares at any time at the Net Asset Value Per Share attributable to the Class A Shares as at the close of business on the Business Day on which the redemption request is received. There are certain circumstances in which the Fund may be prohibited by law from making redemptions and in certain circumstances the Fund may suspend redemptions for substantial periods of time. Furthermore, in any given year the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year. There is no formal market such as a stock exchange through which the Class A Shares may be sold and there are restrictions on the transfer of Class A Shares. Accordingly, investors will generally not be able to dispose of their Class A Shares other than by way of redemption. See "Canadian Federal Income Tax Considerations", "Ontario Income Tax Considerations" and "Share Capital of the Fund".**

The Fund offers its Class A Shares for sale at the Net Asset Value Per Share, as calculated on a daily basis by the Registrar and Transfer Agent. Subscriptions will be received subject to rejection or allotment in whole or in part. The Class A Shares are sold through dealers licensed to sell shares of LSVCCs and LSIF Corporations. In Alberta, the Class A Shares are only permitted to be sold by investment dealers. See "Subscription".

In addition to this prospectus and the audited financial statements of the Fund included in this prospectus, investors will receive audited financial statements of the Fund for its most recently completed financial year and unaudited interim financial statements for the current financial year as required by applicable law. Investors should read the prospectus and review the financial statements carefully before making an investment decision. Careful consideration should be given to the risk factors associated with making an investment in the Fund. See "Risk Factors". Investors should also consult with their professional advisors prior to making an investment in the Fund.

## SUMMARY OF FEES AND EXPENSES

### Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data

<u>Type and Amount of Fee</u>	<u>Description</u>
<b>Management Fee (Annually)</b>  1.50% of aggregate Net Asset Value Per Share attributable to Class A Shares up to \$100 million; 1.25% of aggregate Net Asset Value Per Share attributable to Class A Shares after \$100 million*	<p>The Fund pays the Manager an annual fee for its performance of administrative services of 1.50% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.25% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million.</p> <p>The fee is calculated and paid monthly in arrears. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund. Any fees or benefits received by the Manager from a prospective investee or a Portfolio Company (as defined herein), except with respect to services not normally provided by a venture capital investor to an investee company, will be set-off against the management fees otherwise payable by the Fund to the Manager.</p> <p>See “Executive Compensation, Management Fees and Performance Bonus”.</p>
<b>Investment Advisory Fee (Annually)</b>  2.00% of aggregate Net Asset Value Per Share attributable to Class A Shares up to \$100 million; 1.75% of aggregate Net Asset Value Per Share attributable to Class A Shares after \$100 million; one-half of fees payable to Private Equity Specialist subject to minimum fee*	<p>The Fund pays the Investment Advisor an annual fee for its performance of investment advisory services of 2% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.75% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. One-half of such fees earned by the Investment Advisor in any one year will be paid to the Private Equity Specialist pursuant to the Private Equity Specialist Agreement (as defined herein), provided that the Investment Advisor has received fees under the Investment Advisor Agreement (as defined herein) and any performance bonus in that year in an aggregate amount of at least \$75,000.</p> <p>The fee is calculated and paid monthly in arrears. The Investment Advisor and the Private Equity Specialist are also entitled to be reimbursed for certain reasonable costs and expenses. Any fees paid to the Investment Advisor or the Private Equity Specialist that are in respect of services that are normally provided by a venture capital investor to an investee company will be paid to the Fund.</p> <p>See “Executive Compensation, Management Fees and Performance Bonus”.</p>
<b>Performance Bonus</b>  Subject to satisfying certain performance conditions, 50% of realized gains and income earned from each eligible investment in excess of a 12% compounded annual rate of return to a 15% compounded annual rate of return, plus 20% of realized gains and income earned from each eligible investment in excess of a 15% compounded annual rate of return*	<p>The Manager, the Investment Advisor and the Private Equity Specialist are entitled to share in a performance bonus (the “Performance Bonus”) as soon as practicable after the Disposition Date (as defined herein) of an eligible investment based on the gains and income earned from each eligible investment. No Performance Bonus shall be paid by the Fund in respect of the realization of an eligible investment, unless on the Disposition Date of such eligible investment:</p> <ul style="list-style-type: none"> <li>(a) the total net realized and unrealized gains and income from the Fund from its portfolio of eligible investments since inception must have generated a return greater than the average annual rate of return on five year Guaranteed Investment Certificates offered by a Schedule I Canadian chartered bank plus 2%;</li> </ul>



**Type and Amount of Fee****Description**

- (b) the compounded annual rate of return (including realized and unrealized gains and income) from the particular eligible investment since its acquisition by the Fund must equal or exceed 12% per annum; and
- (c) the Fund must have recouped an amount equal to all principal invested in the particular eligible investment.

The Fund will not pay the Performance Bonus on any partial dispositions of an eligible investment unless and until the Fund receives (from all dispositions of that investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the eligible investment.

Provided that the payment of the Performance Bonus does not reduce returns to shareholders on the Investment Portfolio (as defined herein) below the threshold outlined in (a) above, the proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund, after deducting the costs of such investment and the proceeds of disposition paid to the Fund, shall be allocated and paid as follows:

- (a) Each of the Private Equity Specialist and the Investment Advisor shall receive 50% of all gains and income earned from each particular eligible investment in excess of the 12% compounded annual rate of return contemplated in (b) above, up to and including a level representing 15% of the compounded annual rate of return earned from the particular eligible investment.
- (b) All gains and income earned on each particular eligible investment in excess of a 15% compounded annual rate of return earned from the particular eligible investment, shall be allocated and paid in the following proportions:
  - (i) 8% to the Private Equity Specialist and 8% to the Investment Advisor; and
  - (ii) 4% to the Manager.

The Fund will retain the other 80% of such gains and income.

The Performance Bonus will be calculated and paid quarterly in arrears based upon realized gains, calculated on the last day of the last month of each calendar quarter. See “Executive Compensation, Management Fees and Performance Bonus”.

**Sponsorship Fee  
(Annually)**

0.07% of aggregate Net Asset Value Per Share attributable to Class A Shares\*

The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate Net Asset Value Per Share attributable to the Class A Shares, calculated and paid monthly in arrears. See “Executive Compensation, Management Fees and Performance Bonus”.

**Administration Fees**

(As incurred)\*

The Fund pays all of its administrative expenses including expenses relating to the provision of registrar, transfer agency, trustee, shareholder reporting and other shareholder administration services being provided by the Manager and all of its operating expenses including expenses relating to: portfolio transactions, taxes, legal, audit, custodial and accounting, costs of qualifying the Fund’s securities for distribution, certain marketing, security realization, directors’ fees and borrowing fees. See “Operating Expenses”. In addition, the Fund has agreed to assume the annual RRSP administration fee payable to the Trustee (as defined herein) for RRSPs established with the Trustee. See “Subscription”.



**Type and Amount of Fee****Description****Sales Commissions  
(Paid at the time of Investment)**

Sales commission of 6% of the selling price, paid by the Fund\*

Investors who purchase Class A Shares will not pay any sales commissions directly. The Fund will pay a commission of 6% of the selling price to registered dealers selling Class A Shares. Commissions on the sale of the Class A Shares will be charged to share capital as a share issue cost as they occur. See “Plan of Distribution”.

**Service Fees  
(Annually)**

0.50% of the aggregate Net Asset Value Per Share attributable to Class A Shares held by clients, paid by the Fund\*

The Fund pays to registered dealers having clients holding Class A Shares a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the aggregate Net Asset Value Per Share attributable to the Class A Shares held by those clients (the “Service Fee”). See “Plan of Distribution - Additional Dealer Compensation”.

**Sales Incentives**

(As incurred)\*

The Fund may enter into co-operative marketing programs with certain dealers providing for the reimbursement by the Fund of certain expenses incurred by those dealers in promoting sales of the Class A Shares, subject to applicable law. See “Plan of Distribution – Additional Dealer Compensation”.

**Management Expense Ratio**

2005

5.92% (including commissions)\*

5.15% (before commissions)

2004

7.03% annualized (including commissions)

2.84% annualized (before commissions)

The management expense ratio includes all fees and expenses paid or payable as shown on the Fund’s statement of operations, and is expressed as a percentage of the average net assets administered during the period from September 1, 2004 to August 31, 2005. The management expense ratio for the Class A Shares for the fiscal year ended August 31, 2005 was 5.92%, computed on an annualized basis. The management expense ratio, excluding commissions to agents on the distribution of Class A Shares, would have been 5.15%, computed on an annualized basis. Because of the nature of the investments that the Fund makes, it is anticipated that the management expense ratio will continue to be higher than that of conventional mutual funds.

**Annual Returns (not compounded)**

2005

-6.96%

**Summary of Fees, Charges and Expenses Payable by the Shareholder****Sales Charge**

Nil. Sales commissions are paid indirectly by the shareholder through the Fund which pays sales commissions out of the proceeds from the sale of Class A Shares. See “Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data – Sales Commissions”.

**Transfer Fee**

Nil.

**RRSP Fee**

Nil.

**Redemption Fee**

Nil.

**Share Certificate Fee**

(As incurred)\*

A share certificate will not be issued except on an investor’s request and on payment by the investor of a fee of \$100 (plus G.S.T.).

### **Summary of Dealer Compensation**

#### **Sales Commissions**

See “Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data - Sales Commissions”.

#### **Service Fees**

See “Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data – Service Fees”.

#### **Sales Incentives**

See “Summary of Fees, Charges and Expenses Payable by the Fund and Annual Performance Data – Sales Incentives”.

\* denotes a summary only and should be read together with detailed information appearing elsewhere in this prospectus.

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## **ELIGIBILITY FOR INVESTMENT**

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, a Class A Share will generally be a qualified investment for an RRSP or (subject to the following paragraph) an RRIF, provided that: (i) at the time the Class A Share is acquired by the trust, the Fund is registered as an LSIF Corporation under the Ontario Act or a Federal LSVCC under the Federal Act; (ii) immediately after the time the Class A Shares were acquired by the trust, each annuitant and each beneficiary, if any, of the RRSP or RRIF is not a “connected shareholder” of the Fund; and (iii) the RRSP or RRIF does not receive an amount in respect of the Class A Shares which may reasonably be considered to be on account of or in lieu of or in satisfaction of payment for services to or for the Fund or a person related to the Fund or in respect of the acquisition of goods or services from the Fund or a person related to the Fund. In general, an annuitant or beneficiary will be a “connected shareholder” if the annuitant or beneficiary owns directly or indirectly not less than 10% of the issued shares of any class or series of the capital stock of the Fund, or any other corporation related to the Fund. For these purposes, a taxpayer is deemed to own shares owned by any other persons with whom he or she does not deal at arm’s length for purposes of the Federal Act, his or her proportionate share of shares owned by a partnership of which he or she is a member, and all or part of the shares owned by a trust of which he or she is a beneficiary, depending on the terms of the trust. However, an annuitant or beneficiary will not be considered to be a connected shareholder if the annuitant deals at arm’s length with the Fund and the cost amount (normally the adjusted cost base) of all shares of the Fund or of any corporation related to the Fund owned by the annuitant (or deemed to be owned by the annuitant) is less than \$25,000. For purposes of determining whether an annuitant or beneficiary is a connected shareholder of the Fund, a right to acquire a share is treated as a share, whether the right is absolute or contingent, present or future, and the cost amount of a right is treated as if it were the cost amount of the share. See “Ontario Income Tax Considerations” and “Canadian Federal Income Tax Considerations”.

Although, as described above, Class A Shares will generally be qualified investments for RRIFs, an RRIF is not permitted to subscribe directly for Class A Shares, and may generally only acquire such shares from certain RRSPs or other RRIFs.

## **SELECTED DEFINITIONS**

“Applicable Legislation” means the Federal Act, the Nova Scotia Act (applicable only as described herein under “Investment Restrictions – Nova Scotia Act”) and the Ontario Act;

“Audit Committee” means the audit committee of the Fund;

“Board of Directors” means the board of directors of the Fund;

“Business Day” means a day other than a Saturday, a Sunday, a day observed as a holiday under the laws of the Province of Ontario or a day on which either the Toronto Stock Exchange or the Registrar and Transfer Agent’s principal office in Toronto is closed for business;

“CLAC” means the Christian Labour Association of Canada;

“Class A Shares” means the Class A shares in the capital of the Fund;

“Class A Shareholders” means the holders of Class A Shares;

“Class B Shares” means the Class B shares in the capital of the Fund;

“Class B Shareholders” means the holders of Class B Shares;

“Class C Shares” means the Class C Shares in the capital of the Fund;

“Class C Shareholders” means the holders of Class C Shares;

“CSBIF” means a community small business investment fund corporation registered under the Ontario Act;

“Custodian” means CIBC Mellon Global Securities Services Company (and certain of its affiliates), in its capacity as custodian of the Investment Portfolio and Reserve Portfolio;

“Cut-Off Date” means the later of March 1, 2006 or any other date established by the Minister of National Revenue (Canada) pursuant to subsection 127.4(5.1) of the Federal Act;

“Disposition Date” will mean the date the Fund receives the proceeds, whether in cash, securities or other property, from the disposition of an eligible investment;

“eligible business” means an eligible business as prescribed by the Ontario Act, which is also an eligible business entity as defined in Part X.3 of the Federal Act, as the case may be, some of the more salient requirements of which are described under “Investment Restrictions”;

“eligible investment” means an investment in a business which, at the time of the investment, is an eligible business;

“Eligible Investor” means an individual or a trust which is a Qualifying Trust for the individual, as defined by subsection 127.4(1) of the Federal Act;

“Federal Act” means the *Income Tax Act* (Canada), as amended;

“Federal LSVCC” means a registered labour-sponsored venture capital corporation under the Federal Act;

“Federal Tax Credit” means the 15% tax credit available under the Federal Act (to a maximum of \$750 per year based on an investment of \$5,000), subject to the conditions prescribed therein, to original purchasers of class A shares of Federal LSVCCs and prescribed labour sponsored venture capital corporations as prescribed by the Tax Regulations;

“IFPTE Local 164” means The International Federation of Professional and Technical Engineers – Local 164;

“Individual Eligible Investor” means an individual who is an Eligible Investor and the original purchaser of Class A Shares directly or through a Qualifying Trust where the annuitant under the Qualifying Trust is the individual or his or her Spouse;

“Information Return” means an information return referred to in paragraph 204.81(6)(c) of the Federal Act;

“Investment Advisor” means Absolute Private Counsel Limited;

“Investment Advisor Agreement” means the agreement dated as of December 22, 2003, as amended on August 23, 2004, between the Investment Advisor and the Fund and the Manager;

“Investment Portfolio” means, at any point in time, the eligible investments of the Fund other than investments in Reserves;

“LSIF Corporation” means a labour sponsored investment fund corporation registered under Part III of the Ontario Act;

“Listed Company” in relation to a labour sponsored investment fund corporation’s investment in eligible businesses means a business any of the shares of which are listed on a stock exchange prescribed by regulation under the Federal Act at the time of the investment;

“Manager” means B.E.S.T. Capital Management Ltd.;

“Ministerial Designation Date” means the date established by the Minister of National Revenue (Canada) in respect of a year pursuant to subsection 127.4(5.1) of the Federal Act;

“Net Asset Value of the Fund” means the aggregate value of the Fund’s assets, less the aggregate value of the Fund’s liabilities;

“Net Asset Value Per Share” when used with reference to Class A Shares or Class C Shares is determined by subtracting the value of the liabilities of the Fund and the stated capital of the Class B Shares, from the value of the assets of the Fund and dividing the resulting amount by the total number of outstanding Class A Shares and Class C Shares at the date such value is determined;

“Nova Scotia Act” means the *Equity Tax Credit Act* (Nova Scotia), as amended;

“Nova Scotia LSVCC” means a labour-sponsored venture-capital corporation registered under the Nova Scotia Act;

“Nova Scotia Tax Credit Certificate” means the certificate issued to an Individual Eligible Investor resident in Nova Scotia who has purchased a class A share in the capital of a Nova Scotia LSVCC;

“Ontario Act” means the *Community Small Business Investment Funds Act* (Ontario), as amended;

“Ontario Tax Act” means the *Income Tax Act* (Ontario);

“Ontario Tax Credit” means the 15% tax credit presently available under the Ontario Tax Act and the Ontario Act (to a maximum of \$750), and subject to the conditions prescribed therein, to original purchasers of Class A Shares of LSIF Corporations;

“Ontario Tax Credit Certificate” means the certificate issued pursuant to subsection 25(5) of the Ontario Act, to an Individual Eligible Investor resident or otherwise taxable in Ontario who has purchased a class A share in the capital of an LSIF Corporation;

“Performance Bonus” means the bonus that the Manager, the Investment Advisor and the Private Equity Specialist are entitled to share in as soon as practicable after the Disposition Date of an eligible investment based on the gains and income earned from each eligible investment;

“Portfolio Company” or “Portfolio Companies” means one or more businesses in which the Fund, or a CSBIF in which the Fund has invested, has made an eligible investment;

“Private Equity Specialist” means Roynat Management;

“Private Equity Specialist Agreement” means the agreement dated as of December 22, 2003, as amended on August 23, 2004, between the Investment Advisor, the Private Equity Specialist, Roynat Capital Inc. and the Fund;

“Qualifying Trust” for an individual in respect of a share means a trust that is governed by an RRSP where: (i) the plan is not a Spousal Plan and the individual is the annuitant; or (ii) the plan is a Spousal Plan in relation to the individual or his or her Spouse under which the individual or his or her Spouse is the annuitant if the individual and no other person claims a deduction of the tax credit under the Federal Act;

“Registrar and Transfer Agent” means Citigroup Fund Services Canada Inc. in its capacity as registrar and transfer agent for the Class A Shares;

“Reserves” means generally money in cash or on deposit with qualified Canadian financial institutions, debt instruments of or guaranteed by the Canadian federal government, debt obligations of provincial and municipal governments, Crown corporations and corporations listed on prescribed Canadian stock exchanges, guaranteed investment certificates issued by Canadian trust companies and qualified investment contracts;

“Reserve Portfolio” means an investment by the Fund in a form of asset which qualifies as a Reserve under the Ontario Act;

“Roynat Capital” means collectively Roynat Inc. and Roynat Capital Inc.;

“Roynat Management” means Roynat Management Inc.;

“RRIFs” means registered retirement income funds, as defined in subsection 146.3(1) of the Federal Act;

“RRSPs” means registered retirement savings plans, as defined in subsection 146(1) of the Federal Act;

“Securities Legislation” means the *Securities Act* (Ontario) and corresponding legislation in any other province in which Class A Shares are or will be distributed as now enacted or as the same may from time to time be amended, re-enacted or replaced, and all regulations thereto which are applicable to the Fund and the requirements and policies of the applicable securities regulatory authority which are applicable to the Fund;

“Sponsors” means CLAC, The Society of Energy Professionals and IFPTE Local 164;

“Spouse” includes a common-law partner as defined in the Federal Act;

“Spousal Plan” means a spousal or common-law partner plan as defined in subsection 146(1) of the Federal Act;

“Tax Proposals” means all specific proposals to amend the Federal Act and the Tax Regulations under the Federal Act, the Ontario Act and the tax regulations thereunder, publicly announced by the Ministers of Finance prior to the date hereof;

“Tax Regulations” means the regulations made pursuant to the Federal Act;

“The Society of Energy Professionals” means The International Federation of Professional and Technical Engineers – Local 160; and

“Trustee” means a Canadian chartered bank in its capacity as trustee for an RRSP established to hold Class A Shares.



## PROSPECTUS SUMMARY

The following is a summary only and reference is made to the more detailed information appearing elsewhere in this prospectus. Terms not otherwise defined herein shall have the meaning ascribed thereto under “Selected Definitions”.

### **The Fund**

The Fund was incorporated under the *Canada Business Corporations Act* by articles of incorporation dated October 31, 2003, as amended on November 30, 2004. The Fund is registered as an LSIF Corporation under the Ontario Act and a Federal LSVCC under the Federal Act.

The business of the Fund is investing in small and medium-sized private and public companies which qualify as eligible investments. Such investments are intended to assist the development of eligible businesses and create, maintain, and protect employment. The primary objective of the Fund is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. The Fund invests in securities such as convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of eligible businesses that, in the Fund’s opinion, have the greatest potential to achieve the Fund’s objectives. The Fund intends to maintain a focus in both geographic and sector diversification by investing in all Canadian provinces in businesses that have the ability to generate sustainable positive cash flow and have attractive growth prospects, and by considering investments in traditional industries such as service, distribution, and manufacturing, as well as in technology sectors and special situations such as turnarounds. The investment horizon for each investment, from investment to exit, is expected to be five to seven years. See “Investment Objectives and Strategy of the Fund”.

The Fund’s investment process includes a review of market trends, competitive dynamics, management track record and suitability, product or service value proposition, market share, downside protection availability, and growth and exit potential. The Fund is subject to certain investment restrictions under the Applicable Legislation. Capital not invested in eligible businesses is invested in liquid investments and used for the general corporate purposes of the Fund. See “Implementation of Investment Strategy”.

### **The Manager**

The Manager has assisted in the organization and creation of the Fund. The Manager has worked with the Investment Advisor and the Private Equity Specialist to develop and refine the investment strategy and criteria for the Fund, and arranged for start-up financing for the Fund. The Manager was not entitled to have these costs reimbursed by the Fund. The Fund has retained the Manager to perform its daily administrative operations and to engage and supervise service providers to the Fund. See “The Manager”.

### **The Investment Advisor**

The Manager has retained Absolute Private Counsel Limited, an affiliate of the Manager, to assist it to develop and refine the investment strategy and criteria of the Fund, to execute all investment decisions, to identify investment opportunities that meet the Fund’s investment criteria, structure and monitor investments for the Fund’s portfolio and to supervise the activities of the Private Equity Specialist. See “The Investment Advisor”.

### **The Private Equity Specialist**

The Investment Advisor has retained Roynat Management, a subsidiary of Roynat Inc., as the Private Equity Specialist. The Private Equity Specialist is responsible, together with the Investment Advisor, for identifying investment opportunities that meet the Fund’s investment criteria, and structuring and monitoring investments for the Fund’s portfolio. See “The Private Equity Specialist”.

### **The Sponsors**

The Sponsors of the Fund are CLAC, The Society of Energy Professionals and IFPTE Local 164. CLAC represents approximately 30,000 workers across Canada and The Society of Energy Professionals and IFPTE Local 164 represent 6,000 professional and supervisory employees and 165 engineers, designers and technical employees, respectively. The responsibilities of the Sponsors include assisting with the ongoing administration of the Fund and the offering of the Class A Shares from time to time. CLAC owns all of the Class B Shares. See “Share Capital of the Fund - Class B Shares”.

While members of the Sponsors may subscribe for Class A Shares, neither the Sponsors nor their members will be required to make any investment in the Fund other than the initial investment of CLAC in Class B Shares. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsors.

### **The Registrar and Transfer Agent**

Citigroup Fund Services Canada Inc. will be retained to provide registrar, transfer agency, fund accounting, shareholder reporting, customer support and various other administration services. In addition to providing the registrar, transfer agency and other shareholder administration services to the Fund, the Registrar and Transfer Agent performs similar services for other clients including other labour sponsored investment funds. The Registrar and Transfer Agent will also perform certain valuation services for the Fund. See “Valuation of Investments” and “Shareholder Financial Reporting”.

### **The Custodian**

The Fund has retained CIBC Mellon Global Securities Services Company (and certain of its affiliates) to act as Custodian of the Investment Portfolio and the Reserve Portfolio.

### **Offered Securities**

Class A Shares are offered for sale continuously at the Net Asset Value Per Share. The minimum investment is \$1,200 and all subsequent subscriptions must be in increments of \$50. The continuous offering of the Class A Shares may not be discontinued before December 31, 2008. Following December 31, 2008, the continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager and the Private Equity Specialist is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue.

### **Use of Proceeds**

The proceeds raised from the sale of Class A Shares will be invested in eligible businesses at the direction of the Board of Directors in accordance with the objectives of the Fund upon the advice of the Investment Advisor with assistance from the Private Equity Specialist. The Investment Advisor and the Private Equity Specialist will identify, structure and monitor investments in eligible businesses in accordance with the investment objectives of the Fund and the investment criteria prescribed, as applicable, by the Applicable Legislation. Pending investment in eligible businesses, the proceeds of this offering will be invested in Reserves.

### **Class C Shares**

Roynat Capital Inc., an affiliate of the Private Equity Specialist, invested \$5 million in the Fund, through the purchase of 500,000 Class C Shares at an issue price of \$10 per share. 20,501 Class C Shares were subsequently transferred to the Manager upon the acceptance by the Board of Directors of a marketing plan for the sale of Class A Shares, and are currently held by certain directors and/or officers of the Manager or its affiliates. During the fiscal year ended August 31, 2005, a total of 60,997 Class C Shares were redeemed at the price of \$9.73 per share, for an aggregate redemption amount of \$593,748.

These proceeds were intended to provide the Fund with the ability to take advantage of investment opportunities in eligible businesses that arose during the Fund's first year of operations, thereby providing the Fund with the benefits of having investments earning returns for the Fund and enabling the Fund to begin to satisfy its pacing requirements, both at an early stage in the life of the Fund. The number of Class C Shares permitted to be redeemed will be determined in accordance with a formula that takes into account and protects the Fund's ability to meet its liquidity and pacing requirements. See “Share Capital of the Fund – Class C Shares”.

### **Statutory Pacing Requirements**

Under the Ontario Act, on December 31 of each year, the Fund is generally required to hold eligible investments that have an aggregate cost of not less than 70% of the capital raised on the issue of Class A Shares to investors ordinarily resident in Ontario before the sixty-first day of that year and that remain outstanding at the end of the year, excluding Class A Shares that have been outstanding at least eight years, less 20% of the capital raised on Class A Shares that were issued to investors ordinarily resident in Ontario during the 12 month period ending on the sixtieth day of the applicable year and that are outstanding at the end of that year. This amount is further adjusted to reflect the amount of net realized losses, if any, in the year and certain taxes and penalty amounts incurred for the year. The Ontario Act provides that, during each calendar year, an LSIF shall not make investments in eligible businesses that are Listed Companies to the extent that the cost of those

investments exceeds 25% of the total cost of all investments made in eligible businesses by an LSIF in that calendar year or the previous calendar year, whichever is greater. At the end of each calendar year, the Fund is required to hold certain minimum levels of eligible businesses, which are small businesses, as defined in the Ontario Act.

On August 29, 2005, the Ontario government announced that it will propose amendments to the Ontario Act, including lowering the requirement to invest in eligible businesses from 70% to 60% of capital raised and removing investment requirements unique to the Ontario Act, such as the restrictions on investments in Listed Companies. On September 30, 2005, the Minister of Finance (Ontario) announced that it will consult further with the industry on transition rules governing pacing, eligibility and other reporting requirements. Such proposed amendments have yet to be enacted into law and there is no guarantee that they will be enacted in the future.

Under the Federal Act, the Fund will generally be liable for a tax imposed on a monthly basis if, at any time, the Fund has an investment shortfall. An “investment shortfall” is, generally, the amount by which 60% of the lesser of the shareholders’ equity in the Fund at the end of the preceding taxation year or the shareholders’ equity in the Fund at the end of the particular taxation year exceeds the aggregate cost amount to the Fund of its eligible investments. See “Investment Restrictions”.

### **Purchase**

Class A Shares will be issued only to Eligible Investors. See “Share Capital of the Fund”, “Canadian Federal Income Tax Considerations” and “Ontario Income Tax Considerations”.

### **Transfer**

The transfer of Class A Shares is restricted. Transfers will generally not be permitted except between an Individual Eligible Investor to an Individual Eligible Investor’s Spouse or former Spouse or to a trust governed by an RRSP or an RRIF of which an Individual Eligible Investor or his or her Spouse or former Spouse is an annuitant. Otherwise, transfers of Class A Shares may occur in very limited circumstances such as death or permanent disability. Any such transfers are permitted only if the conditions imposed by the Applicable Legislation are satisfied.

### **Redemption/Issue Price**

Class A Shares are issued at the Net Asset Value Per Share, determined on each Business Day on which the subscription is received. Subject to redemption restrictions and the withholding of any amount required to be withheld, the Class A Shares will be redeemed at the Net Asset Value Per Share as at the close of business on the day on which the Fund receives the request or on the following Business Day if the request is received after 4:00 p.m. (Toronto time).

### **Redemption**

A Class A Shareholder may require the Fund to redeem Class A Shares without having to repay the tax credits received on issue if the redemption occurs more than eight years after the date of issue of such shares. See “Share Capital of the Fund”.

Except for redemptions specifically permitted under the Ontario Act, Class A Shares may generally only be redeemed prior to eight years from the date of issue if 15% of the original issue price or the redemption price, whichever is less, is withheld and paid to the Minister of Finance (Ontario). An amount equal to the lesser of: (i) 15% of the issue price of the Class A Share; and (ii) the redemption price, net of required remittances to the Minister of Finance (Ontario), must also be withheld from the redemption proceeds and paid to the Receiver General for Canada. Generally, a Class A Shareholder may only otherwise require the Fund to redeem his or her Class A Shares without such withholding in certain very limited circumstances (generally as a result of death or permanent disability).

Under the Ontario Act, for the purposes of applying the above eight-year rule, any Class A Share issued in February or March, that is redeemed in February or on March 1, is deemed to be redeemed on March 31. Under proposed amendments to the Federal Act, no amount need be withheld if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed.

The Fund will be required to withhold the 15% Ontario tax only if the Ontario Tax Credit Certificate had been issued in respect of the Class A Shares redeemed. The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario unless it receives a notice instructing it to do otherwise. See “Tax Incentives - Provincial”, “Tax Credits in Ontario,” and “Redemption of Class A Shares”.

The Fund may suspend redemptions for substantial periods of time in certain circumstances and, in any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year. There is no formal market, such as a stock exchange, through which Class A Shares may be sold and there are restrictions on the transfer of Class A Shares. Accordingly, investors will generally not be able to dispose of their Class A Shares other than by way of redemption.

### **Dividend and Voting Rights**

Class A Shareholders are entitled to receive dividends at the discretion of the Board of Directors. The Board of Directors does not anticipate declaring dividends for several years. Any dividends declared thereafter will be at the discretion of the Board of Directors. To the extent necessary to minimize its tax liability, the Fund intends to periodically capitalize certain amounts of its interest income, other investment income and capital gains. See “Dividend Policy”.

Each Class A Share entitles the Class A Shareholder to one vote at meetings of the Class A Shareholders of the Fund. Class A Shareholders are entitled to elect two of six directors of the Fund. CLAC, as the sole Class B Shareholder of the Fund, is entitled to elect the remaining directors. CLAC has agreed to nominate and vote its Class B Shares in favour of the election, as directors of the Fund, of two members or designates of the Sponsors of the Fund and such number of members or designates of the Manager, as requested by the Manager, which is currently two members or designates. See “Share Capital of the Fund” and “The Sponsors”.

### **Valuation**

Valuations of the Fund’s assets will be carried out and the Net Asset Value Per Share will be updated daily by the Registrar and Transfer Agent. Where circumstances dictate that investments for which no published market exists should be valued other than at market or cost, the Investment Advisor will convey valuation adjustments to the Registrar and Transfer Agent. The Board of Directors will review the valuation at the end of each financial quarter. The Fund is required, by applicable securities legislation, to obtain on an annual basis, a valuation by an independent qualified person of the Net Asset Value of the Fund and the Net Asset Value Per Share. The Fund intends to satisfy this requirement by obtaining, on an annual basis, a report from its auditors as to the reasonableness of the valuation of the Fund’s investments by the Board of Directors.

### **Tax Benefits**

**Federal:** The Federal Act provides that Individual Eligible Investors who purchase Class A Shares (directly or through a Qualifying Trust) are generally eligible for a Federal Tax Credit equal to 15% of the net cost to such investor of the Class A Shares and certain other qualifying shares purchased during the relevant period to a maximum credit of \$750 per year (based on an investment of \$5,000). Individual Eligible Investors who purchase or subscribe and pay for Class A Shares on or before the Cut-Off Date may elect to have their Federal Tax Credit apply in respect of the 2005 taxation year instead of the 2006 taxation year. The Federal Tax Credit applies in respect of an Individual Eligible Investor’s aggregate purchase (directly or through a Qualifying Trust) of class A shares of Federal LSVCCs, LSIF Corporations and certain similar entities registered under the laws of a province of Canada.

**Ontario Tax Credits:** To claim an Ontario Tax Credit in Ontario, the Individual Eligible Investor must file with his or her tax return an Ontario Tax Credit Certificate issued to him or her in respect of the acquisition of Class A Shares. **The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is not in Ontario or if no address has been provided and the individual wishes that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is resident or otherwise taxable in Ontario and wishes to claim an Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date of the year the Class A Shares are issued (or, if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should be issued. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario and the purchaser does not wish that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is not liable for tax in Ontario and will not be claiming the Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date in the year in which the Class A Shares were issued (if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should not be issued. While the issuance of the Ontario Tax Credit Certificate will permit the Individual Eligible Investor to claim an Ontario Tax Credit, it may also result in the Fund being required to withhold certain amounts under the Ontario Act on a redemption of Class A**

**Shares if the shares are redeemed within eight years of the date the shares were issued, even if the investor did not receive the benefit of the Ontario Tax Credit in respect of the shares.** If withholding under the Ontario Act occurs in circumstances where an investor has not received all or part of the benefit of the Ontario Tax Credit in respect of the Class A Shares redeemed, the Minister of Finance (Ontario) is authorized to rebate all or any part of the amount withheld.

On November 2, 2005, the Ontario government proposed legislation to phase out the Ontario Tax Credit over six years. Individuals resident in Ontario at the end of a particular year, or who are otherwise subject to Ontario income tax for that year, are eligible for an Ontario Tax Credit equal to 15% of the purchase price to the individual or to a Qualifying Trust for the individual of Class A Shares to a maximum credit of \$750 per year (based on an investment of \$5,000). Investors who purchase Class A Shares after December 31, 2005, but on or before March 1, 2006, may elect to have their Ontario Tax Credit apply in respect of the 2005 taxation year instead of the 2006 taxation year. The maximum Ontario Tax Credits apply in respect of an Individual Eligible Investor's aggregate purchases of shares issued by LSIF Corporations. See "Ontario Income Tax Considerations".

### **Risk Factors**

Investors should consider the following risk factors and the additional risk factors outlined in "Risk Factors" before purchasing Class A Shares:

The Class A Shares are highly speculative in nature. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or long term. There are restrictions imposed by applicable law on the voting, redemption and transfer of Class A Shares. See "Share Capital of the Fund". There is no formal market, such as a stock exchange, through which Class A Shares may be sold and none is expected to develop. Investors in Class A Shares will be relying upon the business judgment, expertise and integrity of the Board of Directors, the Audit Committee, the Manager, the Investment Advisor and the Private Equity Specialist. The values the Fund places on its investments may not reflect the amounts for which they can actually be sold. There is no assurance that sufficient suitable eligible investments will be found in order to fulfil the Fund's investment objectives. As a result, the Fund may be subject to certain penalty taxes and, if the Fund's registration is revoked, investors may be ineligible for Federal Tax Credits or Ontario Tax Credits. The Federal Tax Credits and Ontario Tax Credits available on a purchase of Class A Shares, the investment restrictions imposed on the Fund, and the pace at which the Fund is required to invest the capital it raises may be altered by legislative changes in the future. Investors should consult with a professional advisor. Many of the rules normally applicable to mutual funds operating in Canada are not applicable to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply. The Fund will require a greater commitment to initial analysis and to monitoring and support of ongoing developmental activities of Portfolio Companies, relative to the amount of capital invested, than is required by most mutual funds. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles.

The phasing out of the Ontario Tax Credit may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares.

See "Risk Factors", "Canadian Federal Income Tax Considerations" and "Ontario Income Tax Considerations".

## THE FUND

The Fund was incorporated under the *Canada Business Corporations Act* by articles of incorporation dated October 31, 2003, as amended on November 30, 2004. The Fund is sponsored by CLAC, The Society of Energy Professionals and IFPTE Local 164. The Fund is registered as a labour sponsored investment fund corporation under the Ontario Act and a labour-sponsored venture capital corporation under the Federal Act. The head office and principal place of business of the Fund is at 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6.

### Directors and Officers of the Fund

The name, municipality of residence, office and principal occupation of each of the directors and officers of the Fund are set out below:

Name and Municipality of Residence	Position with the Fund	Principal Occupation
Edward J. Bosveld Chatham, Ontario	Director	Provincial Director (Ontario) for the Christian Labour Association of Canada
David A. Copeland Guelph, Ontario	Director	Partner in Nighthawk Investments
E. Kendall Cork Hillsburgh, Ontario	Director	Managing Director, Sentinel Associates Limited
Charles B. Loewen Mansfield, Ontario	Director	Co-founder Loewen & Partners Corporate Services Inc.
Andrew L. Müller Cobourg, Ontario	Director	President, The Society of Energy Professionals
George R. Paterson Toronto, Ontario	Director	Consultant
John M.A. Richardson Burlington, Ontario	Chief Executive Officer	Chief Executive Officer of The B.E.S.T. Discoveries Fund Inc., President and Director of B.E.S.T. Investment Counsel Limited, President and Director of B.E.S.T. Capital Management Ltd.
Michael S. Israels Mississauga, Ontario	President	President of The B.E.S.T. Discoveries Fund Inc., <b>[Vice-President and]</b> a director of B.E.S.T. Capital Management Ltd.
Thomas W.R. Lunan Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of The B.E.S.T. Discoveries Fund Inc. and Vice-President of B.E.S.T. Investment Counsel Limited

The following is a brief biographical description, including principal occupation for at least the last five years, of each of the directors and officers of the Fund:

**Edward J. Bosveld** currently holds the position of Provincial Director (Ontario) with CLAC and is a part of its national senior management team. He holds a B.A. (Honours) from Redeemer University College, a certificate in municipal administration, and is currently an MBA candidate at the University of Windsor.

**David A. Copeland** is currently a partner in Nighthawk Investments, a partnership specializing in investing in small, growth-oriented businesses. Prior to this, Mr. Copeland was the President, Co-founder and a Director of TRIAM Automotive Inc. ("Triam"), an automotive parts manufacturer that was acquired by Magna International Inc. ("Magna"). Prior to his involvement with Triam, he has held top executive positions with Magna and related companies including Executive Vice-President and Chief Financial Officer of Magna, President and Chief Executive Officer of Cosma, Magna's stamping subsidiary, Executive Vice-President and CFO of Atoma, Magna's interiors subsidiary and treasurer of Magna. Mr. Copeland is currently a director of Nuvo Research Inc. and a number of other private Canadian companies. Mr. Copeland is a Chartered Accountant and has a Bachelor of Mathematics degree from the University of Waterloo.

**E. Kendall Cork** is Managing Director of Sentinel Associates Limited, consultants in corporate direction. Mr. Cork has held many senior executive roles including the Vice-Chairman, Chairman and President of E-L Financial Corporation and prior to that he was the Senior Vice-President-Treasurer of Noranda Inc. Mr. Cork is currently a director of United Corporations Limited, Research in Motion Limited, Perimeter Institute and Centre for International Governance Innovation. Mr. Cork has a Bachelor of Commerce degree from the University of Toronto.

**Charles B. Loewen** is a co-founder of Loewen & Partners Corporate Services Inc. His activities are concentrated on providing advice to emerging growth companies on financing, corporate governance, and, on occasion, serving as a director and/or interim CEO. Mr. Loewen has a broad range of investment experience, having been a co-founder, CEO, Chairman and Vice-Chairman of Loewen, Ondaatje, McCutcheon & Company Limited, a governor of The Toronto Stock Exchange (the “TSX”) and a director of the Investment Dealers Association of Canada. Mr. Loewen has acted as interim CEO for Canada Brokerlink Inc. (insurance brokerage) and Ukraine Enterprise Corporation. He holds a MBA from the Harvard Graduate School of Business Administration and a B.A. (Honours Economics) degree from the University of British Columbia.

**Andrew L. Müller** is a Technical Engineer with Ontario Power Generation Corporation, Darlington Nuclear Generating Station and the Canadian Vice-President of The International Federation of Professional and Technical Engineers and President of The Society of Energy Professionals. Mr. Müller has held various technical engineering positions at Ontario Power Generation Corporation at both the Darlington Nuclear Generation Stations and the Bruce Nuclear Power Development. He has a Bachelor of Applied Science in Chemical Engineering degree with a Management Science Option from the University of Waterloo.

**George R. Paterson** retired as Treasurer of IBM Canada Ltd. in 1990 and has worked as a consultant since that time. He held a number of senior management positions with IBM including Director of Finance and Administration in Europe, Canada and Asia. Mr. Paterson serves on several boards including The B.E.S.T. Discoveries Fund Inc., The Northern Trust Company Canada and Electrovaya Inc. as well as a number of private companies, and provides strategic and management assistance to emerging technology corporations.

**John M.A. Richardson** is the Chief Executive Officer of the Fund, the Chief Executive Officer of The B.E.S.T. Discoveries Fund Inc., the President and a director of the Investment Advisor as well as the President and a director of the Manager. Mr. Richardson is the founder, President and a director of B.E.S.T. Investment Counsel Limited, an asset management firm focused on private equity and venture capital serving the retail and institutional marketplace. Currently, he serves as a director on a number of private company boards. He is a Chartered Accountant and a Chartered Business Valuator, and holds a Masters in Business Administration degree from the State University of New York and a Certificate Pratique de la Langue Françaises from the University de Savoie in France.

**Michael S. Israels** is [the Vice-President and] a director of the Manager and is responsible for managing the day to day operations of the Fund and planning the strategic direction for the B.E.S.T. group of funds. Mr. Israels is also the President of The B.E.S.T. Discoveries Fund Inc. and the President of B.E.S.T. Total Return Fund Inc. Prior to joining the Fund, Mr. Israels spent 16 years at Ernst & Young LLP where most recently he managed claims in support of Ernst & Young partnerships around the world as part of that firm’s professional indemnity liability insurance program. Mr. Israels also has experience at Ernst & Young LLP in both the Audit and Mergers & Acquisitions Transaction Support practices focused on a broad spectrum of industries in Canada, the United Kingdom and the Caribbean. He has an Honours Business Administration Degree from the University of Western Ontario’s Richard Ivey School of Business and is a Chartered Accountant and a Chartered Business Valuator.

**Thomas W.R. Lunan** is the Chief Financial Officer of the Fund and The B.E.S.T. Discoveries Fund Inc. as well as the Vice President of B.E.S.T. Investment Counsel Limited, and the Vice President and a director of the Investment Advisor. Prior to joining B.E.S.T. Investment Counsel Limited, Mr. Lunan was a Manager, Company Listings at the TSX and prior to that Mr. Lunan was at the Ontario Securities Commission in the Corporate Finance Branch. Mr. Lunan is a past director of the Toronto Society of Financial Analysts and chair of the Candidate Education Program of this society. Mr. Lunan is also a director of Canadian World Fund Limited, a TSX listed closed-end fund and a director of several private companies. Mr. Lunan is a Chartered Accountant and has been awarded the Chartered Financial Analyst designation.

The Board of Directors will be responsible for making investment decisions, reviewing all investments and will receive and review quarterly reports from the Investment Advisor and the Private Equity Specialist providing details of the investments and a discussion of significant events concerning such investments. The Board of Directors is also responsible for considering the appropriateness of the valuation policies adopted by the Fund. See “Valuation of Investments”.

## Audit Committee

The Audit Committee of the Fund has been established by the Board of Directors, which consists of three members of the board, all of whom are independent of the Manager, the Investment Advisor, the Sponsors and the Private Equity Specialist. The current members of the Audit Committee are David A. Copeland, E. Kendall Cork and George R. Paterson. A quorum for meetings of the Audit Committee is a majority of its members. The Audit Committee is responsible for reviewing financial statements prepared by the Manager on behalf of the Fund, liaising with the auditors of the Fund, reviewing the procedures respecting the approval of investments and the compliance of the Manager and the Board of Directors with those procedures and with Applicable Legislation and suggesting amendments to such procedures to the Board of Directors.

## OFFERED SECURITIES

Class A Shares are offered for sale continuously under this prospectus in each of the provinces in Canada other than Québec and Nova Scotia at the Net Asset Value Per Share. The minimum investment in Class A Shares is \$1,200 and all subsequent subscriptions must be in increments of \$50. The continuous offering of the Class A Shares may not be discontinued before December 31, 2008. Following December 31, 2008, the continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager and the Private Equity Specialist is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue. The Class A Shares of the Fund may not be offered for sale in the future in the Province of New Brunswick, in the Manager's sole discretion.

## TAX INCENTIVES

### Federal

The Federal Act entitles Individual Eligible Investors to a Federal Tax Credit equal to 15% of the net cost of the Class A Shares to the individual or a Qualifying Trust for the individual to a maximum credit of \$750 per year (based on an investment of \$5,000) in respect of the individual's aggregate purchase(s) of class A shares in the year of Federal LSVCCs, LSIF Corporations and certain similar entities registered under the laws of a province of Canada. The availability of these credits is subject to specific exceptions and requirements described under "Canadian Federal Income Tax Considerations". Individual Eligible Investors who purchase or subscribe and pay for Class A Shares on or before the Cut-Off Date may elect to have their Federal Tax Credit apply in respect of the 2005 taxation year instead of the 2006 taxation year.

**RRSPs and RRIFs:** A Qualifying Trust includes certain RRSPs but does not include RRIFs, which are not permitted to subscribe directly for Class A Shares and may generally acquire such shares only from certain RRSPs or other RRIFs (see definition of "Qualifying Trust" in "Selected Definitions"). See "Eligibility for Investment" and "Canadian Federal Income Tax Considerations".

### Provincial

To claim an Ontario Tax Credit in Ontario, the Individual Eligible Investor must file with his or her tax return an Ontario Tax Credit Certificate issued to him or her in respect of the acquisition of Class A Shares. **The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is not in Ontario or if no address has been provided and the individual wishes that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is resident or otherwise taxable in Ontario and wishes to claim an Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date of the year the Class A Shares are issued (or, if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should be issued. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario and the purchaser does not wish that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is not liable for tax in Ontario and will not be claiming the Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date in the year in which the Class A Shares were issued (if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should not be issued. While the issuance of the Ontario Tax Credit Certificate will permit the Individual Eligible Investor to claim an Ontario Tax Credit, it may also result in the Fund being required to withhold certain amounts under the Ontario Act on a redemption of Class A**



**Shares if the shares are redeemed within eight years of the date the shares were issued, even if the investor did not receive the benefit of the Ontario Tax Credit in respect of the shares.** If withholding under the Ontario Act occurs in circumstances where an investor has not received all or part of the benefit of the Ontario Tax Credit in respect of the Class A Shares redeemed, the Minister of Finance (Ontario) is authorized to rebate all or any part of the amount withheld.

Individual Eligible Investors resident in Ontario at the end of a particular year, or otherwise subject to Ontario income tax in the year, are eligible for an Ontario Tax Credit equal to 15% of the purchase price to the individual or to the Qualifying Trust for the individual of Class A Shares to a maximum credit of \$750 per year (based on an investment of \$5,000). Investors who purchase Class A Shares after December 31, 2005, but on or before March 1, 2006, may elect to have their Ontario Tax Credit apply in respect of the 2005 taxation year instead of the 2006 taxation year. The maximum Ontario Tax Credits apply in respect of an Individual Eligible Investor's aggregate purchases of shares issued by LSIF Corporations. On November 2, 2005, the Ontario government proposed legislation to phase out the Ontario Tax Credit over six years. See "Ontario Income Tax Considerations".

## **INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND**

### **Investment Objectives**

The primary objective of the Fund is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. Such investments are intended to assist the development of eligible businesses and create, maintain, and protect employment. The Fund invests in securities such as convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of eligible businesses that, in the Fund's opinion, have the greatest potential to achieve the Fund objectives. The Fund intends to maintain a focus in both geographic and sector diversification by investing in all Canadian provinces in businesses that have the ability to generate sustainable positive cash flow and have attractive growth prospects, and by considering investments in traditional industries such as service, distribution, and manufacturing, as well as in technology sectors and special situations such as turnarounds. The investment horizon, from investment to exit, is expected to be five to seven years, subject to the characteristics of each individual investment.

The Fund will be a preferred partner of Roynat Capital on syndicate transactions that meet the eligible business criteria enabling the Fund to participate on the same terms and conditions as Roynat Capital's larger syndications. These investments are generally in the form of large mezzanine structures in companies matching the criteria outlined below but with larger capitalizations. These areas of focus are intended to enhance the Fund's performance by providing opportunities to invest in mid-market companies at a later stage of development, for capital protection and for long-term capital appreciation to enhance shareholder value.

### **Investment Strategy**

In order to achieve the Fund's objectives, the investment strategy of the Fund is to invest in two broad industry sectors:

#### ***Traditional Businesses***

The primary focus of this sector is opportunities which would be classified as traditional businesses in the areas of, but not limited to, automotive, manufacturing, service, consumer products, industrial machinery, distribution and retail. These businesses will, in the Fund's opinion, have the ability to generate sustainable positive cash flows. These investments will generally take the form of debt or debt-like securities combined with equity participation (including potential buy back or earn back features) and generate current income through interest payments. Investment instruments may also include common or preferred share equity when considered appropriate.

The Fund will endeavour to provide companies in this sector with expansion capital to increase marketing activities, launch new products, enter new markets, and improve production efficiencies and capacity.

#### ***Technology Related Businesses***

The primary focus of this sector is technology related companies with high growth potential. A typical investment opportunity would include companies with proven commercialized technology, seeking further investment to enhance sales and marketing, launch new products, and expand into new markets. Generally, technology related investments will be completed as part of a syndicate to allow for greater diversification of investments and allocation of risk across multiple investors. Within the broad class of technology, the Fund will target potential investments in, but not limited to, the following sub-sectors: vertical market and enterprise software, logistics, content management, telecommunications, advanced

manufacturing, medical device, energy and environmental technologies. Given the long-term growth objective of the Fund, it is anticipated that investments will be primarily in common shares, securities exchangeable into common shares, or rights to acquire common shares, however, depending on the circumstance, investments may take other forms including debt (with or without conversion features), or debt with warrants to acquire shares. Certain investments may involve a combination of these securities.

The Fund is subject to certain investment restrictions under applicable provincial and federal legislation including requirements that the Fund invest a portion of the money raised in Ontario in that province. Capital not invested in eligible businesses shall be invested in Reserves, comprised primarily of Canadian government and provincial government bonds and other instruments permitted by applicable provincial and federal legislation or shall be used for the general corporate purposes of the Fund.

Any change in the investment objectives will require a resolution of the Class A Shareholders, passed by a majority of the votes cast at a meeting of such shareholders duly called and held to consider a proposed change.

The Investment Advisor intends to supplement its own investment expertise with that of the Private Equity Specialist which, through its relationship with Roynat Capital and the experience of its employees, is well positioned to execute upon a balanced and diversified fund strategy by virtue of its physical presence in eight of Canada's 10 provinces and its expertise developed over a 43 year history.

### **Investment Considerations**

The Fund will consider a number of factors when making investment decisions.

- ***Size of Investments:*** The size of each investment will depend on the financial requirements of the business and the amounts raised by the Fund so as to ensure a diversified portfolio. Investments will typically range between \$1 million and \$5 million, excluding any follow-on investment requirements. The Fund's investment in a particular company may form part of a larger investment made with other investors. See also "Co-Investing".
- ***Investment Structure:*** In general, investments in the traditional business sector will take the form of debt and debt-like securities with equity features, preferred or common shares. Investments in high growth technology opportunities will generally take the form of preferred shares or common equity. Technology investments will be made in companies with a commercialized technology having proven the value proposition through customer acquisition. The Fund will not invest in start-ups or early stage product development companies. The Fund will seek to provide eligible companies with funds to enhance sales and marketing, launch new products, and expand into new markets.
- ***Geographic Diversification:*** The Fund will attempt to diversify its investments geographically through contacts of the Investment Advisor and Roynat Capital.
- ***Stage of Development:*** In the traditional business sector, the Fund will invest in businesses that have a demonstrated track record and are expected to produce sustainable cash flows. Typically, the Fund will invest in relatively mature businesses that have positive cash flows. In the technology-related sector, the Fund will invest in companies that have commercialized products and customers as well as high growth potential. The Fund may also elect to participate in special situations such as turnarounds. By virtue of its segmented approach, the Fund will diversify its investment in businesses at different stages of development and sectors so as to balance appropriate risks with desired returns.
- ***Realization Potential:*** The Fund will normally have a reasonable expectation that it will be able to dispose of an investment within five to seven years of investment. Some investments may require a greater maturation period in order to realize their full potential. Exits are expected to be in the form of a combination of the following: initial public offering, reverse takeover, acquisition, management buyback or refinancing. The Private Equity Specialist through its relationship with Roynat Capital has a high degree of corporate finance expertise within its management group having several personnel with a corporate finance background dedicated to this service.
- ***Industry Focus:*** The Fund will be balanced in terms of sectors with a focus on manufacturing, distribution, services and technology. However, the Fund will consider investing in a broad range of industries as opportunities present themselves provided they meet the Fund's key objectives. Areas of interest include, in the traditional business sector: automotive, manufacturing, service, consumer products, industrial machinery, distribution and retail; and in

the technology related sector: vertical market and enterprise software, logistics, content management, telecommunications, advanced manufacturing, medical device, energy and environmental technologies.

- **Co-Investing:** Participation with Roynat Capital or other investors in attractive investments will increase the Fund's investment opportunities and enable the Fund to share the investment risk. In addition, this will enable the Fund to invest in a greater number of eligible businesses and to further diversify its portfolio.

## **IMPLEMENTATION OF INVESTMENT STRATEGY**

### **Identifying Investment Opportunities**

The success of the Fund will depend highly on its ability to identify attractive investment opportunities, which is the responsibility of both the Investment Advisor and the Private Equity Specialist. Each of the Investment Advisor and the Private Equity Specialist will be responsible for managing investments sourced by and referred to the Fund by the Investment Advisor and the Private Equity Specialist, respectively. In addition, each of the Investment Advisor and the Private Equity Specialist will be responsible for managing investments for which responsibility is assigned to them by the Board of Directors, where the investment opportunity was initially identified by or brought to the attention of the Board of Directors by a party other than the Private Equity Specialist or the Investment Advisor.

The Investment Advisor relies on networks in the investment community to assist in identifying appropriate investment opportunities for the Fund. The Fund also receives proposals directly from businesses seeking financing and co-operates with other investors in identifying, structuring and negotiating investments. Participation with other investors in well-structured, attractive investments increases the Fund's investment opportunities.

The Private Equity Specialist, through its affiliation with Roynat Capital, has access to 18 district offices across Canada and over 90 investment professionals. Each regional office has access to a network of contacts with other merchant banks, venture capital companies, investment dealers, institutional investment managers, financial intermediaries, operating companies and professional firms in the local community. The network of contacts and direct inquiries provide the Private Equity Specialist with cross-Canada, diversified investment opportunities. Roynat Capital has been completing transactions which meet the objectives of the Fund for well over a decade and has over 1,200 active clients, many of whom meet the eligible business requirements.

### **Evaluating Investment Opportunities**

The Investment Advisor and the Private Equity Specialist have established detailed investment criteria to facilitate the evaluation of an investment opportunity. In general, the management team of a potential investee company is the key success factor. The Investment Advisor and the Private Equity Specialist have a strong understanding of what is required of a successful management team and are looking for management that has a significant positive track record, with not only academics or consultants, but operators having a broad network of contacts within their respective industries. Management should have similar goals as the Fund so as to reduce conflict, and should have committed significant personal equity to the proposal. Management should also have a balanced approach blending the importance of vision with day to day requirements, and have a realistic view of investor requirements.

The following represents a more detailed description of the Fund criteria in a question and answer format, illustrating what, in the view of the Investment Advisor and the Private Equity Specialist, would be a satisfactory answer:

- **Industry Structure**
  - Does the company have a defensible market position with strong barriers to entry?
  - Are the overall industry trends positive?
  - Where does the company sit with regard to its potential as a market leader?
  - What are the resources and positioning of its competitors?
- **Company Characteristics**
  - Is the company positioned for growth with adequate infrastructure and processes?
  - Does the company have a demonstrable core competence and competitive advantage?
  - Does the company have low capital requirements?
  - Are there clear opportunities to improve margins and efficiencies?
  - Does the company have a broad and non-dependent access to various distribution channels?
  - Is the company positioned to acquire other companies?

- Product Structure
  - Is the opportunity a low cost producer?
  - Can the company achieve high gross margins?
  - Does the company have a defined product road map?
  - Is the company's product or service proprietary or protected?
  - What differentiates the product or service?
  - Does the company have a large number of demonstrable customers?
  - Does the product or service have a compelling value proposition and quick pay back for customers?
- Management and Board of Directors
  - What degree of industry experience does the company have, and is there a particular focus on sales and sales planning?
  - What is the management depth and commitment?
  - Does the team have a cohesive and articulate vision?
  - Is the vision instilled throughout all levels of the company?
  - Do management and advisors have a successful track record?
  - Are they willing to accept business partners?
  - Has management made a significant commitment to the company?
- Financial performance
  - Are there indications of a positive trend in historical cash flows?
  - Is there a healthy balance sheet?
  - Is there evidence of fiscal prudence and cost controls?
  - Are there solid financial management systems?
- Exit criteria
  - Are there a large number of diverse potential buyers?
  - Are there strategic purchasers?
  - Are there intangible attribute(s) unique to potential investees?
- Evaluating exit opportunities for the investment
  - Initial public offering;
  - Sale of company;
  - Refinance of investment;
  - Five – seven year horizon.

## **Due Diligence**

The expertise, time and effort required to complete the evaluation of prospective investments is substantial. Due diligence includes an in-depth evaluation of the industry, market, competition, business strategy, sales and market plan, products, customers, management, financials and any pending environmental, litigation, tax or labour issues. The Investment Advisor or the Private Equity Specialist, as applicable, will complete site visits and contact customers and business partners to assess each potential investee company. Where it is considered appropriate, the Investment Advisor or the Private Equity Specialist, as applicable, will engage other professionals with particular expertise for assistance and advice with respect to its review of particular investment opportunities which may include an independent evaluation of the technology, management, or market.

The Investment Advisor or the Private Equity Specialist, as applicable, will thoroughly review the knowledge, expertise and competency of the management team of each prospective investment. The management team is expected to not only provide the stewardship for successful operations, but also be the force behind the vision of the company. Management's abilities will facilitate the positioning of the company to future success in dynamic or recessionary markets. The Investment Advisor and the Private Equity Specialist take extensive time to evaluate the management group of the prospective investment for which it is responsible with internal and external expertise, as it is regarded as the most critical aspect of any investment prospect.

## **Managing Investments**

It is the responsibility of the Investment Advisor or Private Equity Specialist, as applicable, to maintain regular contact with the investee management of a Portfolio Company. Any events which are likely to significantly impact the company's operations, prospects or value should be summarized in a memorandum and reported to the Board of Directors immediately. These types of occurrences include:

- labour interruption;
- loss/gain of major customer contract;
- new legislation;
- changes in competition - merger, new entrant;
- significant new product introduction;
- major expansion program;
- loss of key management personnel; and
- threatened legal action.

The Investment Advisor or Private Equity Specialist, as applicable, intend to schedule plant or site visits at least once quarterly, both to view operations and to meet face-to-face with management.

Quarterly, a review of the Portfolio Companies' financial statements with brief commentary will be performed by the Investment Advisor or the Private Equity Specialist, as applicable, including an updated forecast, a comparison of original budget results to actual achieved results, and commentary discussing significant events and management outlook.

The Investment Advisor or the Private Equity Specialist, as applicable, monitor the Portfolio Companies, which normally includes participating as an observer or director or placing appropriate independent nominees on Portfolio Companies' boards of directors. In addition, where appropriate, the Investment Advisor or the Private Equity Specialist, as applicable, seek to add value to the Portfolio Companies by assisting management in developing strategic plans, assessing or recruiting key personnel, evaluating productivity, raising additional funding, and enhancing industrial relationships. This may involve engaging the services of professionals with special expertise, which will normally be paid for by the Portfolio Company.

## **KEY SUCCESS FACTORS**

### **Experience**

Successful investing in eligible businesses requires substantial expertise and effort. The Investment Advisor is an affiliate of the Manager, who has been managing private equity and venture capital since 1996.

In addition to the experience of the Investment Advisor and its affiliates, the senior management of the Private Equity Specialist have extensive experience in making private equity investments and working with entrepreneurs. The Private Equity Specialist's industry knowledge, history and national presence allows it to bring meaningful assistance to owners planning long-term growth. Roynat Capital's internal structure is highly integrated, so that expansion-minded clients can receive assessments of growth strategies, acquisition targets, or potential of new markets quickly.

### **Active Investors**

The likelihood of achieving the Fund's objective of generating income and long-term capital appreciation will be improved through the Investment Advisor's and the Private Equity Specialist's abilities to not only identify, but also add value, to the Investment Portfolio through active observer or director status on the boards of Portfolio Companies. In addition, when necessary, the Investment Advisor and the Private Equity Specialist, on behalf of the Fund, may provide general business advice, recommend key management enhancements, assist in arranging corporate finance advisors, help identify new markets or partners, as well as arrange legal and other professional advice to Portfolio Companies. The Private Equity Specialist has substantial industry experience in providing not only governance but also operational guidance and additional advisory services.

### **Quality Deals and In-House Corporate Finance Expertise**

The Private Equity Specialist will partner with Roynat Capital on syndicate transactions that meet the eligible business criteria. This represents a competitive advantage both for the Fund and the Portfolio Company. In addition to Roynat Capital's large asset base, it has in-house expertise which the Private Equity Specialist may draw upon in the fields of

acquisitions, divestitures, and capital raising. This combination of merchant banking and corporate finance products and services enhances the Fund's access to quality deals and its ability to execute on liquidity events for the Portfolio Companies.

## Geographic and Sector Diversification

The Fund believes that there is a need for a balanced and diversified approach to labour fund investments so as to mitigate risk exposures while maintaining the potential of generating returns for the shareholders. The Fund is well positioned to access both the private equity and venture capital sectors on a national basis. The success of any fund depends significantly on its ability to identify a large number of investment opportunities and to invest in the most attractive of those opportunities. In addition to the contacts of the Investment Advisor, the Private Equity Specialist's national presence and extensive network provide the Fund with exposure to an extensive range of investment opportunities from high quality business and professional community deal sources. This direct access to local business communities and industry expertise are key differentiators for the Fund.

## THE MANAGER

The Manager has assisted in the organization and creation of the Fund. The Manager has worked with the Investment Advisor and the Private Equity Specialist to develop and refine the investment strategy and criteria for the Fund, and arranged for start-up financing for the Fund. The Manager was not entitled to have these costs reimbursed by the Fund. The Fund has retained the Manager pursuant to an agreement dated as of December 22, 2003, as amended on August 23, 2004 (the "Management Agreement") to perform its daily administrative operations and to engage and supervise service providers of the Fund. The head office and principal place of business of the Manager is 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6.

## Directors and Officers

The name, municipality of residence, office and principal occupation of each of the directors and officers of the Manager are set out below:

Name	Positions with the Manager	Principal Occupation
John M.A. Richardson Burlington, Ontario	President and Director	Chief Executive Officer of The B.E.S.T. Discoveries Fund Inc., President and a director of B.E.S.T. Investment Counsel Limited, Chief Executive Officer of B.E.S.T. Total Return Fund Inc.
Michael S. Israels Mississauga, Ontario	[Vice-President,] Director	President of The B.E.S.T. Discoveries Fund Inc., President of B.E.S.T. Total Return Fund Inc.
David R. K. Bernard Allen, Texas	Director	Director of Information Technology, PepsiCo, Inc.

The following is a brief biographical description for each of the directors and officers of the Manager other than those described under the heading "The Fund":

**David R.K. Bernard** is Director of Information Technology at PepsiCo, Inc., supporting the Frito Lay North America division. Mr. Bernard is responsible for development of the division's Information Technology strategy as well as leadership for the division's Sales and Marketing systems. Prior to joining Frito Lay North America, Mr. Bernard served as the Information Technology Director of Frito Lay Canada, where he sat on the President's Senior Staff and Division Business Team. Prior to Frito Lay Canada, he held various roles with Frito Lay International. Mr. Bernard is a Chartered Accountant and holds an Honours Bachelor of Commerce degree from the University of Windsor and a Bachelor of Arts (Economics) degree from the University of Western Ontario.

## Management Agreement

The Manager has been retained pursuant to the Management Agreement with the Fund. The Manager must exercise its powers and discharge its duties in a manner which is fair and reasonable to the Fund, honestly, in good faith and in the best interest of the Fund and, in connection therewith, must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Under the Management Agreement, the Fund has agreed to pay the

Manager an annual fee and a performance fee. The Management Agreement will have an initial 10-year term and will be renewed automatically each year for a further term of one year.

Unless terminated earlier by either party thereto in accordance with its terms, the Management Agreement shall terminate upon the dissolution, winding-up or termination of the Fund. The Manager may terminate the Management Agreement: (a) upon 90 days' prior written notice by the Manager to the Fund; (b) upon 10 Business Days notice being given by the Manager to the Fund, in the event the Fund is in material breach or material default of any material provisions thereof and such material breach or material default has not been cured within 20 Business Days of notice of such material breach or material default to the Fund; or (c) upon 10 Business Days prior written notice by the Manager to the Fund if there is a material change in the fundamental investment objectives, strategies or restrictions of the Fund.

The Fund may terminate the Management Agreement at any time, including during the initial 10-year term: (a) upon 10 Business Days notice being given by the Fund to the Manager if the Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Manager or a substantial portion of its assets, subject to such proceedings being contested; or (b) upon 30 Business Days notice being given by the Fund to the Manager in respect of fraudulent behaviour, gross misconduct or criminal conduct and such behaviour has not been cured, if capable of being cured.

Following the initial 10-year term, the Fund may terminate the Management Agreement: (a) provided a resolution is passed by at least 75% of the votes cast at a meeting of the Class A Shareholders called to consider the termination of the Management Agreement; or (b) upon 10 Business Days prior written notice being given by the Fund to the Manager in the event that the Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Manager or a substantial portion of its assets, subject to such proceedings being contested.

In addition, the Fund may terminate the Manager at any time in the event of a "Material Breach" by the Manager, which is defined in the Management Agreement as a material failure by the Manager to perform, or the breach of, a material obligation under the Management Agreement. The Management Agreement provides the opportunity of the Manager to cure any such breach over a four month period before any such termination becomes effective. In the event of a termination for Material Breach, the Fund shall pay a termination fee to the Manager of \$550,000 for a termination after December 31, 2004 and on or before December 31, 2005, \$450,000 for a termination after December 31, 2005 and on or before December 31, 2006, \$350,000 for a termination after December 31, 2006 and on or before December 31, 2007 and \$100,000 for a termination after December 31, 2007 and on or before December 31, 2008.

The Manager will be indemnified by the Fund for any legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by the Manager in connection with its services, provided the loss was not incurred as a result of the breach of its standard of care and the Fund has reasonable grounds to believe that the action or inaction that caused the loss was in the best interests of the Fund.

### **Conflicts of Interest**

The services of the directors, officers, employees and agents of the Manager are not exclusive to the Fund. Subject to compliance with the applicable provisions of the Securities Legislation, the Manager and its directors, officers, shareholders, employees, agents, affiliates and associates (the "Manager Group"), will provide similar services and devote a portion of their time to other investments, directorships and offices, including without limitation: (i) the ownership, development and management of other investments, including investments of the Manager Group in securities of the same issuers in which the Fund invests; (ii) participation, whether as exclusive distributor, dealer, broker or otherwise in the distribution of securities issued by corporations, unit investments, trusts or other organizations; (iii) the formation or participation in the capitalization of entities which will act as managers of other funds or operating businesses; and (iv) the provision of services and advice to other persons (including persons which may invest in securities of the same issuers as the Fund) on commercially reasonable terms, and the Manager shall not be called upon to account to the Fund in respect of any such transaction or activity or benefit derived therefrom by virtue only of the relationship between the parties concerned. The Manager also agreed that it will devote sufficient resources to perform its obligations under the Management Agreement.

The Manager has no responsibility for sourcing and recommending investments of the Fund. The Manager may also act as manager of other labour sponsored funds (the "Other Funds"), and the Manager agreed that it will, and will use its best efforts to, cause the Manager Group to not participate in the consideration of investments on behalf of the Fund that may also be considered by the Other Funds. For greater certainty, nothing in the Management Agreement shall restrict the activities of the Other Funds, including investing in the same companies as the Fund.

The Manager and its directors, officer and employees may receive a fee or benefit from a prospective investee or a Portfolio Company. Any such amount received, except in respect of services not normally provided by a venture capital investor to an investee company, will be set-off against the management fees otherwise payable by the Fund to the Manager.

## THE INVESTMENT ADVISOR

The Investment Advisor has been retained by the Manager pursuant to the Investment Advisor Agreement to assist the Manager to develop and refine the investment strategy and criteria of the Fund and provide investment advisory services to the Fund, including identifying investment opportunities which meet the Fund's investment criteria, evaluating proposed investments, structuring and negotiating approved investments, completing prospective investments, monitoring the performance of Portfolio Companies on an ongoing basis, assisting management of Portfolio Companies where appropriate, and assisting the Fund in respect of the disposition of investments in Portfolio Companies. The Investment Advisor has also been retained to supervise the activities of the Private Equity Specialist and provide the Board of Directors with advice as required regarding the possible investments identified by the Private Equity Specialist. The head office and principal place of business of the Investment Advisor is 20 Adelaide Street East, Suite 400, Toronto, Ontario M5C 2T6.

The Investment Advisor is wholly-owned by B.E.S.T. Investment Counsel Limited and its affiliates have extensive experience creating and managing or administering speciality investment products.

### Directors and Officers

The name, municipality of residence, office and principal occupation of each of the directors and officers of the Investment Advisor are set out below:

Name	Positions with the Investment Advisor	Principal Occupation
John M.A. Richardson Burlington, Ontario	President and Director	Chief Executive Officer of The B.E.S.T. Discoveries Fund Inc., President and a director of B.E.S.T. Investment Counsel Limited, Chief Executive Officer of B.E.S.T. Total Return Fund Inc.
Thomas W.R. Lunan Toronto, Ontario	Vice President and Director	Chief Financial Officer of The B.E.S.T. Discoveries Fund Inc. and Vice-President of B.E.S.T. Investment Counsel Limited
P. Morris M. Vaillancourt Burlington, Ontario	Director	Vice President and Chief Financial Officer of Burgeonvest Securities Limited
Michael S. Israels Mississauga, Ontario	Director	<b>[Vice-President and]</b> a director of B.E.S.T. Capital Management Ltd., President of B.E.S.T. Total Return Fund Inc., President of B.E.S.T. Discoveries Fund Inc.

The following is a brief biographical description for each of the directors and officers of the Investment Advisor other than those described under either the heading "The Fund" or "The Manager".

**P. Morris M. Vaillancourt** is the Vice President and Chief Financial Officer of Burgeonvest Securities Limited, an independent, full service securities firm serving private, corporate and institutional clients in Canada and internationally. Mr. Vaillancourt has been in the financial services industry for over 20 years in retail sales and management with specific knowledge and experience in a broad range of products from investment to insurance. He is a graduate of the University of Toronto and holds the Chartered Life Underwriter designation.

### Investment Advisor Agreement

The Investment Advisor has been retained pursuant to the Investment Advisor Agreement with the Fund and Manager. The Investment Advisor must exercise its powers and discharge its duties in a manner which is fair and reasonable to the Fund, honestly, in good faith, and in the best interests of the Fund, and in connection therewith exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Under the Investment Advisor Agreement, the Fund has agreed to pay the Investment Advisor an annual fee and a performance fee. The Investment Advisor Agreement will expire, unless terminated earlier by a party thereto in accordance with the terms of such agreement,



upon the dissolution, winding-up or termination of the Fund. The Investment Advisor may terminate the Investment Advisor Agreement: (a) upon 90 days' prior written notice given by the Investment Advisor to the Fund and Manager; (b) in the event the Fund or the Manager is in material breach or material default of any material provision thereof and such material breach or material default has not been cured within 20 Business Days of written notice of such material breach or material default by the Investment Advisor to the Fund and the Manager; or (c) there is a material change in the fundamental investment objectives, strategies or restrictions of or applicable to the Fund. The Fund or the Manager may terminate the Investment Advisor Agreement in the event that the Investment Advisor is in material breach or material default of any material provision thereof and such material breach or material default has not been cured within 20 Business Days of written notice of such material breach or material default by the Fund or the Manager to the Investment Advisor or if the Investment Advisor becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Investment Advisor or a substantial portion of its assets, subject to certain conditions. The Investment Advisor will be indemnified by the Fund for any legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by the Investment Advisor in connection with its services, provided the loss was not incurred as a result of the breach of its standard of care and the Fund has reasonable grounds to believe that the action or inaction that caused the loss was in the best interests of the Fund.

### **Conflicts of Interest**

The services of the directors, officers, employees and agents of the Investment Advisor are not exclusive to the Fund. Subject to compliance with the applicable provisions of the Securities Legislation, the Investment Advisor and its directors, officers, shareholders, employees, agents, affiliates and associates (the "B.E.S.T. Group"), will provide similar services and devote a portion of their time to other investments, directorships and offices, including without limitation: (i) the ownership, development and management of other investments, including investments of the B.E.S.T. Group in securities of the same issuers in which the Fund invests; (ii) participation, whether as exclusive distributor, dealer, broker or otherwise in the distribution of securities issued by corporations, unit investments, trusts or other organizations; (iii) the formation or participation in the capitalization of entities which will act as managers of other funds or operating businesses; and (iv) the provision of services and advice to other persons (including persons which may invest in securities of the same issuers as the Fund) on commercially reasonable terms, and the Investment Advisor shall not be called upon to account in respect of any such transaction or activity or benefit derived therefrom by virtue only of the relationship between the parties concerned. The Investment Advisor also agreed that it will devote sufficient resources to perform its obligations under the Investment Advisor Agreement.

The Investment Advisor will be responsible, in addition to the Private Equity Specialist, for identifying investment opportunities for the Fund. The Investment Advisor will use its best efforts to identify investments for the Fund required in order to permit the Fund to meet its investment obligations under Applicable Legislation. The Investment Advisor will present to the Fund all investment opportunities which are identified by the Private Equity Specialist, available to the Fund and which the Fund is otherwise able to take, having regard to Applicable Legislation and investment guidelines. Some members of the B.E.S.T. Group may participate in the investment management of other labour sponsored funds (the "Other Funds") and the Investment Advisor shall use its best efforts to ensure that investment opportunities which are suitable for the Fund are fairly allocated between the Fund and the Other Funds. Where appropriate, the Investment Advisor will arrange for co-investment by the Fund and the Other Funds. The Investment Advisor shall also ensure that members of the B.E.S.T. Group do not allow the Other Funds to participate in an opportunity being considered by the Fund that was first identified by the Private Equity Specialist, until such time as the Fund consents to such investment by the Other Funds, or chooses not to proceed with the opportunity. The Investment Advisor has no obligation to disclose to the Fund any opportunities of the Other Funds that are identified by members of the B.E.S.T. Group which are not suitable for the Fund or which the Fund is not otherwise able to take, having regard to Applicable Legislation and the investment guidelines. For greater certainty, except as set out in the Investment Advisor Agreement, nothing shall restrict the activities of the Other Funds.

Any fees paid to a member of the B.E.S.T. Group that are in respect of services that are normally provided by a venture capital investor to an investee company not otherwise reimbursed to the Fund will be paid by the Investment Advisor to the Fund. Subject to the foregoing, a member of the B.E.S.T. Group may receive market rate fees from Portfolio Companies for other services to such companies if the Board of Directors has been advised of such services.

For greater certainty, the members of the B.E.S.T. Group are not precluded from: (i) making an investment which is developed or originated by a third party which is made available by such third party only to one or more members of the B.E.S.T. Group and not the Fund; (ii) making an investment which relates to a pre-existing investment of such party, including a follow-on investment in any entity; and (iii) for any investment vehicles other than the Other Funds, making an investment in connection with or incidental to any business or other activity carried on by a member of the B.E.S.T. Group, if such business or activity does not principally consist of investing in the same types of investments that the Fund invests in.

## THE PRIVATE EQUITY SPECIALIST

The Investment Advisor has retained the Private Equity Specialist to assist it to develop and refine the investment strategy and criteria of the Fund, and to assist the Fund with the implementation of the investment strategy by identifying, structuring and monitoring investments of the Fund.

The Private Equity Specialist was incorporated in February 1990 in the province of Québec under the *Canada Business Corporations Act* and is a wholly-owned subsidiary of Roynat Inc. The Private Equity Specialist has entered into the Private Equity Specialist Agreement. See “The Private Equity Specialist Agreement”.

The Private Equity Specialist is responsible, in addition to the Investment Advisor, for identifying investment opportunities which meet the Fund’s investment criteria, evaluating proposed investments and structuring and negotiating approved investments. The Investment Advisor will in turn review the investment opportunities for approval by the Board of Directors. The Private Equity Specialist will present opportunities for the Fund’s Investment Portfolio in a manner consistent with the policies and strategies as set forth in the Private Equity Specialist Agreement. The Private Equity Specialist is also responsible for monitoring the performance of Portfolio Companies for which it is responsible on an ongoing basis, and assisting management of Portfolio Companies where appropriate. In addition, the Private Equity Specialist is responsible for assisting the Fund in respect of the disposition of investments in Portfolio Companies for which it is responsible.

The Private Equity Specialist will also assist the Fund by providing appropriate personnel to participate in visits to registered sales persons, and on a best efforts basis by providing introductions to the retail sales channels and access to marketing personnel of the Private Equity Specialist’s parent bank and its dealer affiliates, for purposes of promoting and marketing the Fund through such channels and assisting the Manager to establish and maintain a network of registered brokers and dealers through which the Class A Shares will be offered for sale.

The Private Equity Specialist carries on business at 40 King Street West, 26<sup>th</sup> Floor, Scotia Plaza, Toronto, Ontario M5H 1H1.

### Roynat Capital

Both the Private Equity Specialist and Roynat Capital are wholly-owned subsidiaries of Roynat Inc. Roynat Inc. was founded in 1962 by prominent financial institutions. In April 1994, Roynat became a member of the Scotiabank group. Roynat Capital was founded in 1997 as the specialized finance corporation of Roynat Inc. to satisfy restrictions under the *Bank Act* (Canada). Roynat Capital is the registered operating name for both Roynat Inc. and Roynat Capital Inc.

Through its network of 18 offices nation-wide, and three in the U.S., Roynat Capital currently manages a portfolio in excess of approximately \$2 billion with over 1200 active customers. Each office provides a full range of services including term loans, sub-debt, mezzanine and equity financing, corporate finance, mergers and acquisitions, and business transitioning services in almost every industrial and commercial sector.

### Management of the Private Equity Specialist

The names, municipality of residence and principal positions of the key personnel of the Private Equity Specialist who will perform duties with respect to the Fund are set out below.

Name and Municipality of Residence	Principal Occupation with the Private Equity Specialist	Principal Occupation with Roynat Capital Inc.
Earl M.H. Lande Toronto, Ontario	President and Chief Executive Officer	Senior Vice President
Robert J. Roy Scarborough, Ontario	Managing Director	Director, Equity
Michael L. McCarthy Toronto, Ontario	Director	Senior Investment Manager

The following is a brief biographical description for the foregoing members of the Private Equity Specialist.

**Earl M.H. Lande** is a Senior Vice President of Roynat Inc. and the President and Chief Executive Officer of the Private Equity Specialist. In connection with his position with Roynat Capital, Mr. Lande is responsible for District Office and Regional operations across Canada including the delivery of all lending and investment products, financial solutions and

value added services to the Canadian marketplace. This includes term financing, subordinated debt and equity investing as well as corporate finance and venture capital activities. Mr. Lande was instrumental in the launching and start-up of subordinated debt and equity at Roynat Capital and in fostering their growth as a significant part of Roynat Capital's operations today. He also acted as the Senior Vice President of Roynat Management, the general partner of Roynat MB 1 and Company Limited, a later stage equity fund. Mr. Lande represents Roynat Capital on boards of several small to mid-size private companies and served as a director of the Canadian Venture Capital Association for many years. Mr. Lande has a Bachelor of Science Degree in Mathematics from McGill University and a Masters of Business Administration degree from the University of Western Ontario. He has been in various lending and corporate finance roles within Roynat for over 30 years.

**Robert J. Roy** is a Director, Equity at Roynat Inc. and Managing Director of the Private Equity Specialist. He has over 20 years' experience in mergers and acquisitions, financing and venture capital activities. Mr. Roy represents Roynat Capital's interests at board level for a number of companies in the high-growth sector, including companies involved in telecommunications, logistics, software and information technology. Mr. Roy has served as a Director of the Canadian Venture Capital Association from 1991 to 1997 and was Conference Chairman in 1992. He received his Chartered Accountant designation in 1981 while at Clarkson Gordon (now Ernst & Young LLP) and graduated with a Bachelor of Commerce degree from McMaster University in 1978. Following his career in public accounting Mr. Roy joined Innovation Ontario Corporation ("IOC") in 1987 and was subsequently responsible for venture capital activity based in Kitchener/Waterloo, Ontario. IOC's early investments in Kitchener/Waterloo include Research In Motion Limited, Open Text Corporation, The Descartes Systems Group Inc. and Certicom Corp.

**Michael McCarthy** is a Senior Investment Manager at Roynat Capital Inc. and a Director of the Private Equity Specialist. Mr. McCarthy is responsible for presenting investment opportunities to the Investment Advisor on behalf of the Private Equity Specialist, and will act as Roynat's representative at meetings of the Board of Directors. See "The Sponsors". Mr. McCarthy also manages portfolio investments within the Ventures Group of Roynat Capital Inc., specializing in information management, enterprise software, and industrial technologies. Prior to joining Roynat's Venture Capital Team in December 2003, Mr. McCarthy provided management advisory services to high technology companies and information management divisions of organizations. Mr. McCarthy has a Bachelor of Science Degree and a Bachelor of Arts degree from the University of Toronto and a Masters of Business Administration Degree completed at both McMaster University and Manchester Business School.

### **The Private Equity Specialist Agreement**

The Private Equity Specialist has been retained pursuant to the Private Equity Specialist Agreement with the Fund, the Investment Advisor and Roynat Capital.

The Private Equity Specialist must exercise its powers and discharge its duties at all times on a basis which is fair and reasonable to the Fund, honestly, in good faith and in the best interests of the shareholders of the Fund, and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Private Equity Specialist Agreement has an initial 10-year term and will be renewed automatically each year for a further one year period. Unless terminated earlier by a party thereto in accordance with its terms, the Private Equity Specialist Agreement shall terminate upon the dissolution, winding-up or termination of the Fund. The Private Equity Specialist may terminate the Private Equity Specialist Agreement at any time: (a) upon 90 days' prior written notice by the Private Equity Specialist to the Fund and the Investment Advisor; or (b) upon 10 Business Days notice being given by the Private Equity Specialist to the Investment Advisor and the Fund, in the event the Investment Advisor or the Fund is in material breach or material default of any material provisions thereof and such material breach or material default has not been cured within 20 Business Days of notice of such material breach or material default; or (c) upon 10 Business Days prior written notice by the Private Equity Specialist to the Investment Advisor and the Fund, if there is a material change in the fundamental investment objectives, strategies or restrictions of the Fund.

The Fund or the Investment Advisor may terminate the Private Equity Specialist Agreement during the initial 10-year term: (a) upon 10 Business Days notice being given by the Investment Advisor or the Fund to the Private Equity Specialist, if the Private Equity Specialist or Roynat Capital becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Private Equity Specialist or Roynat Capital or a substantial portion of its assets, subject to such proceedings being contested; or (b) upon 30 Business Days notice being given by the Investment Advisor or the Fund to the Private Equity Specialist in respect of fraudulent behaviour, gross misconduct or criminal conduct on the part of the Private Equity Specialist or Roynat Capital and such behaviour has not been cured, if capable of being cured. Following the initial 10-year term, the Fund or the Investment Advisor may terminate the Private Equity Specialist

Agreement: (a) provided a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider the termination of the Private Equity Specialist Agreement; or (b) upon 10 Business Days prior written notice being given by the Investment Advisor or the Fund to the Private Equity Specialist in the event that the Private Equity Specialist or Roynat Capital becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Private Equity Specialist or a substantial portion of its assets, subject to such proceedings being contested.

In addition, the Fund may terminate the Private Equity Specialist at any time in the event of a “Material Breach” by the Private Equity Specialist, which is defined in the Private Equity Specialist Agreement as a material failure by the Private Equity Specialist or Roynat Capital to perform a material obligation, or the breach of a material obligation under the Private Equity Specialist Agreement by the Private Equity Specialist or Roynat Capital. The Private Equity Specialist Agreement provides for the opportunity of the Private Equity Specialist or Roynat Capital to cure any such breach over a four month period before any such termination becomes effective.

The Private Equity Specialist shall be indemnified, among other parties, by the Fund from any legal fees, judgements and amounts paid in settlement, actually and reasonably incurred by the Private Equity Specialist in connection with services provided by it, provided the loss was not incurred as a result of the breach of its standard of care and the Fund has reasonable grounds to believe that the action or inaction that caused the loss was in the best interests of the Fund.

### **Conflicts of Interest**

The services of the Private Equity Specialist and its directors, officers, employees and agents are not exclusive to the Fund and the Investment Advisor. The Private Equity Specialist and its directors and officers may provide similar services and devote a portion of their time to other investments, directorships and offices. Roynat Capital will treat the Fund as a preferred partner in syndication opportunities. In addition, the Private Equity Specialist agreed that it will devote sufficient resources to perform its obligations under the Private Equity Specialist Agreement.

The Fund and the Private Equity Specialist have agreed that the Private Equity Specialist shall use its best efforts to advise the Fund, to the exclusion of the Private Equity Specialist or its affiliates, of any investment opportunity of which it becomes aware which involves: (i) an investment of any size in any company operating in the technology sector; or (ii) an investment of less than \$2 million in a company operating in any industry sector other than the technology sector (a “Fund Exclusive Opportunity”). The Private Equity Specialist may, but is not required to, present opportunities other than Fund Exclusive Opportunities to the Fund.

At the time the Private Equity Specialist presents an investment opportunity to the Board of Directors, Roynat Capital must consider, with a view to the best interests of the Fund, making a co-investment in the opportunity with the Fund. At the time the Private Equity Specialist presents the investment opportunity to the Board of Directors, the Private Equity Specialist shall indicate whether and on what terms Roynat Capital wishes to make a co-investment with a view to the best interests of the Fund. Provided the Fund is able to make an investment in accordance with the investment guidelines, the Fund may make an investment in an opportunity presented by the Private Equity Specialist on the basis of Roynat Capital’s co-investment proposal or, provided the Fund is able to do so, without the co-investment. Roynat Capital currently intends to co-invest with the Fund in investment opportunities presented by the Private Equity Specialist, provided the Fund accepts its proposal to do so, at least until such time as the Fund has Class A Share capital exceeding \$40 million.

The Private Equity Specialist has agreed to use its best efforts to identify investment opportunities for the Fund which meet the criteria set forth above in order to permit the Fund to meet its investment obligations under Applicable Legislation.

The Private Equity Specialist shall inform the Investment Advisor and the Board of Directors prior to the Fund investing in an eligible business if the Private Equity Specialist or any of its officers, directors, shareholders, employees, agents or affiliates own securities or are proposing to own securities of such eligible business which the Private Equity Specialist is identifying for the Fund.

Any fees paid to the Private Equity Specialist or its affiliates, or their respective directors, officers or employees that are in respect of services that are normally provided by a venture capital investor to an investee company will be paid by the Private Equity Specialist to the Fund. Subject to the foregoing, the Private Equity Specialist or its affiliates or their directors, officers or employees may receive market rate fees from Portfolio Companies for other services to such companies if approved by the Board of Directors.

## **Class C Shares**

Roynat Capital Inc., an affiliate of the Private Equity Specialist, invested \$5 million in the Fund, through the purchase of 500,000 Class C Shares at an issue price of \$10 per share. 20,501 Class C Shares were subsequently transferred to the Manager upon the acceptance by the Board of Directors of a marketing plan for the sale of Class A Shares, and are currently held by certain directors and/or officers of the Manager or its affiliates. The proceeds of this investment were intended to provide the Fund with the ability to take advantage of investment opportunities in eligible businesses that arose during the Fund's first year of operations, thereby providing the Fund with the benefits of having investments earning returns for the Fund and enabling the Fund to begin to satisfy its pacing requirements, both at an early stage in the life of the Fund. The number of Class C Shares permitted to be redeemed will be determined in accordance with a formula that takes into account and protects the ability of the Fund to meet its liquidity and pacing requirements. Redemptions of Class C Shares may occur on or shortly after March 1 in each year until the Class C Shares are fully redeemed. Redemptions if any, shall occur at the Net Asset Value Per Share. See "Share Capital of the Fund – Class C Shares". During the fiscal year ended August 31, 2005, a total of 60,997 Class C Shares were redeemed at the price of \$9.73 per share, for an aggregate redemption amount of \$593,748.

## **THE SPONSORS**

The Sponsors of the Fund are CLAC, The Society of Energy Professionals and IFPTE Local 164. CLAC owns all of the Class B Shares and is required under the Applicable Legislation to elect a majority of the Fund's Board of Directors.

CLAC is one of Canada's largest independent unions, with over 32,000 members nation-wide. CLAC was founded in 1952 and represents workers in construction, health and social services, retail, transportation, manufacturing, and emergency services. CLAC emphasizes a co-operative, professional, mutual-gains approach to labour relations, and is one of Canada's fastest-growing unions.

The Society of Energy Professionals is a Canadian Labour Congress affiliated trade union representing 6,000 professional and supervisory employees in the energy industry. The Society of Energy Professionals prides itself on conducting relations with employers in a framework of a mature and mutually beneficial partnership, while ensuring the best rewards, career opportunities, and working conditions for its members.

IFPTE Local 164 is a labour union representing approximately 165 engineers, designers and technical employees in Ontario involved mainly in the manufacturing side of the energy sector. IFPTE Local 164 is the local branch of the International Federation of Professional and Technical Engineers, an international labour union representing 75,000 members in professional, technical, administrative and associated occupations.

The Board of Directors of the Fund is currently comprised of six directors. CLAC is entitled to elect four of the six directors of the Fund. CLAC has agreed to nominate and vote its Class B Shares in favour of the election, as directors of the Fund, of two members or designates of the Sponsors of the Fund and such number of members or designates of the Manager as requested by the Manager (currently two), provided that such number complies with the constating documents of the Fund. Each of the Sponsors has entered into an agreement with the Fund dated as of December 22, 2003 as amended on August 24, 2004 and November 30, 2004 (the "Sponsor Agreement") setting out the rights and duties of the Sponsors. In addition to the right to elect directors specified above, CLAC, as the Class B Shareholder, is entitled to one vote per share at meetings of the shareholders of the Fund, but does not have any right to receive dividends. See "Share Capital of the Fund - Class B Shares".

Under the Sponsor Agreement, Roynat Capital will be permitted to have a representative attend all meetings of the Board of Directors until such time as all of the Class C Shares held directly by Roynat Capital Inc. have been redeemed or transferred to an arm's length third party.

The Class B Shares were acquired by CLAC for a nominal amount. See "Share Capital of the Fund - Class B Shares". While members of each of the Sponsors may subscribe for Class A Shares, neither the Sponsors nor their members will be required to make any investment in the Fund. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsors.

The Sponsors believe that it is important to encourage investment in Canada's economy and have undertaken the sponsorship of the Fund because they believe the Fund can, through its investments in eligible businesses, strengthen the economy and create or preserve jobs. The Sponsors believe that their objectives in sponsoring the Fund are compatible with the interests of the business community, namely expanding opportunities for economic growth, which should, in turn, assist in employment creation and preservation.

CLAC B.E.S.T. Sponsor Inc., 6154417 Canada Inc., and 6154409 Canada Inc., wholly-owned subsidiaries of CLAC, The Society of Energy Professionals and IFPTE Local 164, respectively, were each incorporated under the laws of Canada by articles of incorporation dated October 28, 2003 to act as promoters of the Fund. The registered address of CLAC B.E.S.T. Sponsor Inc. is 5920 Atlantic Drive, Mississauga, Ontario L4W 1N6. The registered office of 6154417 Canada Inc. is 425 Bloor Street East, Suite 300, Toronto, Ontario M4W 3R4. The registered office of 6154409 Canada Inc. is RR#2, Guelph, Ontario N1H 6H8. Neil J. Roos (President), Edward J. Bosveld (director) and Hank J. Beekhuis (director) are the directors and officers of CLAC B.E.S.T. Sponsor Inc. Andrew Müller (President and sole director), Chris Cragg (Secretary) and Leslie Forge (Vice-President) are the directors and officers of 6154417 Canada Inc. William D. Duncan (President and director) and Jim Killen (Secretary and director) are the directors and officers of 6154409 Canada Inc. See “The Fund”.

## **INVESTMENT RESTRICTIONS**

### **Statutory Investment Restrictions**

Although the Fund is a mutual fund in most of the provinces and territories of Canada, many of the rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply.

The Fund, however, is subject to investment restrictions contained in the Ontario Act and the Federal Act. The purpose of such restrictions is to ensure that monies raised from investors are available to assist in the growth of eligible businesses and thereby to create new employment opportunities.

#### ***Federal Act***

As a Federal LSVCC, the Fund is subject to the investment restrictions under the Federal Act. The Fund will be liable to pay penalty taxes for failure to meet the investment restrictions. In addition, the federal registration of the Fund could be revoked for failure to meet these restrictions. Under the Federal Act, an eligible investment is, generally speaking, an investment in a Canadian entity with no more than 500 employees and \$50 million in assets where substantially all of the fair market value of that entity's assets is attributable to assets used in an active business carried on in Canada, where at least 50% of the full-time employees of the business are employed in Canada and at least 50% of the wages and salaries paid to employees of the business are reasonably attributable to services rendered in Canada. Under the Federal Act, a special tax will be imposed on a monthly basis, if at any time after the Fund's “start-up period” as defined in the Federal Act (generally, its first two taxation years) there is an “investment shortfall”. The investment shortfall, subject to certain adjustments, is initially determined as the amount by which 60% of the lesser of the shareholders' equity (including Class A Shares and Class C Shares) in the Fund at the end of the preceding taxation year and the shareholders' equity in the Fund at the end of the particular taxation year exceeds the amount that is the greater of:

- (i) the total of the amounts which is the adjusted cost to the Fund of an eligible investment of the Fund at that time; and
- (ii) an average amount that is calculated as 50% of the adjusted cost to the Fund of eligible investments at the beginning of the particular year plus the adjusted cost to the Fund of eligible investments at the end of the particular year.

There are a number of adjustments in calculating the investment shortfall. For example, the 60% requirement is reduced in respect of Class A Shares issued by the Fund more than eight years before the end of the tax year and in respect of Class A Shares issued by it in the last 60 days of the tax year. In determining the adjusted cost to the Fund of an eligible investment, incentives are provided for investment in smaller businesses. For certain investments in smaller businesses, the adjusted cost to the Fund is deemed to be either 150% or 200% of the actual cost to the Fund.

#### ***Ontario Act***

Under the Ontario Act, “eligible investments” include specified types of investments in “eligible businesses” within the meaning of the Ontario Act. Generally, an “eligible business” for the purposes of the Ontario Act means a taxable Canadian corporation or a Canadian partnership which, together with related corporations or partnerships, does not have more than \$50 million in assets or more than 500 employees at the time the investment is made. In addition, the business must pay 50% or more of its wages and salaries to employees whose ordinary place of employment is a permanent establishment located in Ontario, must have 50% or more of its full-time employees employed in respect of its eligible business activities carried on

by it in Ontario and must have been primarily engaged in “eligible business activities” for at least two years or for such shorter period of time as it has been in business.

The Fund’s investment may not be used by the eligible business to carry on business or re-invest outside of Canada or, subject to certain exceptions, re-lend to another business. Further, the Fund’s investment may not be used by the eligible business to invest in land (except land which is incidental or ancillary to the eligible business), to pay the principal amount of outstanding liabilities owing to shareholders of the Fund or to persons related to such shareholders. In addition, the Fund’s investment may not be used to finance the purchase or sale of goods or services provided to the eligible business by shareholders or through a person related to any such shareholder unless the eligible business is widely held. The Ontario Act generally permits the Fund to hold only investments that are eligible investments or were so when acquired by the Fund and specified liquid investments (generally Reserves).

The Ontario Act imposes certain rules for capital raised by LSIF Corporations which are outlined as follows:

First, the Fund is generally required to hold at the end of each calendar year eligible investments for the purposes of the Ontario Act having an aggregate cost equal to at least 70% of the aggregate equity capital received in respect of Class A Shares issued to shareholders ordinarily resident in Ontario and issued at any time prior to the sixty-first day of that year and that are still outstanding at the end of the applicable calendar year, excluding Class A Shares that have been outstanding at least eight years, less 20% of the aggregate equity capital received on the issuance of Class A Shares issued during the period beginning on the sixty-first day of the year preceding the applicable calendar year and ending on the sixtieth day of the applicable year to shareholders ordinarily resident in Ontario at the time the shares were issued. The amount required to be invested would be reduced further by net losses realized on the eligible investments of the Fund and certain other amounts. As a Federal LSVCC, the Fund is permitted under the Ontario Act to invest in businesses that are eligible for investment under the Federal Act and is also subject to the investment restrictions, described above, under the Federal Act. Under the Ontario Act, the Fund may not invest or maintain an investment in an eligible business if the aggregate of all investments made by the Fund in such a business and any related business exceeds \$15 million.

The Ontario Act provides that, during each calendar year, an LSIF shall not make investments in eligible businesses that are Listed Companies to the extent that the cost of those investments exceeds 25% of the total cost of all investments made in eligible businesses by an LSIF in that calendar year or the previous calendar year, whichever is greater.

At the end of each calendar year, the Fund must have a specified percentage of its equity capital invested in eligible investments that are “small businesses”. A business will be a “small business” if it is otherwise an eligible business and the total gross assets of the business (including assets of related corporations and partnerships) do not, at the time of the investment, exceed \$5 million and the total number of employees of the business (including employees of related corporations and partnerships) does not, at the time of the investment, exceed 50.

Failure to meet any of these investment restrictions will subject the Fund to penalty taxes and could result in the Fund losing its registration as an LSIF Corporation. Further, such failure could result in the suspension of the issuance of Ontario Tax Credit Certificates until the Minister of Finance (Ontario) is satisfied that the Fund is in compliance with the investment requirements.

In addition, if the Minister of Finance (Ontario) is of the opinion that an LSIF has directly or indirectly through a transaction or series of transactions contravened the spirit and intent of the Ontario Act, the Minister of Finance (Ontario) is required to make an order that a particular investment is not an eligible investment as of the date of such transaction or series of transactions and may revoke the registration of an LSIF.

On August 29, 2005, the Ontario government announced that it will propose amendments to the Ontario Act, including lowering the requirement to invest in eligible businesses from 70% to 60% of capital raised and removing investment requirements unique to the Ontario Act, such as the restrictions on investments in Listed Companies. On September 30, 2005, the Minister of Finance (Ontario) announced that it will consult further with the industry on transition rules governing pacing, eligibility and other reporting requirements. Such proposed amendments have yet to be enacted into law and there is no guarantee that they will be enacted in the future.

The Fund is in compliance with the investment restrictions contained in the Ontario Act.

### ***Nova Scotia Act***

Class A Shares of the Fund were originally offered for sale in all provinces of Canada, and the Fund obtained registration as a Nova Scotia LSVCC. The Fund has not sold Class A Shares in Nova Scotia since February 2004 and ceased offering Class

A Shares in Nova Scotia in December 2004. The Fund's registration as a Nova Scotia LSVCC has been revoked. However, the Fund remains subject to the investment restrictions contained in the regulations to the Nova Scotia Act with respect to proceeds raised from the sale of Class A Shares prior to January 1, 2005. The regulations to the Nova Scotia Act applicable to the Class A Shares issued in Nova Scotia require that: (i) at least 80% of the equity capital raised by the Fund in Nova Scotia must be invested in eligible businesses or Reserves within twelve months after the end of the Fund's taxation year in which the equity capital was raised; and (ii) at least 60% of the equity capital raised by the Fund in Nova Scotia must be invested in eligible businesses within two years after the end of the Fund's taxation year in which the equity capital was raised. Generally, at all times relevant to the issue of the Class A Shares in Nova Scotia, an eligible business for the purposes of the Nova Scotia Act was a taxable Canadian corporation that carried on an active business in Canada which: (a) employed not more than 500 employees; (b) paid at least 25% of its salaries and wages to employees resident in Nova Scotia; and (c) had total assets, together with the total assets of all related corporations, which do not exceed \$25 million.

As described above, the Fund's registration as a Nova Scotia LSVCC has been revoked. While the Minister of Finance (Nova Scotia) may impose a penalty, as described below, in connection with the revocation of a Nova Scotia LSVCC's registration in Nova Scotia, the Fund was not required to pay any penalties with respect to the revocation of its registration as a Nova Scotia LSVCC. In general terms, the penalty that may be imposed by the Minister of Finance (Nova Scotia) in connection with the revocation of registration as a Nova Scotia LSVCC is equal to the aggregate of: (a) 20% of all amounts raised by the particular fund through the issue of shares for which a Nova Scotia Tax Credit Certificate was issued, less (b) 20% of all amounts invested by such fund in eligible businesses.

### ***CSBIFs***

The Fund may invest in CSBIFs, for which the Fund qualifies as an eligible investor.

CSBIFs themselves are subject to certain investment restrictions under the Ontario Act, the purpose of which is to ensure that monies raised from investors are available to assist the growth of eligible businesses and thereby create employment in Ontario.

### **Restrictions in Articles of Incorporation**

In addition to the investment restrictions contained in the Ontario Act, the Fund is prohibited by its articles of incorporation from lending money, guaranteeing a loan or providing other financial assistance to a shareholder of the Fund, to a person related to a shareholder of the Fund or to a trade union, an association or federation of trade unions, or an association or federation of worker cooperatives. In addition, the Fund will not make an investment in any eligible business with which the Fund, or any director of the Fund, does not deal at arm's length unless: (a) the Fund would deal at arm's length with the eligible business but for the Fund's interest as the holder of investments in the eligible business; or (b) the investment has been first approved by special resolution of the shareholders of the Fund.

### **Voluntary Investment Restrictions and Policies**

In addition to the investment restrictions described above, the Board of Directors will from time to time establish certain other investment policies which apply to the Class A Shares. The Board of Directors has approved the following investment restrictions and policies, which may be varied from time to time by the Board of Directors as opportunities and market conditions dictate if permitted by the Applicable Legislation.

- The Fund will not make loans except in the ordinary course of investing its funds and except that it may enter into securities lending transactions.
- The Fund will not make short sales of securities or purchase securities on margin.
- The Fund will not act as an underwriter of securities.
- The Fund will not invest in the securities of a mutual fund but may invest in the securities of an investment company if such an investment would otherwise meet the Fund's investment objectives.
- The Fund will not buy securities from or sell securities to the directors or officers of the Fund, the Manager, the Investment Advisor, the Private Equity Specialist or Roynat Capital.



- The Fund will not purchase puts, calls or combinations thereof except for hedging purposes and except that it may purchase securities including options, rights and warrants to acquire additional securities or rights to sell securities of the eligible businesses in which it invests.
- The portfolio assets of the Fund will be held in the custody of a federally or provincially licensed trust company or a Canadian chartered bank.
- The Fund will not pledge or mortgage any of its assets or borrow money, except: (i) as a temporary measure for the purpose of accommodating requests for redemption of Class A Shares while effecting an orderly liquidation of portfolio securities, provided that after giving effect to such borrowing the outstanding amount of all such borrowing does not exceed 5% of the Net Asset Value of the Fund at the time of such borrowing; or (ii) a pledge of assets in favour of the Custodian for payment of its fees, charges and expenses.
- Except as permitted under the Applicable Legislation, the Fund will not acquire control of Portfolio Companies.

In addition, unlike ordinary mutual funds, the Fund may provide guarantees as funding alternatives for eligible businesses, invest in securities which may require them to make an additional contribution, invest in more than 10% of the securities of any one issuer and invest more than 10% of the net assets of the Fund in illiquid assets as defined in National Instrument 81-102.

### INVESTMENTS OF THE FUND

The following table contains information with respect to the Fund's eligible investments current to December 1, 2005.

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>GREY HORSE CAPITAL CORPORATION</b></p> <p><i>Business:</i> Grey Horse (formerly, AFL Capital Ventures Inc.) (GHC: TSXV) was launched as a capital pool company for which its qualifying transaction was the acquisition of Equity Transfer Services Inc. on December 2, 2004. Equity Transfer Services Inc. is a leading Canadian provider of transfer services for small and mid-cap companies. Established in 1990, Equity Transfer Services Inc. serves over 400 clients.</p> <p><i>CEO:</i> Kevin D. Reed</p> <p><i>Employees:</i> 24</p>	<p><i>Address:</i> 120 Adelaide Street Suite 420 Toronto, Ontario M5H 4C3</p> <p><i>Web Site:</i> www.equitytransfer.com</p> <p><i>Telephone:</i> (416) 361-0930 x270</p> <p><i>Facsimile:</i> (416) 361-361-0470</p>	<p>Convertible Subordinated Debenture</p> <p>14.81% of the Convertible Subordinated Debenture</p>	<p>2.79%</p> <p>\$200,000</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>AGILE SYSTEMS INC.</b></p> <p><i>Business:</i> Agile Systems Inc. designs, develops and manufactures advanced motion control technology including motor control and power conversion. With expertise in integrating power electronics, digital control and network communications, Agile has established customers in a broad range of industries including semiconductor, life science, robotics, automation equipment, automotive, industrial machinery and alternative energy. Agile Systems Inc. is based in Waterloo, Ontario.</p> <p><i>CEO:</i> Ralph Steedman</p> <p><i>Employees:</i> 30</p>	<p><i>Address:</i> 575 Kumpf Drive Waterloo Ontario N2V 1K3</p> <p><i>Web Site:</i> www.agile-systems.com</p> <p><i>Telephone:</i> (519) 886-2000</p> <p><i>Facsimile:</i> (519) 886-2075</p>	<p>Class A-1 Convertible Preferred Shares</p> <p>•% of the Class A-1 Convertible Preferred Shares</p>	<p>4.43%</p> <p>\$318,182</p>
<p><i>Name:</i> <b>ARXX BUILDING PRODUCTS INC.</b></p> <p><i>Business:</i> Arxx Building Products Ltd. is a recognized leader in the Insulated Concrete Form Industry. The structural integrity of the Arxx forms stand up to the forces of time and nature and provide protection from hurricanes, tornadoes and fire as well as offering energy savings and comfort to building owners and occupants. Arxx's growth strategy is highlighted by the recent opening of its Calgary manufacturing plant.</p> <p><i>CEO:</i> Greig Clark</p> <p><i>Employees:</i> •</p>	<p><i>Address:</i> 800 Division Street Cobourg, Ontario K9A 5V2</p> <p><i>Web Site:</i> www.arxxbuild.com</p> <p><i>Telephone:</i> (905) 373-0004</p> <p><i>Facsimile:</i> (905) 373-8301</p>	<p>10% Promissory Note</p> <p>Common Share Purchase Rights</p> <p>100% of the 10% Promissory Note</p> <p>•% of the Common Share Purchase rights</p>	<p>5.85%</p> <p>\$420,000</p>
<p><i>Name:</i> <b>ASSETMETRIX INC.</b></p> <p><i>Business:</i> Founded in 2000 and headquartered in Ottawa, Canada, AssetMetrix provides an on-demand service for information technology business intelligence providing visibility into distributed information technology environments. AssetMetrix solutions aim to identify performance improvement opportunities, verify policy effectiveness and minimize risk. Customers use AssetMetrix solutions for software asset management, system lifecycle management and to manage information technology governance practices.</p> <p><i>CEO:</i> Jeffrey Campbell</p> <p><i>Employees:</i> 19</p>	<p><i>Address:</i> 505 March Road Suite 100 Ottawa, Ontario K2K 3A4</p> <p><i>Web Site:</i> www.assetmetrix.com</p> <p><i>Telephone:</i> (613) 599-1825</p> <p><i>Facsimile:</i> (613) 599-9613</p>	<p>Series A Preferred Shares</p> <p>Common Share Warrants</p> <p>23% of the Series A Preferred Shares</p> <p>23% of the Common Shares Warrants</p>	<p>9.75%</p> <p>\$700,000</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>COMBAT NETWORKS INC.</b></p> <p><i>Business:</i> Combat Networks Inc. is a provider of network communications products and services for government, education, health care and enterprise customers. Combat Networks architects, builds, and maintains some of the largest business critical networks in Canada. The Company is based in Ottawa, Ontario.</p> <p><i>CEO:</i> Rob Finucan</p> <p><i>Employees:</i> 33</p>	<p><i>Address:</i> 16 Concourse Gate Suite 400 Nepean, Ontario K2E 7S8</p> <p><i>Web Site:</i> www.combatnetworks.com</p> <p><i>Telephone:</i> (613) 226-1396</p> <p><i>Facsimile:</i> (866) 897-7009</p>	<p>7.5% Demand Debenture, due March 15, 2010</p> <p>100% of the 7.5% Demand Debenture, due March 15, 2010</p>	<p>6.97%</p> <p>\$500,000</p>
<p><i>Name:</i> <b>EVault INC.</b></p> <p><i>Business:</i> EVault provides online data backup and recovery software services to corporations worldwide. Businesses located across five continents use EVault's service and enjoy benefits over traditional tape systems - including better security, greater convenience and reliability, reduced media and human error, as well as cost savings. The Fund's investment is in VNRAND Inc., which is the wholly owned and operated subsidiary of EVault Inc.</p> <p><i>CEO:</i> Phil Gilmour</p> <p><i>Employees:</i> 158</p>	<p><i>Address:</i> 2421 Bristol Circle Unit 100 Oakville, Ontario L6H 5S9</p> <p><i>Web Site:</i> www.evault.com</p> <p><i>Telephone:</i> (905) 844-4453</p> <p><i>Facsimile:</i> (905) 844-5606</p>	<p>Series D, Non-voting Exchangeable Shares of VNRAND Inc.</p> <p>50% of the Series D, Non-voting Exchangeable Shares of VNRAND Inc.</p>	<p>6.83%</p> <p>\$490,345</p>
<p><i>Name:</i> <b>T-BASE COMMUNICATIONS INC.</b></p> <p><i>Business:</i> T-Base Communications is located in Ottawa, Canada. T-Base is Canada's largest multiple format production Company. T-Base provides accessible communications to industry and governments around the world with effective and economical solutions that make information accessible through such solutions as e-text, large print, braille, audio recording and accessibility services.</p> <p><i>CEO:</i> Sharlyn Ayotte</p> <p><i>Employees:</i> 28</p>	<p><i>Address:</i> 19 Main Street Ottawa, Ontario K1S 1A9</p> <p><i>Web Site:</i> www.tbase.com</p> <p><i>Telephone:</i> (613) 236-0866</p> <p><i>Facsimile:</i> (613) 236-0484</p>	<p>11.5% Demand Debenture, due April 15, 2010</p> <p>Common Shares</p> <p>Series A Common Share Purchase Warrants</p> <p>Series B Common Share Purchase Warrants</p> <p>100% of the 11.5% Demand Debenture, due April 15, 2010</p> <p>●% of the Common Shares</p> <p>●% of the Series A Common Share Purchase Warrants</p> <p>●% of the Series B Common Share Purchase Warrants</p>	<p>10.45%</p> <p>\$750,000</p>

DESCRIPTION OF ELIGIBLE INVESTMENTS	ADDRESS/CONTACT NUMBER	TYPE, CLASS AND PERCENTAGE OF CLASS OF SECURITY OWNED BY THE FUND	PERCENTAGE OF FUND ASSETS INVESTED, AMOUNT INVESTED AT COST
<p><i>Name:</i> <b>WELLINGTON POLYMER TECHNOLOGY INC. (2068051 ONTARIO INC.)</b></p> <p><i>Business:</i> Wellington Polymer Technology Inc., founded in 1998, developed Enviroshake, a rubber shingle product, which it markets in direct competition to natural cedar shakes and other premium roofing products. Wellington Polymer Technology Inc. has a patented process to produce high quality rubber shingle roofing material from reclaimed crumb rubber.</p> <p>Upon its bankruptcy in 2005, the parent company of Wellington Polymer Technology Inc., Unisphere Inc., transferred its remaining assets to 2070452 Ontario Inc. The Fund received common shares of 2070452 Ontario Inc. in connection with a convertible debenture that Wellington Polymer Technology Inc. had issued to the Fund. 2070452 Ontario Inc. does not otherwise carry on an active business.</p> <p><i>CEO:</i> Dan Warrener</p> <p><i>Employees:</i> 50</p>	<p><i>Address:</i> 650 Riverview Drive Unit #1, Box 1462 Chatham, Ontario N7M 5W8</p> <p><i>Web Site:</i> www.enviroshake.com</p> <p><i>Telephone:</i> (519) 380-9265</p> <p><i>Facsimile:</i> (519) 380-0689</p>	<p>Series A Convertible Debenture</p> <p>Series B Convertible Debenture</p> <p>Common Shares of 2068051 Ontario Inc.</p> <p>Common Shares of 2070452 Ontario Inc.</p> <p>4.80% of the Series A Convertible Debenture</p> <p>4.80% of the Series B Convertible Debenture</p> <p>4.32% of the Common Shares of 2068051 Ontario Inc.</p> <p>4.80% of the Common Shares of 2070452 Ontario Inc.</p>	<p>11.51%</p> <p>\$825,887</p>

## VALUATION OF INVESTMENTS

The Board of Directors is responsible for considering the appropriateness of the valuation policies adopted by the Fund as set out below. The Net Asset Value of the Fund, as calculated by the Registrar and Transfer Agent, shall be reviewed by the Board of Directors as of the last day of each financial quarter of the Fund. In addition, the Board of Directors will receive and review quarterly reports from the Investment Advisor and the Private Equity Specialist, as applicable, providing details of the valuations of the investments made with the proceeds raised by the Fund, including a discussion of significant events affecting the valuation of such investments.

### Valuation of Assets for which a Published Market Exists

The Registrar and Transfer Agent will calculate on each Business Day the value (the “Published Valuation”) of the Fund’s assets for which there exists a published market on the basis of quoted prices in such market. For this purpose, a published market means any market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. The Investment Advisor will notify the Registrar and Transfer Agent of any adjustments in the holdings of the Fund. The Board of Directors will review the valuation at the end of each financial quarter and will, from time to time, consider the appropriateness of the valuation policies adopted by the Fund.

### Valuation of Assets for which No Published Market Exists

For investments in eligible businesses for which no published market exists, the Registrar and Transfer Agent will calculate at the end of each Business Day the value of those assets pursuant to the general valuation policies described below. In determining the value of assets for which no published market exists, the Audit Committee and the Board of Directors have determined that the Registrar and Transfer Agent will be guided by the principle that such investments are valued at cost unless a different fair market value is independently determined by the Investment Advisor in conjunction with the Private Equity Specialist, if applicable. The Investment Advisor will notify the Registrar and Transfer Agent of any adjustments in the holdings of the Fund and of any circumstances that would necessitate an adjustment from a valuation equal to the cost of

the investment. The Board of Directors will review the valuation at the end of each financial quarter and will from time to time consider the appropriateness of the valuation policies adopted by the Fund.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

### **General Valuation Policies**

Short-term debt instruments are valued at cost with accrued interest or discount earned included in interest receivable. Listed securities are valued at the closing sale price reported on that day by the principal securities exchange on which the issue is traded or, if no sale is reported, generally, the average of the bid and ask prices is used. Securities traded over-the-counter are priced at the average of the latest bid and ask prices quoted by a major dealer in such securities. Private placements of listed securities subject to a hold or restricted period are valued as described above with an appropriate discount as determined by the Investment Advisor or the Private Equity Specialist, as applicable (with respect to the Private Equity Specialist, following consultation with the Investment Advisor). Private companies are valued at cost unless a different fair market value is independently determined by the Investment Advisor or the Private Equity Specialist, as applicable (with respect to the Private Equity Specialist, following consultation with the Investment Advisor).

Investments in private companies will be valued in accordance with the following criteria:

- (i) securities and other assets for which market quotations are, in the opinion of the Investment Advisor or the Private Equity Specialist, as applicable (with respect to the Private Equity Specialist, following consultation with the Investment Advisor), inaccurate, unreliable, not reflective of all available material information, or not readily available will normally be carried at cost except where: (a) there is a bona fide arm's-length transaction which establishes a different value; or (b) a Portfolio Company experiences a material change in value, where the valuation will be increased or decreased, as appropriate, to the estimated fair market value;
- (ii) if there is a substantial arm's length, bona fide, enforceable offer with respect to a Portfolio Company, the investment will be valued at the proposed transaction price. Similarly, if there is a valuation prepared by a qualified independent person, such valuation will be given due consideration in assessing the value of an investment;
- (iii) debt instruments, other than short-term liquid debt instruments, will initially be valued at their principal amount (with accrued interest or discounts earned included in interest receivable) and thereafter by having regard to whether the instrument is in arrears or whether a write-down or other provision is considered prudent due to the unlikelihood of full realization on the investment; and
- (iv) in the unusual event that the valuation policies and procedures described above are not appropriate to the particular circumstance, the Board of Directors may approve appropriate valuation techniques for that investment.

### **Calculation of Net Asset Value Per Share**

The Net Asset Value Per Share will be calculated by the Registrar and Transfer Agent on each Business Day, by subtracting the aggregate amount of the Fund's liabilities and the stated capital of the Class B Shares from the aggregate of:

- (a) the value of the assets of the Fund for which a published market exists on the basis of the Published Valuation as of the relevant date;
- (b) the value of the assets of the Fund for which no published market exists as determined in accordance with the general valuation policies described above (generally cost); and
- (c) the value of any other assets of the Fund as determined by the Board of Directors,

and dividing such amount by the total number of Class A Shares and Class C Shares outstanding on that date. The Fund will make available to the financial press for publication the Net Asset Value Per Share daily.

The Fund is required, by applicable securities legislation, to obtain, on an annual basis, a valuation by an independent qualified person of the Net Asset Value of the Fund and the Net Asset Value Per Share. The Fund intends to satisfy this requirement by obtaining, on an annual basis, a report from its auditors as to the reasonableness of the valuation of the Fund's investments by the Board of Directors.

## PURCHASE OF CLASS A SHARES

### General

Class A Shares may be purchased only by Eligible Investors. Class A Shares are offered on a continuous basis at the Net Asset Value Per Share attributable to the Class A Shares as at the valuation date falling on or immediately after the date on which a properly completed subscription for Class A Shares is received by the Registrar and Transfer Agent, and will be issued on such date.

All subscriptions for Class A Shares are subject to acceptance or rejection by the Fund and the Registrar and Transfer Agent and the right is reserved to reject any subscription. The Fund will distribute the Class A Shares through dealers licensed to sell shares of LSVCCs and LSIF Corporations. In Alberta, the Class A Shares will only be permitted to be sold by investment dealers. The Fund will not accept a subscription placed directly by an investor. Investors may subscribe by completing the application form available through their financial advisor, who will then forward the application form and a cheque to the Registrar and Transfer Agent. Orders submitted electronically will be processed by the Registrar and Transfer Agent on the day they are received or, if they arrive after 4:00 p.m. (Toronto time), the next Business Day. A completed application form and payment must be received within three Business Days, or any lesser period required by Securities Legislation, after the date the Net Asset Value Per Share was calculated for a particular order. If the Registrar and Transfer Agent has not received payment by such date, the Class A Shares will be redeemed. If the amount received on redemption exceeds what the investor would have paid for the Class A Shares, the Fund will keep the surplus. However, if the purchase obligation exceeds the amount received on redemption, the investor or the investor's financial advisor will be required to reimburse the Fund for the deficiency plus additional expenses. The decision to accept or reject any subscription for Class A Shares will be made promptly and in any event within one Business Day of receipt of the subscription by the Registrar and Transfer Agent on behalf of the Fund. In the event that a subscription for Class A Shares is rejected, all money received with the subscription will be returned immediately to the applicant.

Pending the issuance of Class A Shares, the amount of the subscription price accompanying subscriptions will be held in a manner permitted by applicable Securities Legislation. Interest earned on those funds will accrue for the account of the Fund. Share certificates will not be provided unless requested by investors in writing. Purchasers of Class A Shares will receive an acknowledgement of receipt of subscription and a transaction confirmation for each purchase of Class A Shares. Shareholders will receive a statement showing the number and current value of their Class A Shares at least annually.

To be eligible for an Ontario Tax Credit on the purchase of Class A Shares, an Individual Eligible Investor must file with his or her provincial income tax return the Ontario Tax Credit Certificate issued to him or her in respect of such purchase. The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued to Individual Eligible Investors if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario unless the Registrar and Transfer Agent receives a notice with instructions to do otherwise. See "Tax Credits in Ontario" and "Redemption of Class A Shares".

The Registrar and Transfer Agent, on behalf of the Fund, will also arrange for the Information Returns to be issued to Individual Eligible Investors. Investors will be required to file the Information Return with their federal income tax return in order to claim the Federal Tax Credit.

### Registered Retirement Savings Plans

Class A Shares may be purchased directly by a Qualifying Trust that is governed by an RRSP (as defined in "Selected Definitions") for an individual. In such circumstances, the individual who is the annuitant under the RRSP or the annuitant's Spouse will generally be entitled to the Federal Tax Credit in respect of the acquisition by the RRSP of the Class A Shares and will be entitled to the Ontario Tax Credit in respect of such acquisition if the individual is resident in Ontario at the end of the relevant year or is otherwise subject to Ontario income tax in that year. The contribution to the RRSP will generally be deductible in computing the individual's taxable income, subject to the RRSP contribution limits contained in the Federal Act. Individual Eligible Investors may also arrange to transfer Class A Shares they have purchased to their own self-directed RRSP or to a self-directed RRSP under which their Spouse is the annuitant.

An individual may establish an RRSP (including a Spousal Plan to which the individual's Spouse may contribute) with the Registrar and Transfer Agent and either have Class A Shares purchased directly by such RRSP or have Class A Shares purchased by the individual or his or her Spouse transferred to such RRSP. Application forms are available from the dealer from whom Class A Shares are purchased.

## **Transfer to RRIFs**

Investors may establish an RRIF with the Registrar and Transfer Agent and have Class A Shares transferred to such RRIF from an RRSP or another RRIF in certain circumstances. Application forms are available from the registered dealer from whom Class A Shares were purchased.

## **REDEMPTION OF CLASS A SHARES**

Requests for redemption of Class A Shares may be made by completing the Fund's request for redemption form which is available from financial advisors. Redemptions of Class A Shares will be made at the Net Asset Value Per Share attributable to the Class A Shares, as at the close of business on the Business Day on which the Fund receives (or is deemed to have received) the request for redemption. Such requests must normally be received by the Fund by 4:00 p.m. (Toronto time) in order to be priced at the Net Asset Value Per Share for that day, otherwise, such requests will be priced at the Net Asset Value Per Share for the following Business Day. If all required documentation has not been received by the Registrar and Transfer Agent within three Business Days after the date the Net Asset Value Per Share was calculated for the redemption and the value of Class A Shares has increased during such period, the redeeming shareholder will be required to reimburse the Fund for the difference.

All requests for redemption must be signed by the shareholder with the signature guaranteed by a Canadian chartered bank, trust company, a member of a recognized stock exchange in Canada or other party considered acceptable by the Registrar and Transfer Agent. No redemption will be effected until the written request for the same has been duly completed and delivered to the Registrar and Transfer Agent, together with a duly endorsed share certificate (if any).

If redemption occurs within eight years of the date of issue, the redemption will generally be subject to withholding under the Federal Act and the Ontario Act in an amount determined with reference to the Federal Tax Credit and the Ontario Tax Credit generally available on the issuance of the Class A Shares. However, if no Ontario Tax Credit Certificate was issued in respect of the shares, there will be no withholding under the Ontario Act. See "Share Capital of the Fund – Class A Shares – Redemption by Holders".

In any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in such circumstances. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit referred to above. Although the Fund will maintain at all times sufficient liquid assets to honour redemption requests up to such 20% limit, it cannot guarantee that it will be able to honour all redemption requests on the day they are made.

## **USE OF PROCEEDS**

The proceeds raised from the sale of Class A Shares will be invested in eligible businesses at the direction of the Board of Directors in accordance with the objectives of the Fund upon the advice of the Investment Advisor, with assistance from the Private Equity Specialist with respect to those investments sourced by and referred to the Fund by the Private Equity Specialist or for which the Private Equity Specialist is assigned responsibility by the Board of Directors. Investments will be made in eligible businesses in accordance with the investment objectives of the Fund and the investment criteria prescribed by the Applicable Legislation. Pending investment in eligible businesses, the proceeds of this offering will be invested in Reserves.

## **EXECUTIVE COMPENSATION, MANAGEMENT FEES AND PERFORMANCE BONUS**

### **Remuneration of Executive Officers**

The executive officers of the Fund receive no direct compensation or benefits, in cash or otherwise, from the Fund. The services of the Chief Executive Officer and Chief Financial Officer of the Fund are provided by the Manager under the Management Agreement at the expense of the Manager.

### **Remuneration of Directors**

Directors of the Fund are entitled to receive an annual fee of \$7,000 and a fee of \$600 for each meeting of the Board of Directors or any committee thereof attended. In addition, the Chairman of the Board of Directors receives an additional

annual fee of \$4,000 and the Chairman of the Audit Committee receives an additional annual fee of \$2,000. Directors of the Fund who are members of any of the Sponsors or are directors, officers or shareholders of the Manager or the Private Equity Specialist will receive no annual fee nor any compensation for attendance at meetings.

### **Manager's Fees**

The Manager has assisted in the organization and creation of the Fund and is, pursuant to the Management Agreement, responsible, on an ongoing basis, for day-to-day operations of the Fund. The Manager selects and negotiates the terms of the retainer with each of the service providers and works with the Investment Advisor and the Private Equity Specialist to develop and refine the investment strategy and criteria for the Fund.

As compensation for the services provided for and on behalf of the Fund by the Manager, the Fund pays to the Manager an annual fee of 1.50% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.25% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Manager is entitled to a Performance Bonus as described under "Performance Bonus". The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund. During the fiscal year ended August 31, 2005, the Manager was paid fees in the aggregate amount of \$45,633 pursuant to the Management Agreement. No Performance Bonus was paid for the fiscal year ended August 31, 2005. The Fund confirms the amounts reported in the financial statements as paid or reimbursed to management companies constitute the only compensation paid by the Fund to the Manager during the period.

### **Investment Advisor's Fees**

The Manager, the Fund and the Investment Advisor have entered into the Investment Advisor Agreement pursuant to which the Investment Advisor assists the Manager to develop and refine the investment strategy and criteria of the Fund, identify, structure and monitor investments, execute all investment decisions and supervises the activities of the Private Equity Specialist.

The Fund pays the Investment Advisor an annual fee for its performance of investment advisory services of 2% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.75% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. One-half of the fees earned by the Investment Advisor in any one year will be paid to the Private Equity Specialist pursuant to the Private Equity Specialist Agreement, provided that the Investment Advisor has received fees under the Investment Advisor Agreement and any Performance Bonus in that year in an aggregate amount of at least \$75,000. The Investment Advisor is also entitled to be reimbursed for certain reasonable costs and expenses incurred in performing its duties under the Investment Advisor Agreement. During the fiscal year ended August 31, 2005, the Investment Advisor was paid fees in the aggregate amount of \$59,843 pursuant to the Investment Advisor Agreement. No Performance Bonus was paid for the fiscal year ended August 31, 2005.

### **The Private Equity Specialist's Fees**

The Investment Advisor, Roynat Capital Inc., the Fund and the Private Equity Specialist have entered into the Private Equity Specialist Agreement, pursuant to which the Private Equity Specialist assists with the development and refinement of the investment strategy and criteria of the Fund and assists with the implementation of that investment strategy by identifying, structuring and monitoring investments of the Fund. One-half of the fees earned by the Investment Advisor in any one year will be paid to the Private Equity Specialist pursuant to the Private Equity Specialist Agreement, provided that the Investment Advisor has received fees under the Investment Advisor Agreement and any Performance Bonus in that year in an aggregate amount of at least \$75,000. The Private Equity Specialist is also entitled to be reimbursed for certain reasonable costs and expenses incurred in performing its duties under the Private Equity Specialist Agreement. During the fiscal year ended August 31, 2005, the Private Equity Specialist was not paid any fees. No Performance Bonus was paid for the fiscal year ended August 31, 2005.

### **Performance Bonus**

The Manager, the Investment Advisor and the Private Equity Specialist are entitled to share in a Performance Bonus as soon as practicable after the Disposition Date of an eligible investment based on the gains and income earned from each eligible investment. No Performance Bonus shall be paid by the Fund in respect of the realization of an eligible investment, unless on the Disposition Date of such eligible investment:



- (a) the total net realized and unrealized gains and income from the Fund from its portfolio of eligible investments since inception must have generated a return greater than the average annual rate of return on five year Guaranteed Investment Certificates offered by a Schedule I Canadian chartered bank plus 2%;
- (b) the compounded annual rate of return (including realized and unrealized gains and income) from the particular eligible investment since its acquisition by the Fund must equal or exceed 12% per annum; and
- (c) the Fund must have recouped an amount equal to all principal invested in the particular eligible investment.

The Fund will not pay the Performance Bonus on any partial dispositions of an eligible investment unless and until the Fund receives (from all dispositions of that investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the eligible investment.

Provided that the payment of the Performance Bonus does not reduce returns to shareholders on the Investment Portfolio below the threshold outlined in (a) above, the proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund, after deducting the costs of such investment and the proceeds of disposition paid to the Fund, shall be allocated and paid as follows:

- (a) Each of the Private Equity Specialist and the Investment Advisor shall receive 50% of all gains and income earned from each particular eligible investment in excess of the 12% compounded annual rate of return contemplated in (b) above, up to and including a level representing 15% of the compounded annual rate of return earned from the particular eligible investment.
- (b) All gains and income earned on each particular eligible investment in excess of a 15% compounded annual rate of return earned from the particular eligible investment, shall be allocated and paid in the following proportions:
  - (i) 8% to the Private Equity Specialist and 8% to the Investment Advisor; and
  - (ii) 4% to the Manager.

The Fund will retain the other 80% of such gains and income.

The Performance Bonus will be calculated and paid quarterly in arrears based upon realized gains, calculated on the last day of the last month of each calendar quarter.

The Manager, the Investment Advisor and the Private Equity Specialist consider the Performance Bonus to be appropriate as it is reasonable and consistent with incentive fee structures commonly used by private venture capital industry and the Fund's investment strategy and objectives are designed to be similar to the private venture capital industry. The Fund believes that the Performance Bonus allows it to be competitive with other venture capital funds to attract the necessary professional expertise.

### **Sponsorship Fee**

The Sponsor Agreement provides that the Sponsors will make available to the Fund such of its members and employees as are necessary or desirable to fill such positions on the Board of Directors and the committees thereof as the Fund may require. The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate Net Asset Value Per Share attributable to the Class A Shares, calculated and paid monthly in arrears. For the fiscal year ended August 31, 2005, the Sponsors were paid fees in the aggregate amount of \$6,229.

### **OPERATING EXPENSES**

The Fund pays all of its administrative expenses including expenses relating to the provision of registrar, transfer agency, trustee, shareholder reporting and other shareholder administration services being provided to the Fund under the Management Agreement and all of its operating expenses including expenses relating to portfolio transactions, taxes, legal, audit, custodial and accounting, costs of qualifying the Fund's securities for distribution, certain marketing, security realization, directors' fees and borrowing fees.

Businesses in which the Fund invests will be of a relatively small size and early stage of development in comparison with the investments made by most conventional mutual funds. The Fund will thus require a greater commitment to both initial

analysis, due diligence investigations, post-investment monitoring and support of ongoing developmental activities, relative to the amount of capital invested, than is required by most mutual funds. In addition, the cost to determine the value of the Fund's investments in Portfolio Companies for which no published market exists will be greater than the valuation cost for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles.

Reference is made to the audited financial statements of the Fund for the period ended August 31, 2005, for particulars of all fees, charges and expenses charged to the Fund.

## **SHARE CAPITAL OF THE FUND**

The authorized capital of the Fund consists of an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of Class C Shares. The following is a summary of the material provisions attaching to each class of shares of the Fund.

### **Class A Shares**

#### ***Issue***

Class A Shares may be issued only to Eligible Investors. Generally, Eligible Investors are individuals (or trusts which are Qualifying Trusts for individuals).

#### ***Transfer***

A Class A Shareholder is restricted from transferring its Class A Shares unless the shareholder has satisfied the conditions imposed by the Applicable Legislation.

The articles of the Fund restrict the transfer of Class A Shares to those between Individual Eligible Investors, to an Individual Eligible Investor and his or her Spouse or former Spouse or to a trust governed by an RRSP or RRIF of which an Individual Eligible Investor or his or her Spouse or former Spouse is an annuitant. Otherwise, transfers of Class A Shares may only occur in very limited circumstances such as disability or death.

#### ***Redemption by Holders***

Under the Ontario Act and the Federal Act, an Individual Eligible Investor may request the Fund to redeem any or all of the Class A Shares without being subject to the withholding tax described below, where:

- (a) the Fund is notified in writing that the shareholder, after acquiring the Class A Shares, has become disabled and permanently unfit for work or terminally ill;
- (b) the shareholder provides the Fund with a written request to redeem Class A Shares within 60 days after the day on which the Class A Shares were issued to the original purchaser and no Information Return was issued to the holder in respect of the Class A Shares and any Ontario Tax Credit Certificate issued to the holder in respect of such Class A Shares has been returned to the Fund;
- (c) the Fund is notified in writing that the shareholder acquired the Class A Shares from another person as a consequence of the death of the other person or the death of the annuitant under a trust governed by an RRSP or RRIF that previously held such Class A Shares;
- (d) the shareholder is a trust governed by a RRSP or RRIF, and after the shareholder acquired the Class A Shares, the annuitant under the RRSP or RRIF has become disabled and permanently unfit for work or terminally ill;
- (e) the redemption occurs more than eight years after the date on which the Class A Shares were issued; or
- (f) in any other circumstances where the redemption is permitted for the purposes of the Applicable Legislation and is approved by the directors.

A redemption may occur at any other time if the Fund withholds the amount required to be withheld under the Federal Act and the Ontario Act. Currently, the amount generally required to be withheld under the Ontario Act (the "Ontario Withheld

Amount”) is equal to 15% of the lesser of: (i) the equity capital (as defined in the Ontario Act) received by the Fund on the original issue of the Class A Shares; and (ii) the amount that would otherwise have been payable by the Fund on the redemption. The amount generally required to be withheld under the Federal Act (the “Federal Withheld Amount”) is equal to the lesser of: (i) 15% of the issue price of the Class A Share; and (ii) the amount that would otherwise have been payable by the Fund on the redemption net of required remittances to the Minister of Finance (Ontario). The Fund must remit the Federal Withheld Amount to the Receiver General for Canada and the Ontario Withheld Amount to the Minister of Finance (Ontario) and such other amounts (if any) as are withheld and paid as required by the Federal Act and/or the Ontario Act at the time of such redemption.

Under the Ontario Act, for the purposes of applying the eight-year rule in (e) above, Class A Shares that were issued to Class A Shareholders in receipt of an Ontario Tax Credit Certificate in February or March of any year and are redeemed in February or on March 1 of the eighth year thereafter will be deemed to have been redeemed on March 31 of that eighth year. Under proposals to amend the Federal Act, no amount need be withheld and paid in respect of the Federal Tax Credit if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed.

The Fund will be required to withhold the Ontario Withheld Amount only if the Ontario Tax Credit Certificate had been issued in respect of the Class A Shares redeemed. The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario unless it receives notice instructing it to do otherwise. See “Tax Credits in Ontario” and “Redemption of Class A Shares”.

Class A Shareholders in respect of which an Information Return and an Ontario Tax Credit Certificate have not been issued may request the Fund to redeem the Class A Shares at any time without any amount being withheld for the repayment of the Federal and Ontario Tax Credit.

In any financial year, the Fund is not required to, but may at its option, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding financial year. Requests for redemption will be accepted in the order in which they are received.

If, in any financial year, as a result of the foregoing limitation, the Fund does not redeem Class A Shares that it has been requested to redeem, then, subject to the foregoing limitation, the Fund will redeem such Class A Shares in the following financial year before it redeems any other Class A Shares that it has been requested to redeem and, for such purposes, the requests to redeem such Class A Shares will be deemed to have been received by the Fund on the first day of the following financial year.

Redemptions of Class A Shares will be made at the aggregate Net Asset Value Per Share attributable to the Class A Shares as at the close of business on the Business Day on which the Fund receives (or is deemed to have received) the request for redemption if received by the Fund by 4:00 p.m. (Toronto time). Otherwise, such requests will be priced at the Net Asset Value Per Share for the following Business Day.

The Fund is entitled to suspend the right of Class A Shareholders to redeem Class A Shares and/or delay the date for payment of the redemption amount in respect of any redeemed Class A Share for the whole or any part of any period for which the consent of the applicable securities regulators has been obtained.

### ***Dividends***

Class A Shareholders are entitled to receive dividends at the discretion of the Board of Directors.

### ***Voting Rights***

Class A Shareholders are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only the holders of shares of a different class or series are entitled to vote separately as a class or series, are entitled to one vote per Class A Share held at such meeting.

### ***Fractional Shares***

A holder of a fractional Class A Share is entitled to exercise voting rights and to receive dividends and proceeds of redemption in respect of such fractional Class A Share to the extent of such fraction.

### ***Election of Directors***

Class A Shareholders of the Fund are entitled to elect two of the directors of the Fund (currently two of six directors), or such other number that results in the Class B Shareholder electing the majority of directors on the Board of Directors.

### ***Dissolution***

On the liquidation, dissolution or winding-up of the Fund, whether voluntary or involuntary, or any other distribution of the assets of the Fund for the purpose of winding up its affairs, the Class A Shareholders and Class C Shareholders will be entitled to receive the property and assets of the Fund attributable to the class remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the holders of all other classes of shares of the Fund.

### **Class B Shares**

#### ***Issue***

The Class B Shares may be issued only to a trade union, as defined in the Canada Labour Code, that represents employees in more than one province. There is one Class B Share issued and outstanding for total consideration of \$10.

#### ***Dividends***

The Class B Shareholders are not entitled to receive dividends.

#### ***Voting Rights***

The Class B Shareholders are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only Class A Shareholders are entitled to vote separately as a class, are entitled to one vote per Class B Share held at any such meeting.

### ***Election of Directors***

The Class B Shareholders are entitled to nominate and elect the number of directors of the Fund (currently four of six) representing the total number of directors less the number of directors that the Class A Shareholders of the Fund are entitled to elect. CLAC has, pursuant to the Sponsor Agreement, agreed to nominate and vote its Class B Shares in favour of the election, as directors of the Fund, of two persons to be nominated by the Sponsors and such number of members or designates of the Manager as requested by the Manager, which is currently two members or designates.

### ***Dissolution***

On liquidation, dissolution or winding up of the Fund, the Class B Shareholders are entitled to receive the amount of the consideration received by the Fund for such shares before any assets are distributed to Class A Shareholders and the Class C Shareholders but after payment of all liabilities of the Fund.

### **Class C Shares**

#### ***Issue***

Class C Shares may be issued only to the Private Equity Specialist and its affiliates.

#### ***Transfer***

A Class C Shareholder is restricted from transferring its Class C Shares unless it has obtained the approval of the Board of Directors, and then such transfer is subject to the resale restrictions under applicable securities legislation.

#### ***Redemption by Holders***

A Class C Shareholder may request the Fund, in writing, to redeem any or all of its Class C Shares on March 2 of each year, or on the next following Business Day, if March 2 is not a Business Day in the year (each such day a “redemption date”), at a redemption price equal to the Net Asset Value Per Share, provided that the maximum number of Class C Shares that the Fund shall be required to redeem on the redemption date in any year shall be equal to the “Available Amount” for that year divided by the Net Asset Value Per Share.

The “Available Amount” in respect of the redemption date in any year shall be calculated as follows:

- (a) in respect of the provinces of Ontario, Nova Scotia and New Brunswick, the sum of the amounts (calculated on a province by province basis) which is equal to the lesser of:
  - (i) 70% of the amount raised in each such province, respectively, from the sale of Class A Shares to and including March 1, 2004 in respect of the March 2, 2004 redemption date, or 70% of the amount raised in each such province, respectively, during the period from and including March 2 in the previous year to and including March 1 in the year, in respect of each redemption date thereafter, and
  - (ii) the aggregate purchase price of each of the eligible investments made in each such province, respectively; and
- (b) in respect of the other provinces in which a prospectus qualifying the Class A Shares for distribution or distribution to the public shall have been filed, an amount equal to the lesser of:
  - (i) 70% of the amounts raised in such provinces, collectively, from the sale of Class A Shares to and including March 1, 2004 in respect of the March 2, 2004 redemption date, or 70% of the amount raised in such provinces, collectively, during the period from and including March 2 in the previous year to and including March 1 in the year, in respect of each redemption date thereafter, and
  - (ii) the aggregate purchase price of each of the eligible investments made in all provinces.

The Fund is entitled to suspend the right of Class C Shareholders to redeem Class C Shares and/or delay the date for payment of the redemption amount in respect of any redeemed Class C Share for the whole or any part of any period during which the Board of Directors has determined that such suspension and/or delay is necessary in order to ensure that the Fund may maintain its pacing requirements or satisfy its obligations, or for a period in respect of which the consent of the applicable securities regulators has been obtained.

#### ***Dividends***

Class C Shareholders are entitled to receive dividends at the discretion of the Board of Directors. The Fund shall not declare a dividend on the Class A Shares unless a dividend in an equal amount per share is declared on the Class C Shares.

#### ***Voting Rights***

Except as otherwise required by law, the Class C Shareholders are not entitled to any votes in respect of holdings of Class C Shares.

#### ***Fractional Shares***

A holder of a fractional Class C Share is entitled to exercise voting rights and to receive dividends and proceeds of redemption in respect of such fractional Class C Share to the extent of such fraction.

#### ***Election of Directors***

Class C Shareholders of the Fund are not entitled to vote for the election of directors of the Fund.

#### ***Dissolution***

On the liquidation, dissolution or winding-up of the Fund, whether voluntary or involuntary, or any other distribution of the assets of the Fund for the purpose of winding up its affairs, the Class C Shareholders will be entitled to receive the property and assets of Fund attributable to the class remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the Class B Shareholders, on a parity with the Class A Shareholders.

#### **Approval of Shareholders for Certain Changes**

Certain changes affecting the Fund may only be implemented with the approval of the shareholders of the Fund. A meeting of the shareholders or, if required by law, a meeting of each class of shareholders shall be convened to consider and approve,

subject to the ongoing compliance by the Fund with the provisions of the Applicable Legislation, any of the following matters which the Fund may propose to change in the future:

- (a) subject to certain exemptions available under rules applicable to mutual funds, a change in any contract or the entering into of any new contract as a result of which the basis of the calculation of the fees or of other expenses that are charged to the Fund could result in an increase in charges to the Fund;
- (b) a termination of the Manager and Private Equity Specialist in certain circumstances in accordance with the terms of the Management Agreement and Private Equity Specialist Agreement, respectively;
- (c) the Fund to discontinue offering its shares to the public in accordance with the terms of the Management Agreement and Private Equity Specialist Agreement;
- (d) any change in the investment objectives of the Fund;
- (e) any change of auditors;
- (f) any decrease in the frequency of calculating the Net Asset Value Per Share of the Class A Shares; or
- (g) subject to certain exemptions available under rules applicable to mutual funds, the commencement of the use by the Fund of permitted derivatives; or any other matter which is required by the constating documents of the Fund or by the laws applicable to the Fund or by any agreement to be submitted to a vote of the shareholders.

Unless a greater majority is required by the laws or any agreement applicable to the Fund, the approval of the shareholders shall be deemed to be given if expressed by a resolution passed by at least a majority of the votes cast at the meeting of shareholders or each class of shareholders, as the case may be, called to consider such resolution.

Two or more Class A Shareholders present in person or by proxy will constitute a quorum. If a quorum is not present for a meeting of shareholders within 30 minutes after the time fixed for holding the meeting, the meeting will be adjourned for a period of not less than 10 days and not more than 21 days, at which point the shareholders present in person or represented by proxy shall constitute a quorum.

Shareholder approval will not be obtained before making changes of the type contemplated in paragraph (a) above where the Fund contracts at arm's length with parties other than the Manager for all or part of the services it requires to carry on its operations. However, shareholders will be given at least 60 days notice before the effective date of any such change.

## **PRINCIPAL HOLDERS OF SECURITIES**

### **The Fund**

As of December 1, 2005, no person or company owned of record or beneficially, directly or indirectly, more than 10 per cent of the Class A Shares of the Fund.

One Class B Share is held by CLAC, representing 100 per cent of the outstanding Class B Shares.

Approximately 95.9% of the outstanding Class C Shares are held by Roynat Capital Inc. Approximately 4.10% of the outstanding Class C Shares are held by John M. Richardson, the Chief Executive Officer of the Fund. Mr. Richardson indirectly controls the Manager. Other than the foregoing, the directors and senior officers of the Fund, as a group, do not own any other securities of the Fund, either directly or indirectly.

### **The Manager**

As of December 1, 2005, all of the outstanding voting securities of the Manager were owned indirectly by John M. Richardson.

## **DIVIDEND POLICY**

The Board of Directors may declare from time to time such dividends out of monies legally available for dividends as it may consider advisable. The Board of Directors does not anticipate declaring any dividends for several years from the date of

first issuing Class A Shares to investors; however, the Fund anticipates that by investing in projects which earn ongoing income from operations, the Fund may be in a position to pay dividends prior to the expiry of the eight-year redemption period. Any decision as to the amounts and timing of any dividends will be at the discretion of the Board of Directors and there is no guarantee that dividends will be paid at any time or in any amount. No dividends were paid by the Fund during the fiscal period ended August 31, 2005.

The Fund intends to increase the stated capital of the outstanding Class A Shares and Class C Shares periodically in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and on net investment income. The Fund will be deemed to have paid, for tax purposes, a dividend on its then issued and outstanding Class A Shares and Class C Shares equal to the amount added to the stated capital of such Class A Shares and Class C Shares and each such Class A Shareholder and Class C Shareholder will be deemed to have received a dividend equal to the Class A Shareholder's and Class C Shareholder's proportionate share thereof even though the holder will not receive a cash distribution from the Fund. See "Canadian Federal Income Tax Considerations - Taxation of the Fund" and "Canadian Federal Income Tax Considerations - Taxation of Class A Shareholders - Taxation of Dividends".

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

### **Introduction**

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, the following summary presents fairly the principal Canadian federal income tax considerations generally applicable to prospective purchasers of Class A Shares pursuant to this prospectus who, for the purposes of the Federal Act, are individuals (other than trusts) resident in Canada, hold their Class A Shares as capital property and deal at arm's length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade. This summary also addresses the principal Canadian federal income tax considerations generally applicable to trusts governed by RRSPs or RRIFs with an annuitant that is resident in Canada. The Fund is registered as an LSIF Corporation under the Ontario Act and a Federal LSVCC under the Federal Act. This summary assumes that the Fund will, at the time Class A Shares are purchased, be registered or prescribed, as applicable, under the Ontario Act and the Federal Act and will continue to be so registered or prescribed, as applicable, at all relevant times.

This summary is based on the current provisions of the Federal Act and the Tax Regulations and counsel's understanding of the current administrative practices of the Canada Revenue Agency (the "CRA") publicly available as of the date hereof. This summary also takes into account the Tax Proposals. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative action.

**This summary is of a general nature only and is not exhaustive of all possible federal income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Therefore, prospective purchasers should consult their own tax advisors with respect to their individual circumstances.**

### **Federal Tax Credit Available to First Purchasers**

An Individual Eligible Investor will be entitled to a non-refundable Federal Tax Credit.

Pursuant to the Federal Act, the Federal Tax Credit will be 15% of the investor's net cost of the Class A Shares up to a maximum net cost of \$5,000. Generally, an investor's net cost of a Class A Share is the price paid in respect of the subscription for, or the acquisition of, the Class A Share less the amount of any assistance provided by a government, municipality or public authority in respect of or for the acquisition of the Class A Share, other than a tax credit (including the Federal Tax Credit or Ontario Tax Credit). The annual aggregate maximum Federal Tax Credit that an investor may claim in respect of purchases of Class A Shares and any shares of Federal LSVCCs, LSIF Corporations, Nova Scotia LSVCCs and certain similar entities registered under the laws of a province of Canada other than the Fund is \$750.

The Federal Tax Credit may be deducted only from the individual's tax payable under the Federal Act and only in respect of the calendar year in which the Class A Share is acquired, or subscribed and paid for, unless the Class A Share is acquired, or subscribed and paid for, before March 1, or the date established by the Minister of National Revenue (Canada) pursuant to subsection 127.4(5.1) of the Federal Act, in a calendar year, in which case the Federal Tax Credit may, at the individual's option, be deducted from the tax payable under the Federal Act in respect of the preceding calendar year.

The Federal Tax Credit is not transferable by the individual and is not refundable to the extent it exceeds the individual's tax otherwise payable.

RRIFs are not permitted to directly subscribe for Class A Shares. Accordingly, although RRIFs may in appropriate circumstances acquire Class A Shares (for instance, from certain RRSPs or other RRIFs), no Federal Tax Credit will be available in respect of the acquisition of Class A Shares by an RRIF.

In order to claim a Federal Tax Credit, the individual must file with his or her tax return the Information Return issued to him or her by the Fund in respect of the acquisition of the Class A Shares.

Corporations generally may not invest in Class A Shares.

Generally, an individual will be eligible for the Federal Tax Credit where the purchaser of the Class A Shares is an RRSP which is a Qualifying Trust (see "Selected Definitions") for the individual in respect of such Class A Shares. Subject to the RRSP contribution limits provided in the Federal Act, any amount contributed by the individual to the RRSP may be deductible by the individual in computing the individual's income for tax purposes.

### **Direct Purchase or Transfer of Class A Shares to an RRSP**

Subject to the qualifications discussed above under the heading "Eligibility for Investment", a Class A Share will be a qualified investment for an RRSP. As an alternative to a Qualifying Trust directly purchasing Class A Shares from the Fund (as described above), a Class A Shareholder may transfer, for no consideration, the Class A Share to an RRSP under which the Class A Shareholder or his or her Spouse is the annuitant. The Class A Shareholder who makes such transfer will be entitled to treat an amount equal to the fair market value of the Class A Share at the time of the transfer as a contribution in kind to the RRSP and will be deemed to have disposed of the Class A Share for proceeds of disposition equal to such fair market value. The contribution will be deductible in computing the Class A Shareholder's income in accordance with the provisions of the Federal Act, which place limits on the annual amount of deductible RRSP contributions. This deduction is in addition to the Federal Tax Credit available against tax otherwise payable. The determination of the fair market value of a Class A Share at any particular time is a factual matter. In assessing a Class A Shareholder's income tax return, the CRA has the right to review the fair market value of a Class A Share at the time it was transferred to an RRSP and is not bound by the Class A Shareholder's initial determination.

On the transfer of a Class A Share to an RRSP, the Class A Shareholder may realize a capital gain if the fair market value of the Class A Share at the time of transfer exceeds its adjusted cost base. However, any capital loss arising on the transfer of a Class A Share will be denied. See "Taxation of Class A Shareholders - Disposition of Class A Shares".

### **Transfer of Class A Shares to an RRIF**

Subject to the qualifications discussed above under the heading "Eligibility for Investment", a Class A Share will also be a qualified investment for an RRIF. Class A Shares can be transferred by an individual to an RRIF which purchases the shares for valuable consideration if the individual or his or her Spouse is the annuitant of the RRIF. On such a sale of a Class A Share to an RRIF, the Class A Shareholder may realize a capital gain but any capital loss that arises on the transfer will be denied. See "Taxation of Class A Shareholders - Disposition of Class A Shares". No tax deduction is generally available in respect of the sale or other transfer of a Class A Share by an individual to an RRIF. Where permissible transfers are made by RRSPs and RRIFs to other RRSPs and RRIFs, generally, no tax consequences will arise.

### **RRSP Contribution Limits**

Contributions to RRSPs are deductible in accordance with the provisions of the Federal Act which place limits on the annual amount of deductible RRSP contributions. This deduction is in addition to the Federal Tax Credit. Generally, for any year, an individual may deduct an RRSP contribution that does not exceed the amount by which the lesser of the RRSP dollar limit for the year and 18% of his or her earned income (as defined in the Federal Act) for the immediately preceding year exceeds the value of his or her pension or deferred profit sharing plan benefits determined in accordance with the Federal Act. The RRSP dollar limit is \$16,500 for 2005 and \$18,000 for 2006. Unused RRSP deductions for 1991 and subsequent years can be carried forward to increase the amount of an individual's deductible contribution to an RRSP, subject to the detailed provisions of the Federal Act. The Federal Act permits an indefinite carry-forward of unused RRSP deductions.



## **Taxation of the Fund**

The taxation year of the Fund ends on August 31 of each year. The Fund will be a “mutual fund corporation” for the purposes of the Federal Act.

Counsel has been informed by the Fund that it will elect, in accordance with the Federal Act, to have each of its “Canadian securities” (as defined in subsection 39(6) of the Federal Act) treated as capital property. Such an election is intended to ensure that gains or losses realized by the Fund on the disposition of Canadian securities are treated as capital gains or capital losses.

When the Fund sells, or otherwise disposes of a capital property, the Fund will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Fund of the property and any reasonable costs for disposition. One-half of any capital gain or capital loss will be the Fund’s taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the Fund’s income. Allowable capital losses may normally be deducted against taxable capital gains of the Fund for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

Taxes payable by the Fund on net realized capital gains will be refundable when Class A Shares or Class C Shares are redeemed or when the Fund pays, or is otherwise deemed to pay, dividends to the Class A Shareholders or the Class C Shareholders, which it elects to be treated as capital gains dividends (“Capital Gains Dividends”). The Fund may recover all tax paid by it on net realized taxable capital gains distributed or deemed to have been distributed by it to shareholders in the form of capital gains dividends or proceeds of redemption of Class A Shares or Class C Shares, subject to the detailed rules in the Federal Act.

Interest and other investment income (other than taxable capital gains and dividends in respect of shares of taxable Canadian corporations) will be included, net of reasonable expenses, in calculating the Fund’s income subject to normal corporate rates of tax. The Fund will be subject to an additional refundable tax equal to 6⅔% of such investment income. The Fund will be eligible for a refund of a portion of the normal corporate tax and for the 6⅔% refundable tax in accordance with the detailed rules in the Federal Act if the Fund pays or is deemed to pay taxable dividends other than Capital Gains Dividends, to its shareholders.

Taxable dividends received by the Fund from taxable Canadian corporations will generally not be subject to Part I tax.

The Fund intends to increase the stated capital of its outstanding Class A Shares and Class C Shares on an annual basis in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and, if available to it, the refunds of tax in respect of taxes payable on net investment income. Counsel has been informed that the Fund intends to file an election such that it will be deemed to have paid a dividend on its then issued and outstanding Class A Shares and Class C Shares equal to the amount added to the stated capital of Class A Shares and Class C Shares and each Class A Shareholder and Class C Shareholder will be deemed to have received a dividend, or if the Fund so elects, a Capital Gains Dividend, equal to the Class A Shareholder’s or Class C Shareholder’s proportionate share thereof even though the Class A Shareholder or Class C Shareholder will not receive a cash distribution from the Fund. The deemed dividends received by a Class A Shareholder or Class C Shareholder will be added to the Class A Shareholder’s or Class C Shareholder’s adjusted cost base in respect of their Class A Shares or Class C Shares, respectively.

## **Taxation of Class A Shareholders**

### ***Taxation of Dividends***

Class A Shareholders will be liable to tax on taxable dividends, other than Capital Gains Dividends, received, or deemed to be received, from the Fund, subject to the gross-up and dividend tax credit rules normally applicable to dividends from taxable Canadian corporations.

As described above, the Fund may pay, or may be deemed to have paid, Capital Gains Dividends to Class A Shareholders. Capital Gains Dividends received, or deemed to have been received, by a Class A Shareholder will be treated as realized capital gains in the hands of such Class A Shareholder, subject to the general rules relating to the taxation of capital gains. One-half of any capital gain will be included in the shareholder’s income for purposes of the Federal Act.

**A Class A Shareholder will not receive any cash distribution in respect of such deemed dividends or deemed Capital Gains Dividends. Accordingly, an individual Class A Shareholder may be liable to pay tax in respect of deemed**

**dividends or deemed Capital Gains Dividends even though the Class A Shareholder will not have received a cash distribution from the Fund with which to pay the tax.**

A Class A Shareholder which is an RRSP or an RRIF is exempt from tax on the amount of any dividend, Capital Gains Dividend, deemed dividend or deemed Capital Gains Dividend, so long as the Class A Share is a qualified investment for the RRSP or RRIF.

### ***Disposition of Class A Shares***

A Class A Shareholder will generally realize a capital gain (or capital loss) on the disposition of a Class A Share, including on a redemption of a Class A Share, or deemed disposition to the extent that the proceeds of disposition of the Class A Share (excluding any redemption fee payable to the Fund) exceed (or are exceeded by) the adjusted cost base to the Class A Shareholder and any reasonable costs of disposition. On the redemption of a Class A Share, the proceeds of disposition will include any amount withheld from the redemption proceeds and paid to the Receiver General for Canada or to the Minister of Finance (Ontario) as a return of a Federal Tax Credit or an Ontario Tax Credit.

The cost of Class A Shares acquired by the holder will be equal to the subscription price paid. Generally, the cost of each Class A Share acquired will be averaged with the adjusted cost base of all other Class A Shares of the holder for the purpose of determining the adjusted cost base of each Class A Share at any subsequent time. The adjusted cost base of Class A Shares of the holder will be increased by the amount of any deemed dividend or deemed Capital Gains Dividend arising as a result of the increase in the stated capital of Class A Shares as described above under “Taxation of the Fund”. The adjusted cost base of Class A Shares will not be reduced by a Federal Tax Credit or an Ontario Tax Credit received by the holder.

A capital loss that would otherwise arise on the disposition of a Class A Share will be reduced by the amount of the Federal Tax Credit and the Ontario Tax Credit, if any, received in respect of the Class A Share by the Class A Shareholder (or by a person with whom the holder does not deal at arm’s length) to the extent that the amount of any such tax credit has not previously reduced a capital loss in respect of the Class A Share.

Any capital loss realized by a Class A Shareholder on the sale or transfer of Class A Shares to an RRSP under which the holder or the holder’s Spouse is the annuitant, or to an RRIF under which the holder is the annuitant, will be deemed to be nil.

One-half of any capital gain or capital loss will be the Class A Shareholder’s taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the Class A Shareholder’s income. Allowable capital losses may normally be deducted against taxable capital gains for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

### ***Withholding Taxes on Early Redemptions of Class A Shares***

The Fund may be required to withhold certain amounts on a redemption of Class A Shares in respect of which an Information Return or an Ontario Tax Credit Certificate has been issued, if the shares are redeemed within eight years of the date the shares were issued. See “Share Capital of the Fund - Class A Shares – Redemption by Holders”.

As contemplated under the Applicable Legislation, it is the Fund’s policy to withhold and remit to the appropriate taxing authority any federal and provincial taxes that may apply on the redemption of Class A Shares.

### ***Alternative Minimum Tax***

The Federal Act provides for an alternative minimum tax applicable to individuals and certain trusts. Individuals and certain trusts are required to compute their “adjusted taxable income”, which includes certain amounts which, for general income tax purposes, would be deductible or exempt. Taxable dividends (without application of the dividend gross-up) and Capital Gains Dividends received, or deemed to be received, from the Fund and capital gains realized on the disposition of Class A Shares may increase a Class A Shareholder’s liability for alternative minimum tax. The Federal Tax Credit may not be applied to reduce a Class A Shareholder’s liability for alternative minimum tax. Individuals and certain trusts are entitled to claim an annual basic exemption of \$40,000. A minimum tax is applied to the amount by which “adjusted taxable income” exceeds the basic exemption. If the minimum tax so calculated exceeds the tax otherwise payable, the minimum tax is payable; however, it may be carried forward to offset tax payable in a future year.

### ***Class A Shares Owned by Trusts Governed by RRSPs or RRIFs***

Subject to the qualifications discussed above under the heading “Eligibility for Investment”, Class A Shares are qualified investments for trusts governed by RRSPs or RRIFs (individually, a “Plan”). A Plan will not be liable for tax under the Federal Act in respect of taxable dividends paid or deemed to have been paid in the amount added by the Fund to the stated capital of the Class A Shares or Capital Gains Dividends received, or deemed to be received, by the Plan in respect of Class A Shares held by the Plan or in respect of capital gains realized on the disposition of Class A Shares.

Distributions from a Plan to an annuitant are included in the income of the annuitant in the year of the distribution. Where the Plan is a Spousal Plan, under certain circumstances, the distributions to the annuitant may be included in the income of the Spouse who was the contributor to the Spousal Plan.

### **Federal Penalty Taxes Potentially Applicable to the Fund**

The Federal Act requires the Fund, as a Federal LSVCC, to file returns with the CRA and pay a penalty tax in an amount equal to any tax payable by the Fund as a consequence of its failure to meet investment requirements under the Federal Act. Where the Fund becomes liable to pay tax under the Ontario Act, it may become liable to pay an additional penalty in the aggregate amount of penalties payable under the Ontario Act. The Fund may be entitled to a rebate of such tax if it is able to demonstrate subsequent compliance with the investment requirements in the manner prescribed by the Federal Act.

### **Revocation of Registration**

#### ***Revocation of Registration under the Federal Act***

The Minister of National Revenue may revoke the registration of the Fund under the Federal Act if:

- its articles do not comply with certain provisions of the Federal Act;
- it does not comply with certain provisions in its articles;
- it does not file the proper forms and returns and does not pay any special taxes or penalties required of it under the Federal Act;
- it does not issue the proper Information Returns within the prescribed time to purchasers of Class A Shares in respect of their Federal Tax Credit;
- its financial statements are not prepared in accordance with generally accepted accounting principles;
- it does not prepare proper independent valuations of its Class A Shares within the time prescribed by the Federal Act;
- it has been liable for penalty taxes for failure to meet the investment requirements under the Federal Act for a prescribed period of time;
- it has provided a guarantee of a debt that is an eligible investment and has failed to maintain the Reserve required under the Federal Act in respect of the guarantee;
- it has paid a fee or commission in excess of a reasonable amount in respect of the offering for sale or sale of its shares; or
- it has a monthly deficiency in 18 or more months in any 36-month period.

The Minister of National Revenue must give notice to the Fund of any proposal to revoke the Fund’s registration. The Fund will have an opportunity to appeal any proposal to revoke its registration.

Revocation of the Fund’s registration under the Federal Act could, in certain circumstances, result in the Fund being liable to pay a penalty tax based on the number of years, up to eight, that the Class A Shares were outstanding.

## TAX CREDITS IN ONTARIO

To claim an Ontario Tax Credit in Ontario, the Individual Eligible Investor must file with his or her tax return an Ontario Tax Credit Certificate issued to him or her in respect of the acquisition of Class A Shares. **The Registrar and Transfer Agent, on behalf of the Fund, will arrange for an Ontario Tax Credit Certificate to be issued if the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is not in Ontario or if no address has been provided and the individual wishes that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is resident or otherwise taxable in Ontario and wishes to claim an Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date of the year the Class A Shares are issued (or, if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should be issued. If the address of the Individual Eligible Investor provided to the Registrar and Transfer Agent is in Ontario and the purchaser does not wish that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is not liable for tax in Ontario and will not be claiming the Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date in the year in which the Class A Shares were issued (if issued after the later of March 1 and the Ministerial Designation Date in a year, by the later of March 1 and the Ministerial Designation Date of the following year) indicating that the Ontario Tax Credit Certificate should not be issued. While the issuance of the Ontario Tax Credit Certificate will permit the Individual Eligible Investor to claim an Ontario Tax Credit, it may also result in the Fund being required to withhold certain amounts under the Ontario Act on a redemption of Class A Shares if the shares are redeemed within eight years of the date the shares were issued, even if the investor did not receive the benefit of the Ontario Tax Credit in respect of the shares. If withholding under the Ontario Act occurs in circumstances where an investor has not received all or part of the benefit of the Ontario Tax Credit in respect of the Class A Shares redeemed, the Minister of Finance (Ontario) is authorized to rebate all or any part of the amount withheld.**

## ONTARIO INCOME TAX CONSIDERATIONS

### Introduction

In the opinion of McMillan Binch Mendelsohn LLP, counsel to the Fund, the following summary presents fairly the principal Ontario income tax considerations generally applicable to prospective purchasers of Class A Shares pursuant to this prospectus who, for the purposes of the relevant income tax legislation, are individuals resident at the end of a particular year in, or are otherwise taxable in, Ontario, hold their Class A Shares as capital property, and deal at arm's length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or a dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade. This summary also addresses the Ontario income tax considerations generally applicable where the purchaser is a trust governed by an RRSP with an annuitant that is resident in Ontario. The Fund is registered as a LSIF corporation under the Ontario Act and a Federal LSVCC under the Federal Act. This summary assumes that the Fund will continue to be so registered at all relevant times.

This summary is based on the current provisions of the Ontario Act and the Ontario Tax Act, the regulations under such statutes, and counsel's understanding of the current administrative and assessing practices of such provincial taxation authorities publicly available as of the date hereof. This summary also takes into account the Tax Proposals but does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative act.

**This summary is of a general nature only and is not exhaustive of all possible Ontario provincial income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Therefore, prospective purchasers should consult their own tax advisors with respect to their individual circumstances.**

### Ontario Taxation of the Fund

For the purposes of provincial corporate income tax, the income of the Fund will be attributable to and taxable in those provinces in which the fund has a permanent establishment. To the extent that income is attributed to the permanent establishment of the Fund in Ontario, the taxation of the Fund under the *Corporations Tax Act* (Ontario) will generally parallel the taxation of the Fund under the Federal Act.

## **Ontario Tax Credits Available to First Purchasers**

An individual who is entitled in a taxation year to a Federal Tax Credit under the Federal Act in respect of the purchase of a Class A Share by such individual or by an RRSP under which the individual or his or her Spouse is the annuitant will be entitled to a non-refundable credit against Ontario tax payable under the Ontario Tax Act for the same taxation year equal to the amount of the Federal Tax Credit where such individual is resident in Ontario at the end of the particular taxation year or is otherwise taxable in Ontario in the year. In such circumstances, the annual aggregate maximum credit against such Ontario tax in respect of purchases of shares of LSIF Corporations, including Class A Shares, is 15% of the Individual Eligible Investor's cost of such shares up to \$750 (based on a \$5,000 investment) pursuant to the Ontario Act. In order to claim the Ontario Tax Credit, the individual must file the relevant Ontario Tax Credit Certificate with his or her tax return.

The Ontario Tax Credit may be deducted from the individual's tax payable only in respect of a calendar year in which the Class A Shares are acquired, unless the Class A Shares are acquired or irrevocably subscribed and paid for before March 1 in each calendar year, in which case the Ontario Tax Credit may, at the individual's option, be deducted from the tax payable in respect of the preceding calendar year. The Ontario Tax Credit is not refundable to the extent that it exceeds the individual's tax otherwise payable in Ontario and is not transferable by the individual. The Ontario Tax Credit may not be applied to reduce the individual's minimum tax liability under the Ontario Tax Act, if any.

Generally, an individual will be eligible for the Ontario Tax Credit where the purchaser of the Class A Shares is an RRSP which is a Qualifying Trust for the individual in respect of such Class A Shares. Subject to the RRSP contribution limits, any amount contributed by the individual to the RRSP will be deductible by the individual in computing the individual's income.

On November 2, 2005, the Ontario government proposed legislation to phase out the Ontario provincial tax credit over 6 years as follows:

<b>Taxation Year</b>	<b>RSP Sales Season</b>	<b>LSIF Tax Credit %</b>
2005	2006	15%
2006	2007	15%
2007	2008	15%
2008	2009	15%
2009	2010	10%
2010	2011	5%

Based on this announcement, Ontario purchasers of Class A Shares will continue to be eligible to receive a 15% Ontario tax credit up to and including the 2008 taxation year, a 10% Ontario tax credit for the 2009 taxation year and a 5% Ontario tax credit for the 2010 taxation year. The proposed amendments do not affect the federal tax credit available to purchasers of Class A Shares. There is no assurance that the phase out of the Ontario provincial tax credit will not be accelerated or changed from the above schedule.

## **Ontario Tax on Redemption of Class A Shares**

Under the Ontario Act, upon the redemption of a Class A Share, the Class A Shareholder immediately before the redemption, acquisition or cancellation by the Fund is liable to pay a tax calculated at the rate of 15% of the lesser of the amount received by the Fund on the issue of the Class A Share and the amount paid on redemption, unless: (i) the redemption occurs or is deemed to occur more than eight years after the day on which the Class A Share is issued; or (ii) the redemption is permitted under the circumstances described above. See "Share Capital of the Fund – Class A Shares – Redemption by Holders".

Under the Ontario Act, the Fund is required to withhold and remit to the Minister of Finance (Ontario) the tax payable by a Class A Shareholder upon the redemption, acquisition or cancellation of a Class A Share as noted above. If the Fund fails to withhold and remit the amount as required, the Fund is required to pay the amount of the tax on behalf of the shareholder and is entitled to recover from the shareholder the amount remitted and not withheld.

## **Ontario Penalty Taxes Potentially Applicable to the Fund**

The Fund will be subject to a penalty tax under the Ontario Act if it fails to maintain above a minimum level its investments in eligible investments, including shares and subordinated indebtedness of eligible small and medium-sized corporations and partnerships carrying on business in Ontario.

Specifically, Ontario penalty taxes will be applicable to the Fund for a year if the Fund does not comply with rules imposed under the Ontario Act with regard to the nature, amount and timing of its investments, which are outlined under "Investment Restrictions". Where the Fund becomes liable to pay such Ontario penalty taxes, the Fund may be liable to pay an equivalent

amount as a penalty under the Federal Act. In addition, the failure to meet these investment requirements may result in the suspension of the issuance of Ontario Tax Credit Certificates until the Minister of Finance (Ontario) is satisfied that the Fund is in compliance with the investment requirements.

On application by the Fund to the Minister of Finance (Ontario), the Fund may be eligible to receive a rebate of such penalty tax, without interest, if the application is received within three years after the end of the calendar year with respect to which the tax was imposed and the Minister of Finance (Ontario) is satisfied that the Fund is maintaining the minimum and maximum eligible investment requirements.

### **Revocation of Registration Under the Ontario Act**

The Minister of Finance (Ontario) may revoke the registration of the Fund under the Ontario Act for certain reasons, including if the Fund:

- (a) does not comply with the restrictions in its articles of incorporation, including those relating to the redemption and transfer of Class A Shares;
- (b) fails to maintain the minimum level of eligible investments;
- (c) in the opinion of the Minister of Finance (Ontario), is conducting its affairs in a manner contrary to the spirit and intent of the Ontario Act; or
- (d) does not comply with the requirements of the Ontario Act or the regulations thereunder, including filing the proper forms and returns and paying any special taxes or penalties, providing for the issuance of the proper Ontario Tax Credit Certificates to purchasers of Class A Shares in respect of their Ontario Tax Credit, or preparing in a timely way proper valuations of its Class A Shares.

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Finance (Ontario) an amount equal to the lesser of (i) 15% of the equity capital received by the Fund in respect of all Class A Shares then outstanding less than eight years immediately preceding the date of revocation of the registration, or (ii) the total amount that would be determined for the purpose of (i) if the equity capital received by the Fund on the issue of each of the Class A Shares had been an amount equal to the fair market value of the Class A Shares at the date of the revocation of registration.

The Minister of Finance (Ontario) must give notice to the Fund of any proposal, together with written reasons, to revoke the Fund's registration. The Fund will have an opportunity, within 60 days of the day of mailing the notice of proposal, to object to any proposed revocation of its registration. If the decision of the Minister of Finance (Ontario) to revoke the Ontario registration of the Fund is confirmed, the Fund may only appeal the confirmation if the Minister's decision to confirm the proposal involves the interpretation of a provision under the Ontario Act or is an issue solely of law. Investments in Class A Shares made after the revocation of the Fund's Ontario registration will not entitle purchasers to receive Ontario Tax Credits.

### **OTHER PROVINCES**

Residents of provinces other than Ontario who are not taxable in Ontario and who purchase Class A Shares will not be entitled to an Ontario Tax Credit but will be eligible for the Federal Tax Credit.

If the Ontario Tax Credit will not be claimed, and if the Individual Eligible Investor has provided an address in Ontario, a notice should be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date following the date the Class A Shares are purchased indicating that the Ontario Tax Credit Certificate should not be issued. If an Ontario Tax Credit Certificate is issued, the Fund may be required to withhold certain amounts under the Ontario Act on a redemption of Class A Shares if the shares are redeemed within eight years of the date the shares were issued. If the address of the Individual Eligible Investor is not in Ontario or has not been provided and the individual wishes that an Ontario Tax Credit Certificate be issued (because, for example, the Individual Eligible Investor is taxable in Ontario and wishes to claim an Ontario Tax Credit), a notice must be sent to the Registrar and Transfer Agent by the later of March 1 and the Ministerial Designation Date following the date the Class A Shares are purchased indicating that the Ontario Tax Credit Certificate should be issued. If withholding under the Ontario Act occurs in circumstances where an investor has not received all or part of the benefit of the Ontario Tax Credit in respect of the Class A Shares redeemed, the Minister of Finance (Ontario) is authorized to rebate all or any part of the amount withheld. If, however, the Ontario Tax Credit Certificate is not issued, such withholding under the Ontario Act will not be required and it will not be necessary to seek the rebate of that tax.

## **RISK FACTORS**

The following may be considered as risk factors specifically pertaining to an investment in the Class A Shares:

### **Speculative Nature of Investment and No Guaranteed Rate of Return**

The Class A Shares are highly speculative in nature. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or the long term. An investment in the Class A Shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. In addition to the tax benefits of investing in Class A Shares, prospectus purchasers should fully assess the investment merits of the Class A Shares.

### **Availability of Suitable Investments**

There is no assurance that sufficient suitable eligible investments or Reserves will be found to fulfil the investment objectives of the Fund. If the Fund is unable to invest sufficient funds in eligible investments to enable it to meet its “pacing requirements” under the Applicable Legislation, the Fund may be subject to penalty taxes and other consequences as disclosed under “Penalty Taxes and Revocation of Registration” below.

### **Nature of Portfolio Companies**

The business of the Fund is to make investments in small to medium-sized eligible businesses directly, or in CSBIFs, many of which will have a limited operating history. These investments may require a number of years in order to mature and generate the returns expected by the Fund and investors. A significant portion of the Investment Portfolio will be comprised of investments in private companies. These investments are likely to mature and generate returns at different times, which could create an irregular pattern in the Net Asset Value Per Share attributable to the Class A Shares. In addition, losses on unsuccessful private company investments are often realized before gains on successful private company investments are realized. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time. Investors should not expect to receive a dividend on the Class A Shares in the foreseeable future.

Eligible businesses will be of a relatively small size and early stage of development in comparison with the investments made by most publicly-offered mutual funds. The Fund will thus require a greater commitment to both initial analysis, due diligence investigations, post-investment monitoring and support of ongoing developmental activities, relative to the amount of capital invested, than is required by most mutual funds. In addition, the cost to determine the value of the Fund’s investments in Portfolio Companies for which no published market exists will be greater than the valuation cost for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles.

### **Mutual Fund Rules**

Although the Fund is a mutual fund, many of the rules normally applicable to mutual funds under relevant Securities Legislation are not applicable to the Fund as a labour sponsored investment fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds operating in Canada do not apply. The Fund may take positions in businesses that represent a larger percentage of the equity than a mutual fund would be permitted to take, and this may increase the risk per investment.

### **Management**

Investors will be relying upon the business judgment, expertise and integrity of the Board of Directors, the Manager, the Investment Advisor, the Private Equity Specialist and the Audit Committee.

Class A Shareholders are entitled to elect two of the directors of the Fund (currently two of six).

### **Conflicts of Interest**

The services of the Manager, the Investment Advisor and the Private Equity Specialist and their respective directors and officers are not exclusive to the Fund. The Manager, the Investment Advisor and the Private Equity Specialist and their respective directors and officers will be providing similar services and devoting a substantial portion of their time to other investment activities, directorships and offices. These activities and those of the affiliates and associates of the aforementioned persons may result in certain conflicts of interest. See “The Manager – Conflicts of Interest”, “The Investment Advisor – Conflicts of Interest” and “The Private Equity Specialist – Conflicts of Interest”.

## **External Factors**

The Net Asset Value Per Share is based on the value of the publicly held and privately held securities in the Investment Portfolio. As a result, the value of the Class A Shares will increase or decrease with the value of such investments.

The value of the investments will fluctuate with general economic conditions including the level of interest rates, corporate earnings, economic activity, the Canadian dollar and other factors. The risks associated with such fluctuations may be amplified for investors as emerging businesses are often affected by external events to a greater degree than larger, more established businesses.

The return realized by the Fund on the disposition of its securities in Portfolio Companies will be affected by the market for stocks in the industries in which the Fund invests at the time such Fund divests of its holdings. There can be no assurance that the current investment climate for these types of stocks will not deteriorate by the time the Fund divests of the securities held in the Investment Portfolio.

## **Valuations**

The Fund issues Class A Shares at the Net Asset Value Per Share. The Fund will generally redeem Class A Shares at the Net Asset Value Per Share determined on each Business Day on which the redemption request is received. The Net Asset Value Per Share attributable to the Class A Shares will be determined daily and will be based on the historic carrying cost or estimates of the fair market value of the assets of the Fund and may not reflect amounts for which they can actually be sold. This valuation process is subjective to a degree and, to the extent that these valuations are inaccurate, existing investors may gain a benefit or suffer a loss.

## **Lack of Liquidity**

No market exists at present through which the Class A Shares may be sold and none is expected to develop. In addition, a Class A Shareholder is prohibited from transferring its Class A Shares unless it has satisfied any conditions imposed by the Applicable Legislation. As a result, shareholders will likely be unable to dispose of Class A Shares other than through the redemption of their shares by the Fund. The Fund's articles restrict the transfer of Class A Shares to those between Individual Eligible Investors, to an Individual Eligible Investor's Spouse or former Spouse or to a trust governed by an RRSP or RRIF of which an Individual Eligible Investor or his or her Spouse or former Spouse is an annuitant. Otherwise, transfers of Class A Shares may occur in very limited circumstances such as disability or death.

There are restrictions on the redemption of Class A Shares. Except in very limited circumstances, no Class A Shares may be redeemed before the expiration of at least eight years from the date on which such shares were issued without repayment of tax credits. In particular, the Fund may limit aggregate redemptions of Class A Shares in any year to 20% of the Net Asset Value of the Fund. Accordingly, investors may not be able to redeem their Class A Shares on demand. Consequently, Class A Shareholders may not be able to redeem their shares and such shares may not be accepted as collateral for loans.

## **Non Cash Distributions**

Individuals holding Class A Shares not subject to a trust governed by an RRSP or an RRIF may be liable for the payment of tax upon the deemed receipt by the holder of a dividend in the amount added to the stated capital or a capital gain dividend for which the holder did not receive a distribution from the Fund with which to pay such tax.

## **Penalty Taxes and Revocation of Registration**

If the Fund does not comply with the investment requirements of the Applicable Legislation, it will be subject to penalty taxes, other penalties and possible revocation of registration under the Applicable Legislation. The penalty taxes applicable under the Applicable Legislation will be applied to reduce the Net Asset Value of the Fund. Under both the Ontario Act and the Federal Act, the Fund may be subject to penalties for failure to comply with the investment requirements under each statute. Furthermore, the Fund's status as a Federal LSVCC may be revoked under the Federal Act and its status as an LSIF Corporation under the Ontario Act may be revoked for failure to comply with the investment requirements under the Federal Act or the Ontario Act, as the case may be. An additional penalty will apply in each case. See "Canadian Federal Income Tax Considerations – Federal Penalty Taxes Potentially Applicable to the Fund", "Investment Restrictions" and "Ontario Income Tax Considerations". The investment performance of the Fund may be adversely affected if the Fund becomes subject to such special taxes and penalties.



Investors will not be eligible to receive Ontario Tax Credit Certificates or Information Returns if the Fund's registration is revoked under the Ontario Act or the Federal Act, respectively.

### **Legislative Changes**

Changes may be introduced to the Applicable Legislation or the Ontario Tax Act providing for tax credits for investments in labour sponsored funds and related matters. Changes to federal or provincial legislation, rules or practices, if unfavourable, could impair the Fund's ability to attract future investment capital and its investment performance. As a result, the availability of money for investment by the Fund and the return to investors in the Fund could be reduced. There is no assurance that proposed amendments announced by the Ontario government on August 29, 2005 and the legislation tabled by the Ontario government on November 2, 2005 discussed under "Investment Restrictions – Statutory Investment Restrictions - Ontario Act" and "Ontario Income Tax Considerations", will be enacted or will not be materially changed.

The phasing out of the Ontario Tax Credit may materially reduce future sales of Class A Shares of the Fund. In that case, the availability of funds for investment by the Fund in the future would be reduced, and the liquidity of the Fund may be adversely affected, possibly resulting in a reduction of the value of Class A Shares.

### **Redemption**

In any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in certain circumstances. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit referred to above. Although the Fund will maintain at all times sufficient liquid assets to honour redemption requests up to such 20% limit, it cannot guarantee that it will be able to honour all redemption requests on the day they are made.

### **Follow on Financings**

It is likely that Portfolio Companies will require additional financing after the investments made by the Fund in order to fully implement their business strategies. If the Fund is unable to raise additional capital after it has met the investment pacing requirements applicable to it, it will be reliant upon third parties to provide such financing in order to realize on investments in Portfolio Companies. The ability of the Fund to raise additional capital is dependent upon a number of factors including the state of the capital markets and legislative changes to the labour sponsored investment fund program.

## **PLAN OF DISTRIBUTION**

The Fund will make arrangements with brokers and dealers that are authorized and licensed to trade in the securities of labour sponsored investment fund corporations to offer its Class A Shares for sale to the public. In Alberta, the Class A Shares are only permitted to be sold by investment dealers. The Fund will pay to the broker or dealer originating the sale a sales commission equal to 6% of the selling price for each Class A Share subscribed for pursuant to subscriptions procured by them and accepted by the Fund. This sales commission shall apply to all sales procured by brokers or dealers pursuant to payroll deduction or other periodic purchase plan sales initiated by them. Commissions on the sale of the Class A Shares will be charged to share capital as a share issue cost as they occur.

The Class A Shares are offered for sale continuously at the Net Asset Value Per Share. The continuous offering of the Class A Shares may not be discontinued before December 31, 2008. Following December 31, 2008, the continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager and the Private Equity Specialist is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue.

An affiliate of the Manager currently pays a fee based on gross sales to a fund distribution company for its wholesale services in connection with the sale of Class A Shares.

### **Additional Dealer Compensation**

The Fund pays to registered dealers a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the Net Asset Value Per Share of the Class A Shares held by the clients of the sales representatives of the dealers. This fee is intended to compensate dealers for the expenses incurred by them in communicating on an ongoing basis, both by mail and in person, with their clients who are shareholders of the Fund with respect to investments made by the Fund and the investment strategies and investment performance of the Fund. As and when deemed appropriate, the Fund may reimburse

dealers for a portion of the dealer's cost of producing and distributing sales communications and hosting seminars designed to provide investors with investment information, subject to compliance with applicable law.

## **SUBSCRIPTION**

The Class A Shares may be issued to individuals ordinarily resident in any province of Canada pursuant to this prospectus except in Québec and Nova Scotia. In order to subscribe for Class A Shares, prospective investors must cause the total amount of the subscription price to be delivered to a properly registered dealer. The Class A Shares will be issued at their Net Asset Value Per Share as at the close of business on the day they are received or on the first Business Day following the date that the request for subscription is received. Subscriptions must normally be received by the Fund prior to 4:00 p.m. (Toronto time) in order to be priced at the Net Asset Value Per Share for that day. Subscriptions received after that time will be priced at the Net Asset Value Per Share for the following Business Day. The minimum initial subscription for the Class A Shares is \$1,200. All subsequent subscriptions for Class A Shares must be in increments of \$50.

Pending the issuance of Class A Shares, the amount of the subscription price accompanying subscriptions will be held in a manner permitted by applicable Securities Legislation. Interest earned on funds held in trust accrues for the account of the Fund.

There is no direct sales charge to investors on the purchase of Class A Shares. The full amount of the purchase price paid by investors (excluding any interest earned) will be used to purchase Class A Shares, however the Fund shall receive the subscription proceeds less all sales commissions referred to above. Share certificates will not be provided unless requested by investors. Requests for share certificates must be accompanied by payment of the share certificate fee of \$100 plus G.S.T. All subscriptions for Class A Shares are subject to acceptance or rejection by the Fund and the right is reserved to reject any subscription. The Fund will not accept a purchase order placed directly by an investor. The decision to accept or reject any subscription for Class A Shares will be made promptly and in any event prior to the end of the Business Day following receipt of the subscription by the Registrar and Transfer Agent. In the event that a subscription for Class A Shares is rejected, all money received with the subscription will be returned immediately to the applicant.

Shareholders may arrange to purchase/transfer Class A Shares through their own or their Spouse's self-directed RRSP. In addition, the Fund has made arrangements with the Trustee pursuant to which shareholders may establish an RRSP with the Trustee and have the shareholder's Class A Shares automatically transferred to the shareholder's plan. Shareholders may take advantage of these arrangements by completing a declaration of trust supplied by the Trustee in addition to the subscription form. The Fund has agreed to assume the annual RRSP administration fee payable to the Trustee for RRSPs established with it. The decision to assume this annual fee on behalf of shareholders may be reversed at the sole discretion of the Fund at any time.

## **SHAREHOLDER FINANCIAL REPORTING**

Purchasers of Class A Shares will receive a trade confirmation and, in Ontario, an Ontario Tax Credit Certificate in prescribed form for each purchase. Shareholders will receive semi-annually a comprehensive statement showing the number and current value of their Class A Shares. Under the Administrative Services Agreement, the Registrar and Transfer Agent has agreed to provide certain registrar, transfer agency, fund accounting, shareholder reporting and shareholder administration services from its principal place of business in Mississauga. In addition to providing the registrar, transfer agency and other shareholder administration services, the Registrar and Transfer Agent performs similar services for other clients including other labour sponsored investment funds. Under the Administrative Services Agreement, the Registrar and Transfer Agent is entitled to an annual fee for its services which is calculated and charged monthly based on the services provided, number of Class A Shareholder accounts and other disbursements.

Audited annual and unaudited semi-annual interim financial statements and an annual report of the Fund will be sent to all shareholders as required by applicable law. Those statements will be prepared in accordance with generally accepted accounting principles and will reflect the Net Asset Value of the Fund at the date of the statements. The auditors of the Fund will report on the fair presentation of the annual financial statements in accordance with generally accepted accounting principles.

## **PROXY VOTING GUIDELINES AND POLICIES**

The Fund delegates proxy voting to the Investment Advisor as part of the Investment Advisor's general management of the Fund's assets, subject to oversight by the Manager.

As part of its investment advice and services provided to the Fund, the Investment Advisor votes the proxies associated with the Fund's investments in a manner which it believes to be in the best interests of the Fund as follows. Because a decision to invest in an investee company is generally an endorsement of management of the investee company, the Investment Advisor will generally vote the Fund's shares with management on routine matters, provided however, that the matter meets the corporate governance requirements applicable to that investee company. On non-routine matters, including those business issues specific to the investee company or those raised by shareholders of the investee company, the Fund's shares will be voted on a case by case basis, in a manner which the Investment Advisor believes is in the best interests of the Fund having regard to the information available to it.

From time to time, apparent conflicts of interest may arise with respect to the exercise of voting rights of the Fund such as situations where employees and officers of the Investment Advisor serve as directors of such an investee company. In all situations of conflict or apparent conflict, the Investment Advisor will only exercise voting rights of the Fund uninfluenced by considerations other than the best interests of the Fund. In other words, the Investment Advisor will vote the Fund's shares solely in the capacity as a representative of the Fund and not in any other legal capacity.

The Fund will prepare a proxy voting record on an annual basis for the period ending on June 30 of such year. The Fund will promptly send the most recent copy of its proxy voting policies and procedures and proxy voting record, without charge, to any shareholder upon a request made by the shareholder after August 31 in a given year.

#### **AUDITORS, REGISTRAR, TRANSFER AGENT, TRUSTEE AND CUSTODIAN**

The auditors of the Fund are PricewaterhouseCoopers LLP.

Citigroup Fund Services Canada Inc. will act as the Registrar and Transfer Agent for the Class A Shares and shall keep share records relating to the Fund in Mississauga, Ontario. See "Shareholder Financial Reporting". A Canadian chartered bank will act as trustee for RRSPs established by investors. See "Subscription".

CIBC Mellon Global Securities Services Company (and certain of its affiliates) has been retained by the Fund as Custodian to hold the Investment Portfolio and Reserve Portfolio pursuant to the Custodial Services Agreement dated as of December 22, 2003 (the "Custodian Agreement") with the Manager and the Fund. The address of the Custodian is 320 Bay Street, Toronto, Ontario M5H 4A6.

#### **INVESTMENT PORTFOLIO**

The table below indicates the cost of all securities purchased by the Fund during the fiscal year ended August 31, 2005.

<b>Short-Term Investments</b>	<b>Other Securities</b>	<b>Total</b>
\$31,778,294	\$5,084,414	\$36,862,708

The total cost of all securities held by the Fund on August 31, 2005 was \$7,500,919.

#### **LEGAL MATTERS AND LEGAL PROCEEDINGS**

Certain legal matters in connection with this offering will be passed upon on behalf of the Fund by McMillan Binch Mendelsohn LLP.

There are no legal proceedings material to the Fund to which the Fund is a party or to which any of its property is subject and no such proceedings are known to be contemplated.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Excluding their involvement in the material contracts disclosed herein, none of the Manager, the directors or senior officers of the Fund or the insiders of the Manager or the Fund and no person or company associated or affiliated with any of the foregoing persons has had any material interest, direct or indirect, in any transaction which occurred during the last three years prior to the date hereof or is anticipated to occur which materially affected or is expected to materially affect the Fund. The Manager is entitled to the management fee and Performance Bonus described herein, and the Investment Advisor is entitled to the advisory fee and Performance Bonus described herein. The Investment Advisor is a wholly-owned subsidiary of B.E.S.T. Investment Counsel Limited. John M.A. Richardson, the Chief Executive Officer of the Fund, is a director and

officer of each of the Manager and B.E.S.T. Investment Counsel Limited. Mr. Richardson indirectly controls the Manager and B.E.S.T. Investment Counsel Limited. See “Material Contracts”, “The Manager – Conflicts of Interest”, “The Investment Advisor – Conflicts of Interest” and “The Private Equity Specialist – Conflicts of Interest”.

### **MATERIAL CONTRACTS**

The Fund has entered into the following contracts which are material to investors:

- (a) the Sponsor Agreement referred to under “The Sponsors”;
- (b) the Administrative Services Agreement referred to under “Shareholder Financial Reporting”;
- (c) the Management Agreement referred to under “The Manager – Management Agreement”;
- (d) the Investment Advisor Agreement referred to under “The Investment Advisor – Investment Advisor Agreement”;
- (e) the Private Equity Specialist Agreement referred to under “The Private Equity Specialist – The Private Equity Specialist Agreement”; and
- (f) the Custodian Agreement referred to under “Auditors, Registrar, Transfer Agent, Trustee and Custodian”.

Copies of the foregoing contracts may be inspected during regular business hours at the principal place of business of the Fund in Toronto during the course of the distribution of Class A Shares.

### **PURCHASERS’ STATUTORY RIGHTS**

Securities legislation in certain of the provinces provides purchasers with the right to withdraw from an agreement to purchase mutual fund securities within two business days after receipt of a prospectus or within forty-eight hours after the receipt of a confirmation of a purchase of such securities. In several of the provinces, securities legislation further provides a purchaser with the remedy of rescission or damages if the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser. Such remedy must be exercised by the purchaser within the time limit prescribed by the securities legislation of the province in which the purchaser resided. The purchaser should refer to the applicable provisions of the securities legislation of the province for particulars of these rights or should consult with a legal adviser.

## **AUDITORS' CONSENT**

We have read the Prospectus of B.E.S.T. Total Return Fund Inc. (the "Fund") dated December 22, 2005 relating to the sale and issue of Class A Shares. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report, dated October 17, 2005 to the shareholders of the Fund on the statements of net assets as at August 31, 2005 and 2004, the statements of operations, changes in net assets and cash flows for the year ended August 31, 2005 and the period from December 23, 2003 to August 31, 2004 and the statement of investment portfolio as at August 31, 2005.

(Signed) PricewaterhouseCoopers LLP  
Chartered Accountants

Toronto, Ontario  
December 22, 2005

**B.E.S.T. Total Return Fund Inc.**  
(formerly Roynat Canadian Diversified Fund Inc.)

Financial Statements  
**August 31, 2005 and 2004**

October 17, 2005

## **Auditors' Report**

### **To the Shareholders of B.E.S.T. Total Return Fund Inc.**

We have audited the statement of investment portfolio of **B.E.S.T. Total Return Fund Inc.** (the "Fund") as at August 31, 2005, the statements of net assets as at August 31, 2005 and 2004 and the statements of operations, changes in net assets and cash flows for the year ended August 31, 2005 and the period from December 23, 2003 (commencement of operations) to August 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2005 and 2004 and the results of its operations, the changes in its net assets and its cash flows for the year ended August 31, 2005 and the period from December 23, 2003 (commencement of operations) to August 31, 2004 in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

# B.E.S.T. Total Return Fund Inc.

## Statement of Investment Portfolio

As at August 31, 2005

Par value \$	Issuer	Maturity date	Cost \$	Market value \$
<b>Short-term investments (27.80%)*</b>				
<b>Commercial paper</b>				
1,000,000	General Electric Capital Corporation	September 26, 2005	998,109	998,109
1,001,000	Franchise Trust	October 5, 2005	998,396	998,396
<b>Total short-term investments</b>			<u>1,996,505</u>	<u>1,996,505</u>
<b>Fixed-term investments (18.00%)*</b>				
300,000	Farm Credit Corporation, 7.0%	August 5, 2015	300,000	295,950
1,000,000	Royal Bank of Canada, 4.0%	October 6, 2010	1,000,000	1,000,300
<b>Total fixed-term investments</b>			<u>1,300,000</u>	<u>1,296,250</u>
Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost \$	Market value \$
<b>Venture investments - expansion stage (53.70%)*</b>				
<b>Industrial and financial (36.86% of total venture investments)</b>				
Wellington Polymer Technology Inc.				
435,894	2068051 Ontario Inc., common shares		481,981	
435,894	2070452 Ontario Inc., common shares		21,022	
86,414	2068051 Ontario, 8.0%, convertible debenture	May 17, 2010	86,414	
236,470	2068051 Ontario Inc., 8.0%, convertible debenture	May 17, 2010	236,470	
318,182	Agile Systems Inc., Class A-1 voting, convertible, preferred shares		318,182	
Arxx Building Products Ltd.				
420,000	10%, promissory note	June 30, 2007	420,000	
420	Rights	February 28, 2007	-	
200,000	Grey Horse Capital Ltd., 10.5%, convertible debenture	December 15, 2010	200,000	
<b>Total industrial and financial</b>			<u>1,764,069</u>	<u>1,424,438</u>



## B.E.S.T. Total Return Fund Inc.

Statement of Investment Portfolio ...continued

As at August 31, 2005

Par value/ number of shares	Investee companies	Maturity date	Cost \$	Market value \$
	<b>Technology (63.14% of total venture investments)</b>			
1,010,101	AssetMetrix Inc., Series A, preferred shares		700,000	
500,000	Combat Networks Inc., 7.5%, debenture	April 15, 2010	500,000	
	T-Base Communications Inc.			
750,000	11.5%, debenture	April 15, 2010	750,000	
277,500	Common shares		-	
173,137	Series A warrants		-	
173,137	Series B warrants		-	
890,561	VNRAND Inc., Series D, exchangeable shares		490,345	
	<b>Total technology</b>		<u>2,440,345</u>	<u>2,440,345</u>
	<b>Total venture investments</b>		<u>4,204,414</u>	<u>3,864,783</u>
	<b>Total investments (99.50%)</b>		<u>7,500,919</u>	<u>7,157,538</u>
	<b>Other net assets (0.50%)*</b>		<u>36,892</u>	<u>35,247</u>
	<b>Total net assets (100.00%)*</b>		<u>7,537,811</u>	<u>7,192,785</u>

\* Percentages shown relate investments at market value to total net assets.

The accompanying notes are an integral part of these financial statements.

# **B.E.S.T. Total Return Fund Inc.**

## **Statements of Net Assets**

**As at August 31, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<b>Investments</b> - at fair value (cost - \$7,500,919; 2004 - \$7,293,921)	7,157,538	7,298,059
<b>Cash</b>	89,100	76,453
<b>Accrued interest and other receivables</b>	23,775	28,470
	<u>7,270,413</u>	<u>7,402,982</u>
<b>Liabilities</b>		
<b>Accounts payable and accrued liabilities</b>	77,628	24,783
<b>Redemptions payable</b>	-	2,929
	<u>77,628</u>	<u>27,712</u>
<b>Net Assets Representing Shareholders' Equity</b>	<u>7,192,785</u>	<u>7,375,270</u>
<b>Net asset value per class</b>		
Class A shares	3,202,587	2,492,075
Class B shares	10	10
Class C shares	3,990,188	4,883,185
	<u>7,192,785</u>	<u>7,375,270</u>
<b>Number of shares outstanding</b> (note 3)		
Class A shares	352,328	255,169
Class B shares	1	1
Class C shares	439,003	500,000
	<u>791,332</u>	<u>755,170</u>
<b>Net asset value per share</b>		
Class A shares	9.09	9.77
Class B shares	10.00	10.00
Class C shares	9.09	9.77

### **Approved by the Board of Directors**

**(signed) Charles B. Loewen** Director

**(signed) David A. Copeland** Director

The accompanying notes are an integral part of these financial statements.

# B.E.S.T. Total Return Fund Inc.

## Statements of Operations

	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>Income</b>		
Interest and other	257,013	82,165
<b>Expenses</b>		
Directors' fees and expenses	75,924	96,634
Transfer agent, registrar and administrative fees	66,522	27,369
Legal fees	62,216	3,313
Advisory fees	59,843	24,109
Management fees	45,633	17,832
Selling costs	33,192	5,941
Audit fees	27,921	10,000
Sponsors' fees	6,229	2,504
Custodian fees	5,505	2,483
Shareholders' reporting costs	4,047	852
Capital taxes	1,940	-
	388,972	191,037
<b>Expenses waived</b>	-	(87,319)
	388,972	103,718
<b>Net investment loss for the period</b>	(131,959)	(21,553)
<b>Unrealized (depreciation) appreciation on investments</b>		
Change in unrealized (depreciation) appreciation on investments	(347,519)	4,138
<b>Decrease in net assets from operations for the period</b>	(479,478)	(17,415)
<b>(Decrease) increase in net assets from operations per class</b>		
Class A share	(180,229)	99,400
Class C share	(299,249)	(116,815)
	(479,478)	(17,415)
<b>Earnings (losses) per share (note 4)</b>		
Class A share	(0.58)	0.52
Class C share	(0.63)	(0.31)

The accompanying notes are an integral part of these financial statements.

# B.E.S.T. Total Return Fund Inc.

## Statements of Changes in Net Assets

	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>Net assets - Beginning of period</b>		
Class A	2,492,075	-
Class B	10	-
Class C	4,883,185	-
	<u>7,375,270</u>	<u>-</u>
<b>Increase (decrease) in net assets from operations</b>		
Class A	(180,229)	99,400
Class C	(299,249)	(116,815)
	<u>(479,478)</u>	<u>(17,415)</u>
<b>Capital transactions</b>		
Proceeds from issue		
Class A	975,955	2,548,515
Class B	-	10
Class C	-	5,000,000
Commission paid to agents on distribution of Class A shares	(57,828)	(152,911)
Payments on redemption		
Class A	(28,611)	(3,000)
Class C	(609,970)	-
Surplus of stated capital over amounts paid on Class A shares redeemed	1,225	71
Surplus of stated capital over amounts paid on Class C shares redeemed	16,222	-
	<u>296,993</u>	<u>7,392,685</u>
<b>Increase (decrease) in net assets</b>		
Class A	710,512	2,492,075
Class B	-	10
Class C	(892,997)	4,883,185
	<u>(182,485)</u>	<u>7,375,270</u>
<b>Net assets - End of period</b>		
Class A	3,202,587	2,492,075
Class B	10	10
Class C	3,990,188	4,883,185
	<u>7,192,785</u>	<u>7,375,270</u>

The accompanying notes are an integral part of these financial statements.

# B.E.S.T. Total Return Fund Inc.

## Statements of Cash Flows

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	Year ended August 31, 2005 \$	Period from December 23, 2003 (commencement of operations) to August 31, 2004 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net investment loss for the period	(131,959)	(21,553)
Net change in non-cash balances related to operations	54,611	(758)
	<u>(77,348)</u>	<u>(22,311)</u>
<b>Investing activities</b>		
Proceeds from disposal of short-term investments	35,655,710	28,339,449
Proceeds from disposal of fixed-term investments	1,000,000	-
Purchase of short-term investments	(31,778,294)	(34,213,370)
Purchase of fixed-term investments	(1,300,000)	(1,000,000)
Purchase of venture investments	(3,784,414)	(420,000)
	<u>(206,998)</u>	<u>(7,293,921)</u>
<b>Financing activities</b>		
Proceeds from issue of Class A shares	975,955	2,548,515
Proceeds from issue of Class B shares	-	10
Proceeds from issue of Class C shares	-	5,000,000
Amounts paid for Class A shares redeemed	(27,386)	(2,929)
Amounts paid for Class C shares redeemed	(593,748)	-
Commissions paid to agents on distribution of shares	(57,828)	(152,911)
	<u>296,993</u>	<u>7,392,685</u>
<b>Increase in cash during the period</b>	12,647	76,453
<b>Cash - Beginning of period</b>	76,453	-
<b>Cash - End of period</b>	<u>89,100</u>	<u>76,453</u>

The accompanying notes are an integral part of these financial statements.

# **B.E.S.T. Total Return Fund Inc.**

## **Notes to Financial Statements**

**August 31, 2005 and 2004**

---

### **1 Fund status and operations**

B.E.S.T. Total Return Fund Inc. (the "Fund") was incorporated under the laws of Canada by articles of incorporation dated October 31, 2003.

The Fund is registered as a Labour Sponsored Venture Capital Corporation under the Income Tax Act (Canada) and as a Labour Sponsored Investment Fund Corporation under the Community Small Business Investment Funds Act (Ontario) (the "CSBIF Act"), as amended.

The Fund makes investments in eligible Canadian businesses as defined in the Income Tax Act (Canada) and the CSBIF Act.

The Fund is sponsored jointly by the Christian Labour Association of Canada ("CLAC"), the Society of Energy Professionals and the International Federation of Professional and Technical Engineers - Local 164 (the "Sponsors"). CLAC holds all of the issued and outstanding Class B shares.

The Ontario Government announced on August 29, 2005 that it would end its involvement in the Labour Sponsored Investment Fund ("LSIF") tax credit program by harmonizing certain requirements to help funds move to a federal government sponsored LSIF program. The province will phase out the 15% tax credit by the end of the 2010 taxation year.

### **2 Summary of significant accounting policies**

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by B.E.S.T. Capital Management Ltd. (the "Manager") that may affect the reported amounts of assets, liabilities, income and expenses during the period reported. Actual results may differ from those estimates.

The significant accounting policies are as follows:

#### **Non-venture investments**

Short-term investments are valued at cost, which together with accrued interest approximates market value.

Bonds are valued based on the quoted market prices. The difference between the market values and average cost of the bonds is recorded as unrealized (depreciation) appreciation of investments.

Purchases and sales of marketable securities are recorded on a trade date basis.

#### **Venture investments**

Venture investments having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on the quoted market prices.

(1)

# **B.E.S.T. Total Return Fund Inc.**

## **Notes to Financial Statements**

**August 31, 2005 and 2004**

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Investments in securities not having quoted a market value or in restricted securities are recorded at estimated fair market value. Estimated fair market value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly fashion over a reasonable period of time. Details regarding the Fund's valuation methodology are included in its annual prospectus.

PricewaterhouseCoopers LLP ("PwC") are the Fund's independent auditors. As part of their audit of the August 31, 2005 financial statements, PwC performed certain procedures on the value of the Fund's venture investment portfolio as at August 31, 2005. The PwC personnel responsible for performing the procedures are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. They have no present or prospective financial interest in the securities of the Fund and the fees to be received by PwC are not contingent on the conclusions reached.

The procedures performed do not constitute an independent valuation (i.e., a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a "valuation service" as defined in The Canadian Institute of Chartered Accountants' independence requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation and regulation, to determine the value of the Fund's assets, the net asset value of the Fund and the Class A, Class B and Class C shares of the Fund.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

### **Income recognition**

Interest and other income is recorded on an accrual basis.

### **Earnings (losses) per share**

Earnings (losses) per share from operations are disclosed in the statements of operations and represent for each class of shares, the increase or decrease in net assets from operations for the period attributable to the class divided by the average number of shares of the class outstanding during the period.

## **3 Share capital**

The following is a description of the authorized and issued share capital of the Fund:

### **Authorized**

Unlimited Class A shares, issuable in series, discretionary dividend entitlement, voting, restrictions on redemption, entitled to elect two directors

(2)

## B.E.S.T. Total Return Fund Inc.

### Notes to Financial Statements

August 31, 2005 and 2004

Unlimited Class B shares issuable only to an eligible labour body, as defined in the Income Tax Act (Canada), and an employee organization, as defined in the CSBIF Act that represents employees in more than one province, voting, restrictions on transfer, entitled to elect seven directors

Unlimited Class C shares, issuable only to the Private Equity Specialist (as defined in note 5) or its affiliates, discretionary dividend entitlement, restricted redemption rights, non-voting

#### Redemption of Class A shares

A shareholder may redeem all or part of the Class A shares held at the net asset value per share subject to certain restrictions. In any fiscal year, the Fund is not required to redeem Class A shares having an aggregate redemption price exceeding 20% of the net asset value of the Fund as at the last day of the preceding fiscal year. If the Fund does not redeem Class A shares in the fiscal year requested, it will redeem those shares in the following fiscal year before it redeems any other Class A shares that it has been requested to redeem.

If the Fund is requested to redeem Class A shares before the eighth anniversary of their issue, an early redemption fee may be charged to investors.

#### Redemption of Class C shares

A shareholder may redeem all or part of the Class C shares held at the net asset value per share on March 2 of any year, based on the amount of capital raised from the sale of Class A shares. Redemptions are subject to certain restrictions and the Fund is entitled to suspend the right to redeem Class C shares in order to ensure that the Fund may maintain its investment pacing requirements or satisfy its other obligations.

#### Issued for cash

	2005		2004	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A shares				
Balance - Beginning of period	255,169	2,392,604	-	-
Issued during the period	100,050	975,955	255,469	2,548,515
Redeemed during the period	(2,891)	(28,611)	(300)	(3,000)
Commission to agents on distribution of shares	-	(57,828)	-	(152,911)
Balance - End of period	352,328	3,282,120	255,169	2,392,604
Class B shares				
Balance - Beginning of period	1	10	-	-
Issued during the period	-	-	1	10
Balance - End of period	1	10	1	10

(3)



## B.E.S.T. Total Return Fund Inc.

### Notes to Financial Statements

August 31, 2005 and 2004

	2005		2004	
	Number of shares	Amount \$	Number of shares	Amount \$
Class C shares				
Balance - Beginning of period	500,000	5,000,000	-	-
Issued during the period	-	-	500,000	5,000,000
Redeemed during the period	(60,997)	(609,970)	-	-
Balance - End of period	439,003	4,390,030	500,000	5,000,000

The Fund pays commissions of 6.00% to registered dealers selling Class A shares. These commissions are charged to share capital as a share issuance cost. In addition, the Fund pays these dealers a service fee equal to 0.50% annually of the aggregate net asset value attributable to Class A shares held by its clients.

#### 4 Earnings (losses) per share

In accordance with the Fund's articles of incorporation, the commissions paid to registered dealers selling Class A shares are paid by the Fund. These commissions are reflected in the statements of changes in net assets as a share issue cost. The articles of incorporation also specify that the net asset value for both Class A and Class C shares are computed by dividing the total net assets of the Fund by the total number of outstanding Class A and Class C shares. As such, the allocation of decrease in net assets from operations to Class C shares has been increased to incorporate the Class C share of the commissions paid to agents on distribution of Class A shares.

#### 5 Operating arrangements

The Fund has entered into an agreement with the Manager to engage and supervise service providers to the Fund. The Fund will pay the Manager an annual fee for the performance of such administrative services of 1.50% of the aggregate net asset value attributable to the Class A shares on the first \$100 million of the aggregate net asset value attributable to the Class A shares and 1.25% of the aggregate net asset value attributable to the Class A shares in excess of \$100 million.

The Fund and the Manager entered into an agreement (the "Investment Advisor Agreement") with Absolute Private Counsel Limited (the "Investment Advisor") to provide investment advisory services to the Fund. The Fund will pay the Investment Advisor an annual fee equal to 2.00% of the aggregate net asset value attributable to the Class A shares on the first \$100 million of the net asset value attributable to the Class A shares and 1.75% of the aggregate net asset value attributable to the Class A shares on the aggregate net asset value attributable to the Class A shares in excess of \$100 million.

The Investment Advisor and the Fund entered into an agreement (the "Private Equity Specialist Agreement") with Roynat Management Inc. (the "Private Equity Specialist") and Roynat Capital Inc. to assist in developing and refining the investment objectives and strategy and to assist the Fund with the implementation of that strategy. The Investment Advisor shall bear the costs of the services provided under the Private Equity Specialist Agreement.

(4)

# **B.E.S.T. Total Return Fund Inc.**

## **Notes to Financial Statements**

**August 31, 2005 and 2004**

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The Fund must pay to each of the Sponsors an annual fee equal to 0.07% of the aggregate net asset value per share attributable to the Class A shares.

The Manager and the Private Equity Specialist are entitled to a performance bonus based on gains and income from each eligible investment subject to certain threshold returns on the individual eligible investment and the portfolio of investments. Any resulting performance bonus will be paid and allocated between the Manager and the Private Equity Specialist.

On August 23, 2004, the Fund announced that the Investment Advisor would begin to source and manage venture capital investments for the Fund. Pursuant to an Amending Agreement to the Investment Advisor Agreement dated August 18, 2004, the Investment Advisor is entitled to the first \$75,000 of the fees paid under the Investment Advisor Agreement with the remaining fees and performance bonus, if any, split evenly with the Private Equity Specialist.

### **6 Income taxes**

Under the Income Tax Act (Canada), no income taxes are generally payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. A portion of the income taxes payable on net interest income earned by the Fund is also refundable on payment or deemed payment of taxable dividends to the shareholders.

The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A shares. If and to the extent that the Fund increases the paid-up capital of the Class A shares, the holders of the shares will be deemed to have received a dividend and the adjusted cost base of the holder's shares will be increased by the amount of the deemed dividend.

The Income Tax Act (Canada) and the CSBIF Act set minimum levels of investment for the Fund. If the minimum level of investments is not met, the Fund will be subject to defined taxes and penalties.

As at August 31, 2005, the Fund had non-capital losses available for carry-forward of \$157,000. No benefit has been recorded in these financial statements in respect of these unused losses.

### **7 Comparative figures**

Certain of the prior period's comparative figures have been reclassified to conform to the current year's financial statement presentation.

## FUND'S CERTIFICATE

Dated: December 22, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

(Signed) JOHN M.A. RICHARDSON  
Chief Executive Officer

(Signed) THOMAS W.R. LUNAN  
Chief Financial Officer

On behalf of the Board of Directors of B.E.S.T. Total Return Fund Inc.

(Signed) CHARLES B. LOEWEN  
Director

(Signed) DAVID A. COPELAND  
Director

## PROMOTERS' CERTIFICATE

Dated: December 22, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

**CLAC B.E.S.T. SPONSOR INC.**

**6154417 CANADA INC.**

(Signed) EDWARD J. BOSVELD  
Director

(Signed) ANDREW L. MÜLLER  
Director

**6154409 CANADA INC.**

(Signed) WILLIAM D. DUNCAN  
President and Director