

**LAWRENCE ENTERPRISE FUND INC.**

**(Class A Shares, Series I, II, III, IV and V)**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED  
AUGUST 31, 2009**

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## SELECTED DEFINITIONS

“arm’s length” has the meaning ascribed thereto in section 251(1) of the Federal Act;

“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 TSX or the Fund Administrator’s principal office in Toronto is closed for business;

“Class A Shareholders” means the holders of Class A Shares of the Fund;

“Class A Shares” means the Class A Shares of the Fund;

“CRA” means the Canada Revenue Agency;

“Custodian” means State Street Trust Company Canada in its capacity as custodian of portfolio securities;

“eligible business” means an eligible business as defined in Part III of the Ontario Act, some of the more salient requirements of which are described under “Investment Restrictions”;

“eligible investment” means an investment which is an “eligible investment” under Part III the Ontario Act some of the more salient requirements of which are described under “Investment Restrictions”;

“eligible investor” means an individual who is a resident in Ontario and the original registered holder of Class A Shares (excluding a broker or dealer) directly or through a qualifying trust where the annuitant under the qualifying trust is the individual or his or her spouse or common-law partner;

“Federal Act” means the *Income Tax Act* (Canada), as amended;

“Federal Tax Credit” means the 15% federal labour-sponsored fund tax credit under the Federal Act in respect of an original acquisition of a Class A Share;

“Fund” means the Lawrence Enterprise Fund Inc.;

“Fund Administrator” means Felcom Data Services Inc.;

“GAAP” means Canadian generally accepted accounting principles;

“Information Return” means a tax information return referred to in paragraph 204.81(6)(c) of the Federal Act issued to an eligible investor who has purchased a Class A Share in the capital of a registered labour-sponsored venture capital corporation;

“IRC” means Independent Review Committee established pursuant to National Instrument 81-107 – *Independent Review Committee for Investment Funds*;

“LSIF Corporation” means a labour sponsored investment fund corporation registered under Part III of the Ontario Act;

“Manager” means Lawrence Asset Management Inc.;

“net asset value per Class A Share” is determined, for the Fund, for the Class A Shares by subtracting the aggregate amount of liabilities allocated to the Class A Shares of the Fund from the value of the assets attributable to the Class A Shares of the Fund and dividing the resulting amount by the number of Class A Shares of the Fund which are outstanding at the date such value is determined;

“Ontario Act” means the *Community Small Business Investment Funds Act* (Ontario), as amended;

“Ontario Tax Act” means the *Income Tax Act* (Ontario), as amended, with respect to the 2008 and prior taxation years and the *Taxation Act 2007* (Ontario) with respect to the 2009 and subsequent taxation years;

“Ontario Tax Credit” means the Ontario Credit against Ontario tax otherwise payable, that is available under the Ontario Tax Act to an individual resident in Ontario who has subscribed and paid for Class A Shares (or is the annuitant of a qualifying trust that has subscribed and paid for Class A Shares);

“Ontario Tax Credit Certificate” means the certificate issued, pursuant to subsection 25(3) of the Ontario Act, to an eligible investor who has purchased a Class A Share in the capital of an LSIF Corporation directly or through a qualifying trust;

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

“qualifying trust” for an individual (a natural person) means a trust that is governed by a RRSP where: (a) the plan is not a spousal plan and the individual is the annuitant; or (b) the plan is a spousal plan in relation to the individual or the spouse or common-law partner of the individual and the individual or the spouse or common-law partner of the individual is the annuitant and the individual and no other person claims a deduction of the tax credit under the Federal Act;

“RRIF” means a registered retirement income fund, as defined in subsection 146.3(1) of the Federal Act;

“RRSP” means a registered retirement savings plan, as defined in subsection 146(1) of the Federal Act;

“reserves” has the meaning ascribed thereto in the Ontario Act and includes 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 designated Canadian stock exchanges, guaranteed investment certificates issued by Canadian trust companies and qualified investment contracts and deposits or guaranteed investment certificates issued by qualified institutions and shares listed on a stock exchange designated for purposes of the definition of “qualified investment” in section 204 of the Federal Act;

“Securities Act” means the *Securities Act* (Ontario), as amended, together with all regulations and rules thereunder;

“Sponsor” means Canadian Air Traffic Controllers Association, CAW Local 5454;

“spousal plan” means an RRSP that is a spousal plan or common-law partner plan, as defined in subsection 146(1) of the Federal Act;

“Tax Credit Certificate” means the certificate issued by the Fund on behalf of the Minister of Revenue (Ontario) pursuant to subsection 25(5) of the Ontario Act to an eligible investor who has purchased Class A Shares in the capital of an LSIF Corporation directly or through a qualifying trust;

“TSX” means the Toronto Stock Exchange;

“valuation date” means a date on which the net asset value of the Fund is determined, which will occur at least weekly; and

“venture portfolio” means at any point in time, the investments of the Fund other than reserves made with capital raised from the sale of Class A Shares.

## **FORWARD-LOOKING STATEMENTS**

*This annual information form contains forward-looking statements about matters that involve risks and uncertainties, such as statements of the Fund’s plans, objectives, expectations and intentions, as well as financial*

trends. The discussion also includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document.

*It is important to note that:*

- *There is no assurance that any forward-looking statement will materialize.*
- *The results or events predicted herein may differ from actual results or events.*
- *Unless otherwise indicated, forward-looking statements describe expectations as of August 31, 2009.*
- *The Fund disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*Factors that could cause the Fund's actual results to differ materially from the forward-looking statements contained herein include, but are not limited to: numerous external and internal business and operating risks having an adverse effect on the results of operations of the investee companies and adverse tax or other regulatory decisions being made against the Fund, including decisions made relating to the eligible businesses. Additional information concerning risks and uncertainties affecting the Fund's financial results is set forth below in "Risk Factors", as well as elsewhere herein.*

## **NAME, FORMATION AND HISTORY OF THE FUND**

This is the annual information form applicable to the Class A Shares of the Lawrence Enterprise Fund Inc. (the "Fund").

The Fund is a corporation formed under the *Canada Business Corporations Act* by articles of incorporation dated October 31, 2001. The Fund is registered as an LSIF Corporation under the Ontario Act and is a prescribed LSVCC under the Federal Act.

The head and registered office of the Fund is located at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4. The manager of the Fund is Lawrence Asset Management Inc. (the "Manager"). The sponsor of the Fund is the Canadian Air Traffic Controllers Association, CAW Local 5454 (the "Sponsor").

## **INVESTMENT RESTRICTIONS**

### **General**

The Fund is subject to certain restrictions and practices contained in securities legislation, including National Instrument 81-102 – *Mutual Funds* of the Canadian Securities Administrators ("NI 81-102"), which are designed in part to ensure that the investments of the Fund are diversified and to ensure the proper administration of the Fund.

### **Statutory Investment Restrictions**

Although the Fund is a mutual fund in Ontario, 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 is subject to investment restrictions contained in the Ontario Act. Under the Ontario Act, an investment of the Fund is an eligible investment if it is an investment in shares or is a qualifying debt obligation of an "eligible business". Generally, an "eligible business" for the purposes of the Ontario Act is 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. In addition, the business must, at the time the investment is made, pay 50% or more of its wages and salaries to employees whose ordinary place of employment is a permanent establishment of the eligible business 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. However, an investee company may grow beyond these limits without affecting its status as an eligible business and investments may be maintained and additional investments may be made by the Fund in that investee company, provided that at the time the Fund originally invested in the investee company, it was an eligible investment and the aggregate of all investments in a business and any related business does not exceed \$20 million or, if prescribed, the prescribed amount. An investment may not be used by the investee corporation or partnership to, among other things, carry on business or re-invest outside Canada.

The Ontario Act permits the Fund to hold qualifying debt obligations only where the debt obligation, if secured, is secured, (i) by a security interest in one or more assets of the entity and the terms of the debt obligation or any agreement relating to the debt obligation do not prevent the entity from dealing with the assets in the ordinary course of business before any default on the debt obligation, (ii) by a guarantee, or (iii) by both a security interest described in (i) and a guarantee, and except in few instances, does not entitle the holder of the debt obligation to rank ahead of any other secured creditor of the issuer in realizing on the same security. The Ontario Act permits the Fund to hold only the following investments: (i) specified securities of eligible businesses; (ii) assets that were specified securities of eligible businesses when acquired by the Fund; and (iii) specified reserves. On December 31 of each year, the Fund is required to hold eligible investments that have an aggregate cost of not less than 60% of the capital raised on the issue of that Fund’s Class A Shares that remain outstanding at the end of the year and were issued before the 61st day of that year (excluding Class A Shares that have been outstanding for at least 94 months) less 20% of the capital raised on Class A Shares of the Fund issued during the period beginning on the 61st day of the year preceding the applicable year and ending on the 60th day of the applicable year that are outstanding at the end of that year. This amount is further adjusted to reflect the amount of net realized losses, if any, realizations within the prior 24 months and certain taxes and penalty amounts incurred for the year.

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.

### **Compliance with Statutory Investment Restrictions**

The Fund will be subject to penalties and may have its registration revoked if the Fund does not comply with the investment requirements set out in the Ontario Act. To date, the Fund has materially complied with all of the foregoing investment requirements and expects to remain in compliance with these requirements. See “Income Tax Considerations”.

### **Voluntary Investment Restrictions and Policies**

In addition to the investment restrictions described above, the board of directors of the Fund will from time to time establish certain other investment policies which apply to Class A Shares. The board of directors of the Fund 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 Ontario Act. This is unlike the investment objective of the Fund which requires shareholder approval to be changed. See “Description of Securities of the Fund – Approval of Shareholders for Certain Changes”.

### **Investment Restrictions**

- The Fund will not make loans except in the ordinary course of investing its funds.
- The Fund will not make uncovered short sales of securities or purchase securities on margin.
- The Fund will not act as an underwriter of securities.

- The Fund will not buy securities from or sell securities to the directors or officers of the Fund or Manager unless a third party invests in such securities at the same time and on the same financial terms, other than Class A Shares of the Fund.
- The Fund will not purchase uncovered puts, calls or combinations thereof 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 borrow money except in accordance with NI 81-102 when such borrowings are a temporary measure to accommodate redemption requests where the outstanding amount of all borrowings does not exceed 5% of the net assets of the Fund at the time of the borrowing.

### **Investment Policies**

Unlike ordinary mutual funds, the Fund may:

- Invest in more than 10% of the securities of any one issuer.
- Invest more than 10% of the net assets of the Fund in illiquid assets, as defined in NI 81-102.
- Lend money to eligible businesses by investing in a qualifying debt obligation, as contemplated by the Ontario Act.
- Invest in securities which may require the Fund to make additional contributions, provided such investments will be made only if the amount and the timing of the investment and the specific performance targets triggering the investment are established and fixed at the date of the original investment.
- Provide guarantees as funding alternatives for eligible businesses.

### **Eligibility for Investment**

So long as the Fund is registered as a labour sponsored investment fund corporation under the Ontario Act and a prescribed labour-sponsored venture capital corporation under the Federal Act, Class A Shares of the Fund will be qualified investments for trusts governed by a RRSP and a RRIF (each a “Registered Plan”) at a particular time if: (i) the annuitant is not at that time a designated shareholder of the Fund; and (ii) it cannot reasonably be considered that any amount received in respect of the Class A Shares is on account of payment for services provided by the annuitant of the Registered Plan to the Fund or a person related to the Fund. In general, a designated shareholder is a person who is, or is related to, a person who, alone or together with non-arm’s length persons, owns directly or indirectly not less than 10% of the issued shares of any class of the capital stock of the Fund, or any other corporation related to the Fund. However, an annuitant will not be considered to be a designated shareholder if the cost to the annuitant, and persons not dealing at arm’s length with the annuitant, of shares in the Fund, or any other corporation related to the Fund, is less than \$25,000, and the annuitant deals at arm’s length with the Fund.

Alternatively, the Class A Shares will be qualified investments for such trust at any time if, (i) immediately after the time the Class A Shares were acquired by the Registered Plan, the annuitant was not a connected shareholder of the Fund; and (ii) the Registered Plan does not receive an amount in respect of the Class A Shares which may reasonably be considered to be on account 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 person related to the Fund. In general, a connected shareholder is a person who, alone or together with non-arm’s length persons, owns not less than 10% of the issued shares of any class of the capital stock of the Fund, or any other corporation related to the Fund.

However, an annuitant will not be considered to be a connected shareholder if the annuitant deals at arm's length with the Fund and the cost to the annuitant, and persons not dealing at arm's length with the annuitant, of shares in the Fund, or any other corporation related to the Fund, is less than \$25,000. See "Canadian Federal Income Tax Considerations" and "Ontario Income Tax Considerations".

A Class A Share will generally be a qualified investment for a trust governed by a tax-free savings account (a "TFSA") and a TFSA may subscribe directly for a Class A Share, provided that (i) at the time the Class A Share is acquired by the TFSA, the Fund is registered as a labour sponsored investment fund corporation under the Ontario Act (or is a registered as a labour-sponsored venture capital corporation under the Federal Tax Act) and (ii) at the time the Class A Share was acquired by the TFSA, the holder (being the individual that contributed to the TFSA) dealt at arm's length with the Fund and was not a "specified shareholder" of the Fund. A holder will generally be a specified shareholder of the Fund if the holder 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 person 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 Tax 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 upon the terms of the trust governing the TFSA. However Class A Shares cannot be transferred to a TFSA.

## **DESCRIPTION OF SECURITIES OF THE FUND**

The authorized capital of the Fund consists of an unlimited number of Class A Shares issuable in series and 25,000 unlimited number of Class B Shares issuable only to the Sponsor. Effective January 1, 2004, Series III and Series IV Class A Shares were made available for sale and Series I and II Class A Shares were no longer available for distribution. Series III and Series IV Class A Shares are no longer available for distribution. Series V Class A Shares were issued on June 20, 2006 for the acquisition of assets of the York Labour Fund and are not available for distribution.

### **Class A Shares**

The following attributes apply equally to all of the Class A Shares of the Fund:

#### *Issue*

Class A Shares may be issued to individuals ordinarily resident in Ontario and to qualifying trusts governed by RRSPs and to such other eligible investors as may be permitted by the Ontario Act.

#### *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 shares of the Fund of a different class are entitled to vote separately as a class, the holders of the Class A Shares are entitled to vote at any such meeting. Each Class A Share entitles the holder thereof to one vote per share.

#### *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.

#### *Dissolution*

On the liquidation, dissolution or winding-up of the Fund or other distribution of the assets of that Fund for the purpose of winding up its affairs ("dissolution"), the holders of Class A Shares will be entitled to all of the Class A Share assets of the Fund remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the holder of the Class B Shares.

### *Dividends*

Holders of Class A Shares are entitled to receive dividends at the discretion of the board of directors.

### *Transfer*

There is no restriction on the right to a transfer of Class A Shares.

### *Redemption by Holders*

A holder of Class A Shares in respect of which an Information Return has been issued under the Federal Act or a Tax Credit Certificate has been issued under the Ontario Act may request the Fund to redeem any or all of the Class A Shares if the holder of the Class A Shares requests the Fund, in writing, to redeem them and the holder has satisfied all other conditions, if any, of the Ontario Act.

Where the Class A Shares were acquired and:

- (a) after acquiring the Class A Shares, the shareholder has become disabled or permanently unfit for work or terminally ill; or
- (b) within 60 days after the day on which the Class A Shares were issued and any Information Return and Tax Credit Certificate issued to the original purchaser in respect of such Class A Shares has been returned to the Fund; or
- (c) the shareholder acquired the Class A Shares from another person as a consequence of the death of the other person or the death of an annuitant under a trust governing a RRSP or RRIF that previously held such Class A Shares; or
- (d) the shareholder is a RRSP or RRIF and, after the shareholder acquired the Class A Share, the annuitant under the RRSP or RRIF became disabled and permanently unfit for work or became terminally ill; or
- (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 Federal Act, the Ontario Act and any other similar provincial legislation having application to the holder of the Fund and is not prohibited by any federal or provincial legislation having application to the holder of the Fund and is approved by the directors,

the Class A Shares generally may be redeemed without withholding taxes under the Federal Act and the Ontario Act. A redemption may occur at any other time if the Fund withholds taxes that are intended to recover amounts in respect of the Federal Tax Credit and the Ontario Tax Credit received in respect of the purchase of the Class A Shares.

A holder of Class A Shares in respect of which an Information Return and a Tax Credit Certificate have not been issued may request the Fund to redeem the Class A Shares at any time.

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 Class A Shares 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, if 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 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 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 net asset value per Class A Share. All redemptions will be made 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. Redemption requests must normally be received by the Fund by 4 p.m. (Eastern time) in order to be priced at the net asset value per Class A Share for that day. Redemption requests received after that time will be priced at the net asset value per Class A Share for the following business day.

In addition to deductions from the redemption price paid for Class A Shares (the "Class A Share Redemption Amount") in respect of federal and provincial tax credits, in certain circumstances, a redemption fee may be deducted from the Class A Share Redemption Amount as described below.

If the Fund is requested to redeem Class A Shares before the eighth anniversary of their issue, holders of Class A Shares so redeemed will be charged a redemption fee payable to the Fund. The redemption fee for Series I and III will be up to 10% of the original issue price of the Class A Shares calculated at 1.25% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue. The redemption fee for Series II and IV will be up to 6% of the original issue price of the Class A Shares calculated as 0.75% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue. There is no redemption fee payable on the Series V Shares. For the purpose of calculating the redemption fee, Class A Shares shall be considered to be redeemed in the order acquired. After the eighth anniversary of the date of issue there is no redemption fee for the Class A Shares.

#### *Election of Directors*

Holders of the Class A Shares of the Fund are entitled to elect two of the directors of the Fund (currently two of seven directors).

#### **Class B Shares**

The following attributes apply to the Class B Shares of the Fund:

##### *Issue*

Class B Shares may be issued only to the Sponsor.

##### *Redemption*

The Fund may redeem some, but not all, of the Class B Shares at any time for the amount equal to the paid up capital for each Class B Share. At least one Class B Share must continue be held by an employee organization (as defined in the Ontario Act) for the Fund to comply with the provisions of the Ontario Act.

##### *Dividends*

The holder of the Class B Shares is not entitled to receive dividends.

##### *Voting Rights*

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

### *Dissolution*

On dissolution, the holder of the Class B Shares is entitled to receive the then stated capital of those shares before any assets are distributed to holders of Class A Shares but after payment of all liabilities of the Fund.

### *Transfer*

The Fund is prohibited from registering or otherwise recognizing a transfer of Class B Shares by any holder thereof, unless the entity to whom such Class B Shares are to be transferred is an “eligible labour body” as defined in the Federal Act and an “employee organization” as defined in the Ontario Act, and such transfer is approved by the board of directors of the Fund.

### *Election of Directors*

The holder of the Class B Shares is entitled to nominate and elect the number of directors representing the total number of directors less the number of directors that the holders of the Class A Shares are entitled to elect (currently two of seven) which number shall be at least a majority of the directors of the Fund. The Sponsor has, pursuant to a Sponsor Agreement, agreed to elect two persons to represent the Sponsor and three persons which are to be nominated by the Manager.

### **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 where required by law a meeting of each class of shareholders of the Fund shall be convened to consider and approve 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 change of the manager of the Fund (other than to an affiliate of the Manager);
- (c) any change in the investment objective of the Fund;
- (d) any decrease in the frequency of calculating the net asset value of the Class A Shares;
- (e) subject to certain exemptions available under rules applicable to mutual funds, the commencement of the use by the Fund of permitted derivatives; or
- (f) any other matter which is required by the constating documents of the Fund, by the laws applicable to the Fund, or by any agreement that is required to be submitted to a vote of the shareholders of the Fund.

Unless a greater majority is required by the laws applicable to the Fund, the approval of the shareholders of the Fund 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 of each class of shareholders at which a quorum is present, called to consider such resolution.

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.

## **VALUATION OF INVESTMENTS**

### **Board Committees**

The board of directors of the Fund has established investment, audit and valuation committees. John Crow and Aris Kaplanis are the members of the Investment Committee. John Crow, Aris Kaplanis and Greg Myles are the members of the Audit Committee. John Crow, Aris Kaplanis and Greg Myles are the members of the Valuation Committee. All members of these Committees are independent of the Manager and Sponsor except Greg Myles. A quorum for meetings of the Board Committees will be a majority of its members. The Audit and Valuation 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 board of directors with those procedures and with applicable legislation and suggesting amendments to such procedures to the board of directors. The board of directors of the Fund has also delegated responsibility for determining the value of the Fund's assets and for considering the appropriateness of the valuation policies adopted by the Fund to the Audit and Valuation Committee. See "Calculation of Net Asset Value".

The board of directors of the Fund may establish other committees of the board and may assign to them specific duties as the board of directors determines is appropriate from time to time.

### **Audit of Financial Statements**

The annual financial statements of the Fund shall be audited by the Fund's auditors in accordance with Canadian generally accepted auditing standards. The auditors are engaged by the Fund to report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles. See "Securityholder Matters".

### **Valuation Policies and Procedures of the Fund**

The board of directors delegates to the Audit and Valuation Committee responsibility for reviewing the recommendations of the Manager for the value of the Fund's assets and for considering the appropriateness of the valuation policies adopted by the Fund, as set out below. The net asset value per series of Class A Shares of the Fund, as calculated by the Fund Administrator on instruction from the Manager, shall be reviewed by the Audit and Valuation Committee quarterly.

### **Valuation of Assets for which a Published Market Exists**

The Fund Administrator will, on each business day, calculate the valuation of the Fund's assets for which there exists a published market on the basis of quoted prices in such market as outlined under "Valuation of Investments - General Valuation Policies". The Manager will notify the Fund Administrator of any adjustments in the holdings of the Fund. The Audit and Valuation Committee will review and approve the valuation each financial quarter and will, from time to time, consider the appropriateness of the valuation policies adopted by the Fund.

Publicly listed companies held by the Fund that are subject to trading restrictions from either the exchange the security is listed on or due to an agreement entered into between the securityholders and the underwriter will be valued at a discount to market that will amortize over the life of the trading restriction.

### **Valuation of Assets for which No Published Market Exists**

For investments in eligible businesses and eligible investments for which the market is so sporadic as not to be indicative or where no published market exists, the Fund Administrator will, on each business day, calculate 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 and Valuation Committee has determined that the Fund Administrator will be guided by the principle that such investments are valued at cost unless a different fair value is independently determined by the Manager. The Manager will notify the Fund Administrator as soon as possible of any adjustments in the fair value of holdings of a Fund and of any circumstances which would necessitate an

adjustment from the current valuation equal to the cost of the investment and the Fund Administrator shall reflect the adjustment in the next valuation it performs after such notice.

The process of valuing investments for which no published market exists is based on inherent uncertainties and will be influenced by the time required to assess the impact of any particular event on value from time to time. The resulting values may differ from values that would have been used had a ready market existed for the investments.

### **General Valuation Policies**

The Audit and Valuation Committee implements, interprets and amends as necessary the General Valuation Policies to ensure the most appropriate implementation. Short-term debt instruments are valued at fair value. Listed securities that are not subject to trading restrictions 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 simple average of the bid and ask price is used. Securities traded over-the-counter are priced at the average of the latest bid and ask prices quoted by a primary dealer in such securities. Private placements of listed securities subject to a hold period are valued as described above with an appropriate discount as determined by the Manager. Securities of private companies are valued at fair value as determined by the Manager.

Investments in private companies are valued in accordance with the following criteria: (a) investments will normally be carried at cost unless (i) there is a substantial arm's length transaction which establishes a different value, or (ii) where a Portfolio Company experiences a material change in value, the valuation will be increased or decreased, as appropriate, at the time the Fund Administrator next performs a valuation after being notified by the Manager of the closing of such transaction or change, to the estimated fair value; or (b) if there is a substantial arm's length, bona fide, enforceable offer with respect to a Portfolio Company, the investment will be valued based on 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. The process of valuing investments for which no published market exists will inevitably be based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investment.

Securities and other assets for which market quotations are, in the opinion of the Manager, inaccurate, unreliable, not reflective of all available material information or not readily available are valued at their fair value, as determined by the Manager.

Should changes in Generally Accepted Accounting Principles ("GAAP") occur that would give the Fund cause to consider adjusting its Valuation Policies in order to comply with GAAP, the Manager in consultation with the Manager and the board of directors of the Fund may adjust these policies to meet the amended GAAP terms.

### **Reporting of Net Asset Value**

The Fund will make available to the financial press for publication the net asset value per Class A Share for each series on each business day.

#### *Calculation of Net Asset Value*

The net asset value of each series of a Class A Share are calculated by the Fund Administrator on each business day by subtracting the redemption value of the Class B Shares of the Fund and the aggregate amount of the liabilities allocated to the Class A Shares being valued from the aggregate of:

- (a) the value of the assets of the Fund being valued for which a published market exists on the basis of the valuation as of the relevant date;
- (b) the value of the assets of the Fund being valued for which no published market exists as determined in accordance with the general valuation policies described above; and

- (c) the value of any other assets of the Fund being valued, as determined by the Audit and Valuation Committee,

and dividing such amount by the total number of Class A Shares of each series outstanding on that date.

For the purposes of financial statement reporting, the Fund is required to calculate net assets in accordance with Canadian generally accepted accounting principles (“GAAP”). On April 1, 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. The adoption of Section 3855 results in the use of different valuation techniques for certain investments.

Canadian securities regulatory authorities had previously granted relief to investment funds from the requirement to comply with Section 3855, for the purposes of calculating and reporting of net asset value used for investor transactions. Effective September 8, 2008, amendments to National Instrument 81-106 (“NI 81-106”) came into force to address the implications of Section 3855. The amendments permit investment funds to have two different net asset values: (i) one for financial statements, which will be prepared in accordance with Canadian GAAP including Section 3855 (and referred to as “net assets”); and (ii) another for all other purposes, including unit pricing for investor transactions (referred to as “net asset value”).

In accordance with NI 81-106, disclosure of differences between net assets and net asset value of an investment fund is required for financial reporting purposes. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value used for investor transactions. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques rather than the use of valuation techniques by virtue of general practice in the investment funds industry to determine fair value.

The Fund transacts all redemptions of Class A Shares at the relevant series NAV for trading purposes, which is NAV calculated in accordance and compliance with the provisions mentioned above. See the Fund’s annual financial statements for further details.

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 satisfies this requirement by engaging Ernst & Young 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 August 31 of each year as part of Ernst & Young LLP’s audit of the Fund’s annual financial statements.

## **REDEMPTION OF SECURITIES**

### **Redemption/Redemption Price**

Subject to redemption restrictions and the withholding of any amount required to be withheld and the deduction of the redemption fees (each as described below), Class A Shares of the Fund will be redeemed at the net asset value of such series of Class A Shares as at the close of business on the day on which the Fund receives the request or on the following business day if received after 4 p.m. (Eastern time).

A holder of Class A Shares may, subject to limited exceptions, require the Fund to redeem Class A Shares at the relevant net asset value per Class A Share.

Except for redemptions specifically permitted under the Federal Act and 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 Revenue (Ontario) and if an amount equal to the lesser of the federal tax credit on such shares and the redemption price less the repayment of the Ontario tax credit is withheld from the redemption proceeds and paid to the Receiver General for Canada. Circumstances

under which Class A Shares may be redeemed during the eight year period after their issue without penalty, except as referred to under “Redemption Fee”, include, in general, if: (i) the holder has requested the Fund to redeem the Class A Shares within 60 days after the day on which the Class A Shares were issued to the original purchaser and the Information Return and Tax Credit Certificate issued to the holder in respect of such Class A Shares, or Class A Shares have been returned to the Fund; (ii) the original purchaser has died and the shares have devolved on the individual requesting redemption as a consequence or the original purchaser has become disabled and permanently unfit for work or is terminally ill; or (iii) if the Fund publicly announces that it proposes to dissolve or wind up, and if the redemption, acquisition or cancellation of the Class A Shares is part of the dissolution or wind-up of the Fund and occurs within a reasonable period of time before the Fund surrenders its registration.

For purposes of determining whether the redemption, acquisition or cancellation of a Class A Share is prior to eight years from the date of issue 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. Under the Federal Act if a Class A Share is redeemed in February or on March 1 of a calendar year and that day is no more than 31 days before the day that is eight years after the day on which the Class A Share was issued, the redemption is without penalty. See “Calculation of Net Asset Value”.

### **Redemption Fee**

**Class A Shares:** Holders of Class A Shares who request that the Fund redeem shares before the eighth anniversary of their date of issue will be charged a redemption fee payable to the third party that financed the sales commission. Series I and III will be charged an amount of up to 10% of the original issue price calculated as 1.25% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue. Series II and IV will be charged an amount of up to 6% of the original issue price calculated as 0.75% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue. Series V will not be charged a redemption fee. After the eighth anniversary of the date of issue there is no redemption fee. See “Description of Securities of the Fund”.

## **RESPONSIBILITY FOR MUTUAL FUND OPERATIONS**

### **The Fund**

The board of directors of the Fund has overall responsibility for all investments made by the Fund, including the establishment of investment policies and the implementation of appropriate procedures with respect to the investment process, subject to any responsibilities delegated to the investment committee of the board of directors or to the Manager.

For the Fund, the board of directors or the Manager is responsible for approving all investment decisions and no investment shall be made by the Fund other than on the recommendation of its Manager or the Manager.

### **Directors and Officers**

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:

<b>Name and Municipality of Residence</b>	<b>Position with the Fund</b>	<b>Principal Occupation</b>
John Crow Toronto, Ontario	Director	Corporate Director
Aris Kaplanis Toronto, Ontario	Director	President & CEO, Teranet Inc.
Greg Myles Ottawa, Ontario	Director	Treasurer, Canadian Air Traffic Controllers Association

<b>Name and Municipality of Residence</b>	<b>Position with the Fund</b>	<b>Principal Occupation</b>
Ravi Sood Toronto, Ontario	Director	President, Lawrence Asset Management Inc.
Catherine Stretch Toronto, Ontario	Director	Vice-President, Lawrence Asset Management Inc.

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

### **The Manager**

The Manager was created under the laws of the Province of Ontario on December 15, 2000.

The Fund entered into a management agreement with the Manager which agreement was effective as of December 15, 2001, as amended and restated December 15, 2003. The Manager is responsible for developing and implementing all aspects of the Fund's sales, marketing, distribution and communications strategies, developing and refining the investment strategy for the Fund. The Manager is also responsible for organizing the retention and supervision of various service providers of the Fund.

The Manager has approximately \$220 million in assets under management, other public and private pools of capital it manages or advises includes High Income Preferred Shares Corporation, AGS Energy 2007-1 LP, AGS Lawrence Resource Fund, Lawrence Income & Growth Fund, Lawrence Income Fund Inc., Long Reserve Life Resource Fund, Global Agribusiness Trust, Tax Optimized Return Oriented Securities Fund, and Lawrence Partners Fund Inc.

Under the Securities Act, the Manager is regarded as a promoter of the Fund. The Manager carries on business at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4. They can be contacted through their website [www.lawrenceasset.com](http://www.lawrenceasset.com) or by email at [info@lawrenceasset.com](mailto:info@lawrenceasset.com).

### *Officers and Directors*

The officers and directors of the Manager are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
Matthew Hoang Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Lawrence Asset Management Inc.
Andrew Bentley Toronto, Ontario	Vice-President and Director	Vice President, Lawrence Asset Management Inc.
Catherine Stretch Toronto, Ontario	Vice-President	Vice President, Lawrence Asset Management Inc.
Glenn McNeill Toronto, Ontario	Chief Investment Officer	Chief Investment Officer, Lawrence Asset Management Inc.
Larry Guy Cambridge, Ontario	Vice President	Vice President, Lawrence Asset Management Inc.
Ravi Sood Toronto, Ontario	President, Chief Operating Officer and Director	President, Chief Operating Officer and Director, Lawrence Asset Management Inc.

### *Management Agreement*

The Management Agreement will expire, unless terminated earlier by either party thereto in accordance with the terms thereof, upon the dissolution, winding-up or termination of the Fund. The Manager may terminate the Management Agreement in the event that: (i) the Fund is in breach or default of any material provision thereof and such breach or default has not been cured within twenty business days of written notice of such breach or default to the Fund; (ii) there is a fundamental change in the investment objectives, strategy or restrictions applicable to the Fund; (iii) the Fund ceases to carry on business; or (iv) the Fund becomes bankrupt or insolvent. The Fund may terminate the Management Agreement in the event that: (i) the Manager is in breach or default of any material provision thereof and such breach or default has not been cured within twenty business days of written notice of such breach or default to the Manager; (ii) the Manager ceases to carry on business; or (iii) the Manager becomes bankrupt or insolvent. In the event that the Management Agreement is terminated, the Fund shall promptly appoint a successor manager to carry out the activities of the Manager for the Fund until a meeting of shareholders of the Fund is held to confirm such appointment.

### *Conflict of Interest*

The services of the directors and officers of the Manager and its affiliates and associates, are principally provided to the Fund and the investments companies within the portfolio of the Fund. The Manager is subject to applicable conflict of interest policies relating to investments and investment opportunities of the Fund.

After an investment is made in a Portfolio Company, the Manager or an affiliate of the Manager may provide services for, or seek to undertake various initiatives with, certain Portfolio Companies. The Principals of the Manager and its affiliates have significant experience and expertise in developing innovative investment management products; raising capital; and investment management and administration. The Manager and/or its affiliates may use this experience and expertise to assist Portfolio Companies to realize their business objectives, thereby creating value for the Fund's shareholders. Any new product initiatives undertaken by the Manager and/or an affiliate with one or more Portfolio Companies will not involve any payment to the Manager, other than on industry standard terms.

The Manager is paid by the Fund. Certain of the directors of the Fund are the same as the senior officers and directors of the Manager.

The Manager is registered under the Securities Act in the categories of Limited Market Dealer and Investment Counsel Portfolio Manager.

The Ontario Act expressly prohibits the Fund from making or maintaining an investment in an eligible business if the eligible business does not deal at arm's length with the Fund or any of the directors of the Fund, unless:

- (a) such eligible business would deal at arm's length with the Fund but for the Fund's interest as a holder of investments in the eligible business; or
- (b) such investment was approved by special resolution of the holders of the outstanding Class A Shares of the Fund voting as a class before the investment was made.

In addition to the foregoing investment restriction, the Securities Act prohibits the Fund from knowingly investing in an eligible business if:

- (a) more than ten percent of the outstanding shares or units of such eligible business are owned by one of the Conflict Parties or by a person or company which owns more than twenty percent of the voting securities of the Fund, the Manager or the Manager; or
- (b) more than fifty percent of the outstanding shares or units of such eligible business are owned collectively by more than one of the Conflict Parties or by a group of persons or companies which own more than twenty percent of the voting securities of the Fund, the Manager or the Manager.

The Manager will report to the board of directors of the Fund if the Manager wishes the assistance of the board of directors in resolving any conflict of a nature described in the preceding paragraphs.

### **The Fund Administrator**

Felcom Data Services Inc. has been engaged as the Fund Administrator. The Fund Administrator has its registered and principal office at 26 Wellington Street East, Suite 206, Toronto, ON M5E 1S2.

The Fund Administrator is responsible for providing administration and client services, shareholder reporting and transfer agency services to the Fund. The Fund Administrator acts as transfer agent for the Class A Shares. The Fund Administrator is engaged pursuant to an agreement dated December 1, 2006.

### **The Sponsor**

The Sponsor of the Fund is the Canadian Air Traffic Controllers Association, CAW Local 5454, which represents over 2,300 air traffic controllers working in control towers, area control towers and professional offices across Canada for over 40 years. The Sponsor owns all of the Class B Shares in the capital of the Fund and is required under the Ontario Act to elect a majority of the board of directors.

The Sponsor is entitled to elect five of the seven directors of the Fund. The Sponsor has entered into an agreement effective as of December 14, 2006 between the Fund, the Sponsor and the Manager. (the "Sponsor Agreement"), and agreed to elect 2 member or designate of Sponsor and 3 members or designates of the Manager from time to time. In addition to the right to elect directors specified above, the Sponsor, as holder of the Class B Shares, is entitled to one vote per share at meetings of the shareholders of the Fund, but does not have any right to receive dividends.

The Sponsor holds the only issued and outstanding Class B Shares in the capital of the Fund. While members of the Sponsor may subscribe for Class A Shares, neither the Sponsor nor its 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 Sponsor.

CATCA Sponsor Corp., a wholly-owned subsidiary of the Sponsor, was incorporated under the laws of *Canada Business Corporations Act* by articles of incorporation dated May 3, 1996. The registered address of CATCA Sponsor Corp. is 304 – 265 Carling Avenue, Ottawa, Ontario K1S 2E1, Canada. Under the Securities Act, CATCA Sponsor Corp. is regarded as a promoter of the Fund.

### **Auditors, Registrar and Transfer Agent, Trustee and Custodian**

The auditors of the Fund are Ernst & Young LLP. Ernst & Young LLP were the auditors of the Fund since February 26, 2007.

Felcom Data Services Inc. acts as the registrar and transfer agent for the Class A Shares of the Fund and shall keep share records relating to the Fund in Toronto, Ontario and shall perform various administrative functions.

State Street Trust Company Canada has been retained by the Fund as custodian to hold portfolio securities of the Fund pursuant to a custodian agreement dated February 7, 2007.

The Royal Trust Company acts as trustee for RRSPs established by investors in the Fund.

### **Legal Matters and Legal Proceedings**

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.

## CONFLICTS OF INTEREST

### Principal Holders of Securities

#### *The Fund*

As of August 31, 2009, approximately 4,857,881 Class A Shares were issued and outstanding. No person or company owns of record, and management knows of no person or company who owns beneficially, directly or indirectly, more than 10% of the issued and outstanding Class A Shares as of August 31, 2009.

As of August 31, 2009, the directors and senior officers of the Fund, as a group, and the directors and officers of the Manager, as a group, beneficially own, directly or indirectly, less than 0.01% of the issued and outstanding Class A Shares of the Fund.

The Sponsor owns all of the Class B Shares of the Fund.

#### *The Manager*

As of August 31, 2009, to the knowledge of the Fund and the Manager, the following persons own of record or beneficially, directly or indirectly, more than 10% of the common shares of the Manager:

<b>Name and Address of the Manager</b>	<b>Name and Address of Company that owns Securities</b>	<b>Relationship to the Manager</b>	<b>Designation of Class of Securities Owned</b>	<b>Number of Securities Owned</b>	<b>Percentage of Class Owned</b>
Lawrence Asset Management Inc. 220 Bay Street, Suite 1500 Toronto, ON M5J 2W4	Lawrence & Company Inc. 220 Bay Street Suite 1500 Toronto, ON M5J 2W4	Shareholder	Common Shares	439	22.6%
	Ravi M. Sood	Employee	Common Shares	400	20.6%
	2195516 Ontario Ltd. Oakville, Ontario	Investor	Common Shares	667	34.4%

## FUND GOVERNANCE

The board of directors of the Fund is generally responsible for governance of the Fund. The Fund has an audit, valuation and investment committees. A majority of the members of each committee are constituted with members of the Board who are not officers or employees of the Manager or the Sponsor.

The Fund has adopted a valuation policy. Names and municipalities of residence of each member are set forth under the section entitled "Responsibility for Mutual Fund Operations – The Fund – Directors and Officers".

### Proxy Voting Policies and Guidelines

#### *Policies and Procedures*

The Manager must vote all proxies in the best interest of the securityholders of the Fund, as determined solely by the guidelines established by the Manager and subject to the Manager's Proxy Voting Policy and applicable legislation.

The Manager has established Proxy Voting Policy (the “Guidelines”) that have been designed to provide general guidance, in compliance with the applicable legislation, for the voting of proxies. The Guidelines set out the voting procedures to be followed in voting routine and non-routine matters, together with general guidelines suggesting a process to be followed in determining how and whether to vote proxies. Although the Guidelines allow for the creation of a standing policy for voting on certain routine matters, each routine and non-routine matter must be assessed on a case-by-case basis to determine whether the applicable standing policy or general Guidelines should be followed. The Guidelines also address situations in which the Manager may not be able to vote, or where the costs of voting outweigh the benefits. If funds managed by the Manager are invested in an underlying fund that is also managed by the Manager, the proxy of the underlying funds will not be voted.

### *Conflicts of Interest*

Situations may exist in which, in relation to proxy voting matters, the Manager may be aware of an actual, potential, or perceived conflict between the interests of the Manager and the interests of securityholders. Where the Manager is aware of such a conflict, the Manager must bring the matter to the attention of the board of directors. The board of directors of the Fund will, prior to vote deadline date, review any such matter, and will take the necessary steps to ensure that the proxy is voted in accordance with what the board of directors believes to be the best interests of securityholders, and in a manner consistent with the Guidelines. Where it is deemed advisable to maintain impartiality, the board of directors may choose to seek out and follow the voting recommendation of an independent proxy research and voting service.

### *Disclosure of Proxy Voting Record*

The Manager discloses its annual proxy voting record for reporting issuers for the Fund as of June 30, covering the period from July 1 to June 30 of the previous year. These documents are available on the Manager’s website [www.lawrenceasset.com](http://www.lawrenceasset.com).

### **Independent Review Committee**

National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”), came into force on November 1, 2006. NI 81-107 requires all publicly offered investment funds, such as the Fund, to establish an IRC. The Manager must refer all conflict of interest matters for review or approval to the IRC. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, to maintain records in respect of these matters and to provide the IRC with guidance and assistance in carrying out its functions and duties. According to NI 81-107, the IRC must be comprised of a minimum of three independent members, and is subject to requirements to conduct regular assessments of its members and provide reports, at least annually, to the Fund and to its shareholders in respect of those functions. The report prepared by the Fund is available on the Fund’s website [www.navinaasset.com](http://www.navinaasset.com), or at a shareholder’s request at no cost, by contacting the Fund at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4 or at 416-362-4999. The report is also available at [www.sedar.com](http://www.sedar.com).

The Fund has appointed John Crow, Carrie Freeborough and Amar Bhalla as members of its IRC.

The Fund shares its IRC with other investment funds managed by the Manager. The costs and expenses associated with the IRC are shared among the investment funds. The Fund has agreed to indemnify each IRC member as permitted under NI 81-107, and has entered into an indemnity agreement to that effect with each IRC member.

For their services as members of the IRC, the IRC members are paid an annual fee (as set out in the table below) and are reimbursed for their expenses. For the most recently completed financial year, the IRC members received the following amounts in fees and in reimbursement of expenses, in aggregate, for all of the investment funds managed or administered by the Manager or its affiliates:

<b>IRC Member</b>	<b>Fees Paid in 2009</b>	<b>Expenses Reimbursed</b>
John Crow	\$26,249.96	\$0
John Mills <sup>(1)</sup>	\$5250.00	\$0
Amar Bhalla	\$33,468.75	\$0
Carrie Freeborough <sup>(2)</sup>	\$19,062.50	\$0

<sup>(1)</sup>Mr. Mills resigned from the IRC on March 16, 2009

<sup>(2)</sup>Ms. Freeborough joined the IRC on April 9, 2009

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

### **Introduction**

The following is a summary of the principal Canadian federal income tax considerations generally applicable to holders of Class A Shares of the Fund, who, at all relevant times (i) for the purposes of the Federal Act are individuals (other than trusts which are not “qualifying trusts”) resident in Canada (ii) hold their Class A Shares as capital property, and (iii) deal at arm’s length with the Fund. Generally, Class A Shares of the Fund 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 assumption that the Fund is at all relevant times an LSIF Corporation under the Ontario Act, and is a prescribed labour-sponsored venture capital corporation for purposes of the Federal Act. This summary is based on the current provisions of the Federal Act, the regulations made under the Federal Act (the “Tax Regulations”), the current published administrative policies of the Canada Revenue Agency (“CRA”), and proposals (the “Federal Proposals”) to amend the Federal Act and the Tax Regulations publicly announced prior to the date hereof. Except for the foregoing, this summary does not take into account or anticipate any changes to the law or to any administrative or assessing practices whether by legislative, governmental or judicial action. No assurances can be given that any Federal Proposals, will be enacted in their present form or at all.

**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 shareholder. Therefore, shareholders should consult their own tax advisors with respect to their individual circumstances.**

### **Direct Purchase or Transfers to RRSPs and RRIFs**

Subject to the qualifications discussed above under the heading "Eligibility for Investment" Class A Shares will be qualified investments for RRSPs and RRIFs. The discussion herein applies only to shareholders in respect of whom Class A Shares are qualified investments.

An individual who is the first person to be the registered holder of Class A Shares may transfer the Class A Shares, for no consideration, to an RRSP under which the individual or his or her spouse or common-law partner is the annuitant. On such transfer, 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 the 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. A capital loss arising on the transfer of Class A Shares to an RRSP will generally be denied. For a further discussion of the calculation of capital gains and capital losses, see “Canadian Federal Income Tax Considerations - Taxation of Class A Shareholders - Disposition of Class A Shares”. The determination of the fair market value of the Class A Shares is a factual matter.

Where an individual transfers Class A Shares to an RRSP, the individual will be entitled 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 in kind to the RRSP, subject to the deductible contribution limits in the Federal Act.

An RRSP is permitted to directly subscribe for Class A Shares.

### **Transfer of Class A Shares to a RRIF**

Subject to the qualifications discussed above under the heading “Eligibility for Investment”, a Class A Share will also be a qualified investment for a RRIF. Class A Shares can be transferred by an individual to a RRIF which purchases the shares for valuable consideration if the individual or his or her spouse or common-law partner is the annuitant of the RRIF. On such a sale of a Class A Share to a RRIF, the holder of the Class A Share may realize a capital gain but any capital loss is denied. See “Taxation of Class A Shareholders - Disposition of Class A Shares”. No tax deduction is available in respect of the sale or other transfer of a Class A Share by an individual to a RRIF.

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

### **Direct Purchase by a TFSA**

Subject to the qualifications discussed above under the heading “Eligibility for Investment”, a Class A Share will also be a qualified investment for a TFSA. A TFSA can subscribe for and acquire Class A Shares directly but a shareholder cannot transfer his or her Class A Shares to a TFSA.

### **Taxation of the Fund**

As a prescribed labour-sponsored venture capital corporation, the Fund will be a “mutual fund corporation” for the purposes of the Federal Act.

The Fund 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 realized by the Fund on the disposition of Canadian securities are treated as capital gains. 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 to the extent of taxable capital gains realized in those years. The Fund is required to compute its net income and net realized gains and losses in Canadian dollars for purposes of the Federal Act, and may, as a consequence, realize foreign exchange gains or losses that will be taken into account in computing its income for tax purposes.

The tax paid by the Fund on net realized capital gains will be refundable on a formula basis when Class A Shares are redeemed or when the Fund pays, or is deemed to pay, dividends to holders of the Class A Shares of the Fund which it elects to be treated as capital gains dividends (“Capital Gains Dividends”).

The Fund is subject to Canadian federal tax (including federal surtax) at full corporate rates, without the benefit of any rate reduction, plus an additional 6 <sup>2</sup>/<sub>3</sub>% refundable tax on its interest and other investment income (other than taxable dividends from taxable Canadian corporations) net of reasonable expenses. The Fund will be eligible for a refund of a portion of the federal tax paid on its net investment income 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 be included in the Fund’s income and deducted in computing its taxable income.

## **Taxation of Class A Shareholders**

### *Taxation of Dividends*

Holders of Class A Shares 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 applicable to dividends from taxable Canadian corporations. Taxable dividends (other than Capital Gains Dividends) may be designated by the Fund to be “eligible dividends” which benefit from an enhanced gross-up and dividend tax credit, if the Fund is able to satisfy certain conditions. There is no assurance that the Fund will designate any dividends as eligible dividends.

As described above, the Fund may pay, or may be deemed to have paid, Capital Gains Dividends to holders of Class A Shares. Capital Gains Dividends received, or deemed to have been received, by a holder of a Class A Share will be treated as realized capital gains in the hands of such holder, and will be subject to the general rules relating to the taxation of capital gains.

The Fund may increase the paid-up capital of the outstanding Class A Shares issued by the Fund, in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains or net investment income. The Fund would file an election such that it would be deemed to have paid a dividend on its then issued and outstanding Class A Shares equal to the amount added to the paid-up capital of the respective Series of Class A Shares. Each holder of a Class A Share would 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 would not receive a cash distribution from the Fund.

### *Disposition of Class A Shares*

A holder 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, to the extent that the proceeds of disposition of the Class A Share exceed (or are exceeded by) the adjusted cost base to the holder of the Class A Share and any reasonable costs of disposition (including any redemption fee payable to the Fund).

The cost of a Class A Share acquired by the holder will generally be equal to the subscription price paid by the holder. The cost of each Class A Share acquired will be averaged with the adjusted cost base of all other Class A Shares held by 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 a Class A Share of the holder will be increased by the amount of any dividend or Capital Gains Dividend deemed to have been received by the holder as a result of the increase in the stated capital of the respective Series of Class A Shares as described above under “Taxation of the Fund”. The adjusted cost base of a Class A Share will not be reduced by any Federal Tax Credit or 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 Ontario Tax 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 credits 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 an RRSP under which the holder or the holder’s spouse or common-law partner 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 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 to the extent of taxable capital gains realized in those years.

### *Redemption of Class A Shares*

There are restrictions on the redemption of Class A Shares. Except for redemptions specifically permitted under the Federal Act and the Ontario Act, 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 intended to recover amounts in respect of the Federal Tax Credit and Ontario Tax Credit received in respect of the purchase of such Class A Shares. The amount of the withholding tax payable under the Federal Act is determined by a formula and is equal to a specified proportion of the amount that must be repaid in respect of the Ontario Tax Credit. See “Description of Securities of the Fund – Redemption by Holders”.

On a redemption of a Class A Share, the redemption proceeds will be treated as proceeds of disposition of the Class A Share, and the holder will realize a capital gain (or capital loss) equal to the amount by which the redemption proceeds (including any amounts withheld from the redemption proceeds and paid to the Receiver General for Canada and the Minister of Revenue (Ontario)), exceeds the adjusted cost base of the Class A Share to the holder.

### *Alternative Minimum Tax*

Taxable dividends (without application of the dividend gross-up) and Capital Gains Dividends received or deemed to be received, and capital gains realized on a disposition of Class A Shares, may increase the liability of a holder of Class A Shares for alternative minimum tax. Federal and Ontario Tax Credits cannot be applied to reduce a liability for alternative minimum tax. The alternative minimum tax does not apply to Registered Plans or TFSAs.

### *Class A Shares Owned by Trusts Governed by Registered Plans and TFSA*

Subject to the qualifications discussed above under the heading “Eligibility for Investment”, Class A Shares are qualified investments for trusts governed by Registered Plans that are RRSPs, RRIFs or TFSAs.

A Registered Plan or TFSA will not be liable for tax under the Federal Act in respect of taxable dividends received or deemed to have been received by the Registered Plan or Capital Gains Dividends received, or deemed to be received, by the Registered Plan or TFSA in respect of Class A Shares held by the Registered Plan or in respect of capital gains realized on the disposition of Class A Shares.

Distributions from a Registered Plan to a holder are included in the income of the holder in the year of the distribution. Where the Registered 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. Withdrawals from a TFSA are not subject to tax.

### **Federal Penalty Taxes Potentially Applicable to the Fund**

The Federal Act requires the Fund, as a prescribed labour-sponsored venture capital corporation, to file tax returns and pay a tax in an amount equal to any tax payable by the Fund as a consequence of its failure to acquire sufficient properties of a character described in the Ontario Act. If the Fund subsequently qualifies for a refund of such tax under the Ontario Act, the Fund would be entitled to a refundable credit against tax payable under the Federal Act.

If the Fund is required as a consequence of the Ontario Act on merger, winding-up or dissolution to pay an amount to the Minister of Revenue (Ontario), the Fund would be required under the Federal Act to pay a tax, for the taxation year, in an amount equal to the amount that was payable under the Ontario Act as an additional federal tax.

## **ONTARIO INCOME TAX CONSIDERATIONS**

### **Introduction**

The following summary presents fairly the principal Ontario income tax considerations generally applicable to holders of Class A Shares of the Fund who at all relevant time are individuals (other than trusts that are not qualifying trusts) resident in Ontario, hold their Class A Shares as capital property and deal at arm’s length with the

Fund. Generally, Class A Shares of the Fund 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. The summary is based on the assumption that the Fund is registered at all relevant times as a labour sponsored investment fund corporation under the Ontario Act.

This summary is based on the current provisions of the Ontario Act and the Ontario Tax Act and the regulations under such statutes, proposals to amend such statutes announced prior to the date hereof, and the published administrative and assessing practices of the Ministry of Finance (Ontario) and Ministry of Revenue (Ontario). This summary 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**

The Fund does not intend to carry on business through a permanent establishment in any province other than Ontario. Subject to this assumption, all of the aggregate income of the Fund will be attributable to, and taxable in, the Province of Ontario.

The taxation of the Fund under the *Corporations Tax Act* (Ontario) will generally parallel the taxation of the Fund under the Federal Act, except with respect to refundable taxes on investment income.

#### *Phase Out of Ontario Tax Credits*

Under the provisions of the Ontario Tax Act in force on the date hereof, the tax credit against Ontario tax payable in respect of purchases of shares of LSIF Corporations for the 2009 taxation year by an individual who (i) is the original purchaser and has subscribed and paid for Class A Shares; or (ii) is the annuitant of a qualifying trust that has subscribed and paid for Class A Shares as the original purchaser, including Class A Shares of the Fund, is 15% of the original purchaser's cost of the shares to a maximum credit of \$1,125 (based on a \$7,500 investment). The Ontario provincial tax credit will be reduced for the 2010 taxation year to 10% to a maximum credit of \$750, will be reduced for the 2011 taxation year to 5% to a maximum credit of \$375 and will be eliminated for the 2012 and subsequent taxation years.

Proposed amendments to the Federal Act provide that the Federal Tax Credit in respect of shares of a prescribed labour-sponsored venture capital corporation is only available if a provincial credit is also available in respect of the shares.

### **Ontario Taxable Income**

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 Act at rates that are specified percentages of the individual's taxable income. Taxable income for an individual for the purpose of the Ontario Tax Act is calculated based on the provisions of the Federal Act. For example, one-half of any capital gains or capital losses will be the holder's taxable capital gains or allowable capital losses, as the case may be, for the purposes of the Ontario Tax Act. An enhanced dividend credit is applicable under the Ontario Act for dividends eligible for federal enhanced tax credits. There is no assurance that the Fund will designate dividends as eligible dividends. The existing gross-up and tax credit for individuals resident in Ontario will continue to apply to other taxable dividends.

### **Ontario Tax on Redemption of Class A Shares**

Under the Ontario Act, the holder of a Class A Share 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 or the amount paid on redemption acquisition

or cancellation of the Class A Share by the Fund unless (i) the redemption acquisition or cancellation 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 acquisition or cancellation is permitted pursuant to the Ontario Act and/or under the circumstances described above. See “Description of Securities of the Fund – Redemption by Holders”.

Under the Ontario Act, the Fund is required to withhold and remit to the Minister of Revenue (Ontario) the tax payable by a holder of Class A Shares upon the redemption, acquisition or cancellation of Class A Shares 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.

For purposes of determining whether the redemption acquisition or cancellation of a Class A Share is prior to eight years from the date of issue under the Ontario Act, any Class A Shares that are redeemed in February or on March 1, the redemption is deemed to occur on March 31 of that year.

### **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 for some and below a maximum level for others of, its investments in eligible Ontario businesses (minimum and maximum eligible investment requirements). For a summary of those investment requirements see “Investment Restrictions - Statutory Investment Restrictions”. If the Fund is not in compliance with the minimum eligible investment requirements, the Minister of Revenue (Ontario) may stop issuing or order the Fund to stop issuing Tax Credit Certificates, until the Fund provides proof to the satisfaction of the Minister of Revenue (Ontario), that the Fund is in compliance with the minimum and maximum eligible investment requirements.

If, at the end of a particular calendar year, the Fund does not satisfy the minimum eligible investment requirements, it is required to pay tax in respect of that calendar year equal to the amount by which the greater of:

- (a) 15% of the amount of the equity capital of the Fund received on the issue of its Class A Shares that is required to be maintained in eligible Ontario businesses as of the end of the calendar year exceeds the cost to the Fund of its investments in eligible Ontario businesses at the end of such calendar year; and
- (b) the aggregate of: (i) 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 (ii) 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 such tax, other than an amount described in paragraph b(i) above, paid by the Fund in any prior year that has not been rebated to the Fund.

If application is made to the Minister of Revenue (Ontario) within three years after the end of the calendar year in respect of which the Ontario penalty tax was imposed and the Minister of Revenue (Ontario) is satisfied that the Fund is maintaining the minimum and maximum eligible investment requirements, the Fund may be eligible to receive a rebate of the penalty tax without interest.

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

The Minister of Revenue (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 imposed by its articles;

- (b) fails to maintain the required level of eligible investments; or
- (c) does not comply with any of the requirements of the Ontario Act or the regulations thereunder, or in the opinion of the Minister of Revenue (Ontario), is conducting its business or affairs in a manner contrary to the spirit and intent of the Ontario Act.

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Revenue (Ontario) an amount equal to 15% of the equity value received by the Fund in respect of all outstanding Class A Shares that were issued in the eight years immediately preceding the date of revocation of the registration. If the fair market value of such shares on the date of revocation is less than the actual issue price of the shares, the amount to be paid by the Fund is reduced to the amount that is determined if the amount of tax credit was calculated on the amount that is equal to such fair market value.

## **REMUNERATION OF DIRECTORS AND OFFICERS**

### **Remuneration of Executive Officers**

The executive officers of the Fund will receive no direct compensation or benefits, in cash or otherwise, from the Fund. The services of the Chief Executive Officer and the Chief Financial Officer of the Fund are to be provided by the Manager under the Management Agreement at the expense of the Manager.

### **Remuneration of Directors**

Directors of the Fund, other than directors who are members of the Sponsor or directors, officers or shareholders of the Manager, are entitled to receive a fee set by the board of directors from time to time, which fee is currently an annual fee of \$7500 and a fee of \$750 per meeting attended. Directors of the Fund who are members of the Sponsor or are directors, officers or shareholders of the Manager will receive no compensation for attendance at meetings. All directors of the Fund are entitled to be reimbursed for reasonable expenses incurred in attending meetings of the board of directors or any committee of the Fund.

For remuneration relating to the Independent Review Committee see “Fund Governance – Independent Review Committee”.

## **MATERIAL CONTRACTS**

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

- (a) the Sponsor Agreement referred to under “The Sponsor”;
- (b) the Management Agreement referred to under “The Manager”;
- (c) the Fund Administrator agreement referred to under “The Fund Administrator”; and
- (d) 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.

## **LEGAL AND ADMINISTRATIVE PROCEEDINGS**

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

### **OTHER MATERIAL INFORMATION**

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.

You can get additional information about the Fund in the Fund's management reports of fund performance and financial statements. You can get a copy of these documents at no cost by calling toll-free at 1-866-404-4999 by e-mailing [info@lawrenceasset.com](mailto:info@lawrenceasset.com) or from your dealer.

These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Lawrence Asset Management Inc. internet site at [www.lawrenceasset.com](http://www.lawrenceasset.com) or at the SEDAR website at [www.sedar.com](http://www.sedar.com).

**LAWRENCE ENTERPRISE FUND INC.**

**Managed by:**

**Lawrence Asset Management Inc.**

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