

Tax Optimized Return Oriented Securities Trust

Annual Information Form

March 31, 2010

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NAME FORMATION AND HISTORY OF THE TRUST

Tax Optimized Return Oriented Securities Trust (the “Trust”) is a closed-end trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated September 29, 2003 (the “Declaration of Trust”). Navina Asset Management Inc. (formerly Lawrence Asset Management Inc.) is the manager (the “Manager”) and the trustee (the “Trustee”) of the Trust. The Trust’s principal office is located at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4. The beneficial interest in the net assets and net income of the Trust is divided into Return of Capital Securities (“ROC Securities”), each of which represents an equal, undivided interest in the net assets of the Trust.

The Trust completed its initial public offering (the “Offering”) on October 17, 2003 issuing 2,795,150 ROC Securities at \$10.00 per ROC Security for gross proceeds of \$27,951,500 and issuing 2,795,150 Income Securities at \$10.00 per Income Security for gross proceeds of \$27,951,500 (including ROC Securities and Income Securities issued pursuant to the over-allotment option). The Trust had \$52,060,870 available for investment after the payment of agents’ fees and issue costs.

The services provided by Lawrence Decter Investment Counsel Inc. as portfolio manager were terminated effective December 31, 2004, when Lawrence Asset Management Inc. was appointed as the portfolio manager. Effective January 12, 2010 Lawrence Asset Management Inc. was renamed Navina Asset Management Inc.

Status of the Trust

The Trust is not considered to be a “mutual fund” under the securities legislation of the provinces and territories of Canada. Consequently, the Trust is not subject to the various policies and regulations that apply to mutual funds, including National Instrument 81-102 of the Canadian Securities Administrators (“NI 81-102”). The Trust is not a trust company and is not registered under legislation of any jurisdiction governing trust companies as it does not carry on, nor does it intend to carry on, the business of a trust company. The ROC Securities and Income Securities are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

INVESTMENTS OF THE TRUST

Investment Objectives and Strategies of the Trust

The Trust’s Investment Objectives (the “Investment Objectives”) are:

- (a) ROC Securities: (i) to provide ROC Holders (as defined in the Declaration of Trust) with distributions, consisting primarily of returns of capital, targeted to yield 9.50% per annum on the subscription price of \$10.00; and (ii) to repay at least the original subscription price of the ROC Securities to ROC Holders on September 30, 2013; and
- (b) Income Securities: (i) to pay Income Holders (as defined in the Trust Indenture dated October 17, 2003) interest of 11.00% per annum, subject to a maximum for any month of 54% of the Monthly Net Cashflow (as defined under “Description of Securities Issued by the Trust – Return of Capital Securities – Distributions”); and (ii) to repay the principal amount of the Income Securities on September 30, 2013.

To achieve its Investment Objectives, the Trust invests in securities of income funds, including commodity-based trusts, operating business trusts, real estate investment trusts (“REITs”) and power and pipeline trusts. The Trust purchases additional investments with amounts drawn under the Loan Facility from time to time (as defined under “Other Material Information – The Loan Facility”).

In addition, the Trust may invest in (i) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof; (ii) term deposits, guaranteed investment certificates, certificates of deposit or bankers’ acceptances of or guaranteed by any Canadian chartered bank or other financial institution, the short-term debt or deposits of which have been rated at least investment grade by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“Standard & Poor’s), Moody’s Investors Service, Inc. or Dominion Bond Rating Service Limited; and (iii) commercial paper rated at least investment grade or the equivalent by Standard & Poor’s, Moody’s Investors Service, Inc. or Dominion Bond Rating Service Limited, in any such case maturing within 365 days after the date of acquisition.

Investment Restrictions of the Trust

The Trust is subject to certain investment restrictions, which are set out in the Declaration of Trust (the “Investment Restrictions”). The Investment Restrictions may not be changed without the prior approval of ROC Holders, unless such change or changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed from time to time by applicable regulatory authorities.

The Investment Restrictions provide that the Trust:

- (a) will not purchase a security of an issuer if, immediately after the purchase, the Trust would include securities representing more than 10% of the votes attaching to the outstanding voting securities of that issuer, or the outstanding equity securities of that issuer;
- (b) will not purchase real estate (other than through the purchase of securities of issuers that invest in real estate or interests therein);
- (c) will not purchase an illiquid asset (as such term is defined in NI 81-102) if, immediately after the purchase, more than 10% of the net assets of the Trust would consist of illiquid assets. If more than 15% of the net assets of the Trust are illiquid assets, the Trust shall, as quickly as is commercially reasonable and in any event within 90 days, take all necessary steps to reduce the percentage of its net assets made up of illiquid assets to 15% or less;
- (d) will not make short sales of securities or maintain short positions;
- (e) will not borrow money, except that:
 - (i) short term credits necessary for settlement of securities transactions are not considered borrowing;
 - (ii) the Trust may issue the Income Securities; and
 - (iii) the Trust may borrow pursuant to the Loan Facility;

- (f) will not purchase or sell commodities or commodities contracts (other than through the purchase of securities of issuers that invest in commodities or interests therein);
- (g) will not guarantee the securities or obligations of any person;
- (h) will not engage in the business of underwriting, or marketing to the public, securities of any issuer other than the Trust;
- (i) will not make or hold any investment that would result in the Trust failing to qualify as a “unit trust” within the meaning of paragraph 108(2)(b) of the *Income Tax Act* Canada (“Tax Act”). At the date hereof, in order for the Trust to so qualify:
 - (i) at all times at least 80% of the property of the Trust must consist of a combination of: shares; property that, under the terms or conditions of which or under an agreement, is convertible into, exchangeable for, or confers a right to acquire, shares; bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations; marketable securities; cash; real property situated in Canada and interests in real property situated in Canada; and rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada;
 - (ii) not less than 95% of the Trust’s income for each year must be derived from, or from the disposition of, investments described in (i) above; and
 - (iii) at no time may more than 10% of the Trust’s property consist of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality;
- (j) will not invest in or hold securities which may be considered “foreign property” if the “cost amount” to the Trust of all “foreign property” (as those terms are defined in the Tax Act) held by it would cause the Trust to be subject to tax under Part XI of the Tax Act or would cause ROC Securities or Income Securities to be foreign property under the Tax Act;
- (k) will not make or hold any investment that would result in the Trust failing to qualify as a “mutual fund trust” within the meaning of the Tax Act;
- (l) will not, with the exception of securities of the Trust’s own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or any of their respective affiliates, with any officer, director or shareholder of any of them, with any person, trust, firm or corporation managed by the Manager or any of their respective affiliates or with any firm or corporation in which any officer, director or shareholder of the Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, either: (i) any such transaction is effected through normal market facilities, and the purchase price approximates the prevailing market price; or (ii) such purchase or sale is approved by the Independent Review

Committee (as defined under “Fund Governance – Independent Review Committee”); and

- (m) will not invest in (i) the securities of any non-resident trust if proposed subsection 94(3) of the Tax Act would apply to such trust or (ii) the securities of any non-resident corporation or trust or other non-resident entity if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed section 94.1 or 94.3 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with non-resident trusts and foreign investment entities contained in Bill C-10.

Unless otherwise specified in the Investment Restrictions, if a percentage restriction on investment of use of assets set forth above as an Investment Restriction is adhered to at the time of the transaction, later changes to the market value of an investment or the net assets of the Trust will not be considered a violation of the Investment Restrictions or require the elimination of any investment or repayment of any borrowing (except for the restrictions in paragraphs (i), (j) and (k) above which must be complied with at all times).

Securities Lending

The Trust may, consistent with the Investment Strategy and subject to the Investment Restrictions, lend securities to borrowers acceptable to the Trust pursuant to the terms of a securities lending agreement between the Trust and such borrower (a “Securities Lending Agreement”). Under a Securities Lending Agreement: (i) the borrower will pay to the Trust a negotiated securities lending fee and will make compensation payments to the Trust equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Trust will receive collateral security consisting of cash in Canadian dollars, Canadian or U. S. dollar debt obligations of, or guaranteed by, the Government of Canada, a province of Canada, the United States or one of the states of the United States, or such other collateral as shall be agreed upon and which is prescribed by NI 81-102. The Trust has adopted the provisions of NI 81-102 with respect to lending portfolio securities.

Eligibility for Investment

The Trust qualifies as a “mutual fund trust” and is a “registered investment” within the meaning of the Tax Act, and the ROC Securities and Income Securities are qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans and registered disability savings plans (collectively, “Plans”). The Trust does not engage in any undertaking other than the investment of its funds in property for the purposes of the Tax Act. The Trust has not deviated from the requirements to be a mutual fund trust since its inception.

DESCRIPTION OF SECURITIES ISSUED BY THE TRUST

Return of Capital Securities

General

The Trust is authorized to issue an unlimited number of ROC Securities of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. ROC Securities are

intended to provide ROC Holders with participation in the net assets of the Trust. Fractions of ROC Securities may be issued that will have the same rights, restrictions, conditions and limitations attaching to whole ROC Securities in the proportion that they bear to a whole ROC Security, except that fractional ROC Securities will not carry the right to vote. ROC Securities are transferable, except as provided under the Declaration of Trust or as otherwise restricted by the Trustee in order to comply with any applicable laws, regulations or other requirements imposed by regulatory authorities or to obtain, maintain or renew any licences, rights, status or powers pursuant to any applicable laws, regulations or other requirements imposed by any stock exchange or other applicable regulatory authorities.

Each ROC Security entitles the ROC Holder to the same rights and obligations as any other ROC Holder and no ROC Holder is entitled to any privilege, priority or preference in relation to any other ROC Holder. Each ROC Holder is entitled to one vote for each ROC Security held and is entitled to participate equally with respect to any and all distributions made by the Trust to ROC Holders, including distributions of net income, net realized capital gains and returns of capital. On termination or liquidation of the Trust, ROC Holders of record are entitled to receive on a *pro rata* basis, all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

Distributions

ROC Securities are intended to provide ROC Holders with tax efficient cash distributions consisting primarily of returns of capital. Distributions that represent a return of capital are generally not subject to tax, but reduce the adjusted cost base of the ROC Securities to the holder thereof. A reduction in the adjusted cost base has the effect of increasing the amount of capital gain or reducing the amount of capital loss, as the case may be, otherwise realized on a subsequent disposition of the ROC Securities. If the adjusted cost base of a ROC Security held as capital property is negative, the ROC Holder will be deemed to have realized a capital gain equal to such negative amount. Generally, on a monthly basis, the Trust intends to use up to 54% of Monthly Net Cashflow (herein defined as cash distributions that the Trust receives from income funds and any other income received by the Trust, less an allowance for estimated operating expenses and payment of liabilities but excluding proceeds realized from the disposition of portfolio securities) to pay interest on the Income Securities and the balance of Monthly Net Cashflow to pay targeted distributions on ROC Securities. The targeted distribution on the ROC Securities is \$0.95 per annum, payable monthly. There can be no assurance that distributions on the ROC Securities will be equal to the targeted distribution. If Monthly Net Cashflow exceeds interest payable on the Income Securities and targeted distributions on the ROC Securities, the Trust intends to invest such excess in additional income funds.

In order to ensure that the Trust will not generally be liable for income tax under Part I of the Tax Act, the Declaration of Trust provides that a special distribution will, if necessary, be automatically payable in each year to ROC Holders of record on December 31 (the "Special Distribution"). The Special Distribution may be necessary where the Trust realizes income for tax purposes that is in excess of any distributions paid or made payable to ROC Holders during the year. The Trust may make a Special Distribution, in whole or in part, through the issuance of ROC Securities having a value equal to such Special Distribution or part thereof and the Manager may, in its discretion, consolidate the ROC Securities outstanding into the number outstanding immediately prior to such Special Distribution, except in the case of a non-resident ROC Holder if tax was required to be withheld in respect of the Special Distribution.

Information and Reports to ROC Holders

The Trust will furnish to ROC Holders such financial statements and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of ROC Holders' tax returns under the Tax Act and equivalent provincial legislation with respect to amounts paid or payable by the Trust to the ROC Holders in the preceding taxation year.

Prior to any meeting of ROC Holders, the Trust will provide the ROC Holders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

Non-Resident ROC Holders

At no time may non-residents of Canada be the beneficial owners of a majority of the ROC Securities and the Manager shall inform the transfer agent of this restriction. The Manager may require declarations as to the jurisdictions in which beneficial owners of ROC Securities are resident. If the Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the ROC Securities then outstanding are, or may be, non-residents, or that such a situation is imminent, the Manager will not register a transfer of ROC Securities to, a person unless the person provides a declaration that the person is not a non-resident. If the Manager determines that a majority of the ROC Securities are beneficially held by non-residents, the Manager may send, or cause to be sent, a notice to such non-resident ROC Holders, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to sell their ROC Securities or a portion thereof within a specified period of not less than 30 days. If the ROC Holders receiving such notice have not sold the specified number of ROC Securities or have not provided the Manager with satisfactory evidence that they are not non-residents within such period, the Manager may on behalf of such ROC Holders sell such ROC Securities and, in the interim, shall suspend the voting and distribution rights attached to such ROC Securities. Upon such sale, the affected holders shall cease to be beneficial holders of ROC Securities and their rights shall be limited to receiving the net proceeds of sale of such ROC Securities.

Market Purchases

The Declaration of Trust provides for a mandatory market purchase program under which the Trust is, subject to certain exceptions contained in the Declaration of Trust and applicable law, obligated to purchase in the open market ROC Securities for cancellation if, at any time, the price at which ROC Securities are then offered for sale is less than 95% of the Net Asset Value (as described under "Valuation, Total Assets and Net Asset Value") per ROC Security determined on the Valuation Date (as defined below). The maximum number of ROC Securities to be purchased in any three-month period (commencing with the three month period that begins on the first day of the month following November 1, 2003) will be 1.25% of the number of ROC Securities outstanding at the beginning of such period. In addition, the Declaration of Trust provides that the Trust has the right, but not the obligation, exercisable in its sole discretion, at any time, to purchase for cancellation ROC Securities in the market, subject to applicable law. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the Toronto Stock Exchange ("TSX") or such other exchange or market on which the ROC Securities are then listed. "Valuation Date" means at a minimum, the Thursday of each week, or if any Thursday is not a business day, the immediately preceding business day, and the last business day of each month, and includes any other date on which the Manager elects to calculate the Net Asset Value per ROC Security. The Declaration of Trust provides that the Trust is not obligated to make such purchases if, among other things, in the opinion of the Manager, (i) the Trust lacks the cash, debt capacity or other resources to

make such purchases, or (ii) such market purchases would adversely affect the ongoing activities of the Trust or the remaining ROC Holders.

On September 7, 2009, the Manager announced that the Trust had renewed a normal course issuer bid to purchase a portion of the outstanding Income Securities and ROC Securities on the TSX. Under the normal course issuer bid, the Trust intends to purchase up to 228,205 Income Securities and up to 94,956 ROC Securities. These purchases will be made in accordance with applicable regulations over a maximum period of 12 months ending on the earlier of October 8, 2010 or on such date as the Trust completes its purchase under the normal course issuer bid. Income Securities and ROC Securities purchased will be cancelled.

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the ROC Securities and not less than 90% of the ROC Securities (but not including any ROC Securities held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the ROC Securities held by the ROC Holders who did not accept the take-over bid on the terms offered by the offeror.

Book-Entry System

Registration of interests in and transfers of the ROC Securities will be made only through the book-entry only system administered by The Canadian Depository for Securities Limited (“CDS”). ROC Securities must be purchased, transferred and, if applicable, surrendered for redemption through a CDS Participant. All rights of ROC Holders must be exercised through, and all payments or other property to which such ROC Holders are entitled will be made or delivered by CDS or the CDS Participant through which the ROC Holder holds such securities. Upon purchase of any ROC Securities, the purchaser will receive only a customer confirmation from the registered dealer that is a CDS Participant and from or through which the securities are purchased.

The ability of a beneficial owner of ROC Securities to pledge such securities or otherwise take action with respect to an interest in such securities (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Trust has the option to terminate registration of the ROC Securities through the book-entry only system in which case, certificates in fully registered form would be issued to ROC Holders or their nominees. Distributions on the ROC Securities will be paid directly to CDS while the book-entry only system is in effect. If registered certificates are issued for the ROC Securities, distributions will be paid by cheque drawn on the Trust and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of distributions on ROC Securities. Payment of any amounts upon termination of the Trust will be paid directly to CDS while the book-entry only system is in effect. If registered certificates are issued for the ROC Securities, payment of amounts upon termination of the Trust will be paid upon surrender thereof at any office of the Trustee or as otherwise specified in the Declaration of Trust.

Modification of Declaration of Trust and Meetings of ROC Holders

Except as provided below, the Declaration of Trust may be amended with the approval of ROC Holders by an ordinary resolution approved at a meeting of ROC Holders duly convened and held in accordance with the provisions in that regard contained in the Declaration of Trust, or by the written

consent in lieu of a meeting if there is only one ROC Holder. Not less than 21 days' notice will be given for any meeting of ROC Holders.

The quorum for any meeting of ROC Holders called to consider a matter requiring the approval of ROC Holders is two or more ROC Holders present in person or represented by proxy holding not less than ten percent (10%) of the ROC Securities then outstanding. Unless the meeting was requisitioned by ROC Holders, if no quorum is present at such meeting when called, the meeting shall be adjourned for not more than 14 days and the ROC Holders present in person or represented by proxy at such adjourned meeting will form the necessary quorum. If the meeting was requisitioned by ROC Holders and if quorum is not present, the meeting shall be terminated. At any such meetings, each ROC Holder will be entitled to one vote for each ROC Security held.

The following may only be undertaken with the approval of ROC Holders by an ordinary resolution:

- (a) an amendment to the Declaration of Trust to permit the redemption or retraction of ROC Securities at the option of the ROC Holder or the Trust, other than as currently provided for in the Declaration of Trust;
- (b) the sale of all or substantially all of the assets of the Trust other than in the ordinary course;
- (c) any change in the Investment Objectives or Investment Restrictions, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (d) any increase in the Management Fee;
- (e) any amendment, modification or variation in the provisions or rights attaching to the ROC Securities;
- (f) any issue of ROC Securities at a subscription price less than the most recently calculated Net Asset Value per ROC Security prior to the date of the setting of the subscription price by the Trust other than (a) pursuant to a Special Distribution, or (b) pursuant to the Offering;
- (g) any extension of the term of the Trust beyond September 30, 2013; and
- (h) any decrease in the frequency of calculating Net Asset Value per ROC Security.

The following may only be undertaken with the approval of ROC Holders by an extraordinary resolution:

- (a) any termination of the Manager as manager of the Trust other than by a resignation;
- (b) the liquidation, dissolution or termination of the Trust prior to July 31, 2013; and
- (c) the termination of the Trustee as trustee of the Trust other than by a resignation.

The Manager and Trustee are entitled to amend the Declaration of Trust without the consent of, or notice to, the ROC Holders, to:

- (a) ensure compliance with applicable laws, regulations or requirements of any governmental authority having jurisdiction over the Trust;
- (b) maintain the status of the Trust as a “unit trust”, “mutual fund trust” and if applicable, a “registered investment” under the Tax Act;
- (c) make changes or corrections which counsel for the Trust advise are necessary or desirable for the correction of typographical mistakes or are required for the purpose of curing any ambiguity or defective or inconsistent provisions or omissions or manifest error; or
- (d) provide added protection for ROC Holders.

Upon any proposal to modify the Declaration of Trust, where such modification would require the approval of ROC Holders, the Manager is required to give notice of such modification to the Indenture Trustee. Any such modification cannot be made unless the Indenture Trustee notifies the Trustee in writing that: (a) it has determined, on the advice of counsel, that such modification does not require the approval of Income Holders under the Trust Indenture; or (b) Income Holders have approved the modification as required under the Trust Indenture.

The ROC Holders holding not less than 20% of the then outstanding ROC Securities may requisition the Trustee to call a meeting of ROC Holders for the purpose stated in the requisition. In addition, the Trustee has agreed with the members of the Independent Review Committee that in the event of a dispute between the Independent Review Committee and the Manager with respect to a conflict of interest or potential conflict of interest, upon the written direction of the Independent Review Committee, the Trustee will call a meeting of the ROC Holders to consider the conflict of interest or potential conflict of interest.

The Trust does not intend to hold annual meetings of ROC Holders unless required by applicable law.

Termination of the Trust

The Trust will terminate and be wound up on September 30, 2013 (the “Termination Date”), unless terminated earlier or extended in accordance with the provisions of the Declaration of Trust. The Declaration of Trust provides that the Trust may be terminated prior to September 30, 2013 upon an extraordinary resolution approved at a meeting of ROC Holders. In addition, the term of the Trust may be extended if an extension is approved by an ordinary resolution of ROC Holders and provided that the Income Securities will continue to mature on September 30, 2013, but Income Holders may be given the option to extend the Maturity Date (as defined under “Description of Securities Issued by the Trust – Income Securities – General”).

Prior to the Termination Date, the Manager will convert the income funds to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Trust (including any interest and outstanding principal amounts owed on the Income Securities). The Manager may, in its discretion and upon not less than 30 days’ notice to the ROC Holders, extend the Termination Date by a period of up to 180 days if it believes that it will be unable to convert all of the income funds to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the ROC Holders to do so. The Trust will distribute to ROC Holders their *pro rata* portions of the remaining assets of the Trust after satisfying or making appropriate provision for all liabilities (including interest and outstanding principal amounts owed on the Income Securities) which will include cash and, to the extent liquidation of certain assets is not practicable or the

Manager considers such liquidation not to be appropriate prior to the Termination Date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Trust will be terminated.

The Trust will also be terminated in the event of the resignation of the Manager if a replacement manager has not been appointed within 120 days of the date upon which the Manager gives notice to the Trust of its resignation. Such termination shall occur on the date which is 60 days following the last day of the aforementioned 120-day period.

Income Securities

General

The Income Securities are issued under the Trust Indenture, pursuant to which Computershare Investor Services Inc. acts as the Indenture Trustee (as therein defined). The Income Securities authorized for issue are limited in aggregate principal amount to \$57,500,000, at the price of \$10.00 per Income Security. The Income Securities are direct debt obligations of the Trust. The payment of the principal of, and interest on, the Income Securities is subordinated in right of payment to the prior payment in full of any amounts payable under the Loan Facility, as set forth in the Trust Indenture. For greater certainty, as indebtedness of the Trust, the principal of and interest on the Income Securities rank in priority to the ROC Securities in the circumstances set forth below under "Subordination". The Income Securities mature on September 30, 2013 (the "Maturity Date").

Interest

The Income Securities bear interest at the rate of 11.00% per annum, which interest is paid monthly in arrears. The obligation of the Trust to pay interest in respect of any month is limited to 54% of the Monthly Net Cashflow, and therefore Income Holders may receive less interest than the stipulated rate. The Trust may elect to defer payment of interest on the Income Securities on a *pro rata* basis to the extent of any shortfall from the stipulated rate of 11.00% per annum. Deferred interest, if any, accrues. If, in a subsequent month, 54% of the Monthly Net Cashflow exceeds the interest payable in respect of such month, the surplus amount will be applied by the Trust towards the payment of the deferred interest until all of such interest is paid. There can be no assurance that 54% of the Monthly Net Cashflow will be sufficient to pay interest on the Income Securities at the stipulated interest rate.

The interest on the Income Securities is payable in lawful money of Canada at any branch in Canada of the chartered bank specified in the Trust Indenture. Interest payments, if any, are generally payable at the end of a month to Income Holders of record as at the 15th day of that month.

Payment upon Maturity

On maturity, the Trust will repay the indebtedness represented by the Income Securities by paying the Income Holders in lawful money of Canada an amount equal to the principal amount of any Income Securities then outstanding plus accrued and unpaid interest in cash. On or after September 16, 2013 and prior to maturity, the Trust will have the right to redeem Income Securities for securities from the portfolio of the Trust (the "Portfolio") or cash having a value generally equivalent to the Net Asset Value per ROC Security. See "Redemption of Income Securities".

Market Purchases

To enhance liquidity and to provide market support for the Income Securities, the Trust has a mandatory market purchase program under which the Trust is, subject to certain exceptions contained in the Trust Indenture and compliance with any applicable regulatory requirements, obligated to purchase for cancellation any Income Securities offered in the market at the then-prevailing market price if the price at which Income Securities are then offered for sale is less than 95% of the cost to redeem an Income Security determined as at the immediately preceding Valuation Date as if the Trust exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities (as such terms are defined in the Trust Indenture) or a cash payment equal to the value thereof. The maximum number of Income Securities to be purchased in any three month period (commencing with the three month period that began on November 1, 2003) will be 1.25% of the number of Income Securities outstanding at the beginning of such period.

In addition, the Trust has the right, but not the obligation, exercisable in its sole discretion, at any time to purchase for cancellation Income Securities in the market, subject to any applicable regulatory requirements and limitations. The Trust intends to repurchase Income Securities that are offered in the market at a price per Income Security equal to the Net Asset Value per ROC Security, once each year, subject to any applicable regulatory requirements and limitations.

Any purchase of Income Securities for cancellation shall not result in the ratio of outstanding ROC Securities (as constituted on October 17, 2003) to Income Securities materially exceeding one to one.

Exchange Right

On or after September 16, 2013 and prior the Maturity Date, each Income Security is exchangeable, at the option of the Income Holder, on not less than 5 days notice, for the Exchange Value (as defined in the Trust Indenture); provided that, if the Net Portfolio Securities include securities that are foreign property within the meaning of the Tax Act, then an Income Holder is only entitled to receive a cash payment equal to the value of a Proportionate Interest in such securities. At the option of the Trust, the Exchange Value may be satisfied by a cash payment. Upon the exchange of an Income Security, an Income Holder will receive securities from the Portfolio or cash with a value generally equivalent to the Net Asset Value per ROC Security.

Subject to the provisions thereof, the Trust Indenture provides for the adjustment of the Exchange Value in certain events including the subdivision or certain consolidations of the ROC Securities. The Trust is not required to make adjustments in the Exchange Value unless the cumulative effect of such adjustments would change the exchange price by at least 1%.

No fractional units of securities in the Portfolio will be acquired on any exchange. In lieu thereof, the Trust shall satisfy such fractional interest by a cash payment equal to the value of such fractional interest.

Information and Reports to Income Holders

The Trust will furnish to Income Holders such financial statements and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Income Holders' tax returns under the Tax Act and equivalent provincial legislation with respect to amounts paid or payable by the Trust to the Income Holders in the preceding taxation year.

Prior to any meeting of Income Holders, the Trust will provide the Income Holders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

Notice of Meetings of ROC Holders

While any Income Securities are outstanding, the Trustee is required to send any notice calling a meeting of ROC Holders to the Indenture Trustee. The Indenture Trustee shall inform the Income Holders of such meeting by forwarding a copy of such notice to the Income Holders as soon as practicable after receipt. For so long as any of the Income Securities are outstanding, all resolutions of ROC Holders must be passed at a meeting of ROC Holders rather than being approved in writing.

Subordination

The Income Securities are direct debt obligations of the Trust. The payment of the principal of, and interest on, the Income Securities is subordinated in right of payment to the prior payment in full of any amounts payable under the Loan Facility, but, for greater certainty, as indebtedness of the Trust will rank in priority to the ROC Securities upon (i) any Event of Default (as defined herein); (ii) the maturity of the Income Securities; or (iii) the termination of the Trust prior to September 30, 2013.

Modification

The rights of the Income Holders may be modified in accordance with the terms of the Trust Indenture. For that purpose, among others, the Trust Indenture will contain certain provisions that will make binding on all Income Holders resolutions passed at meetings of Income Holders by 66 $\frac{2}{3}$ % of the votes cast thereat or rendered by instruments in writing signed by the Income Holders holding not less than 66 $\frac{2}{3}$ % of the principal amount of the Income Securities (an "Extraordinary Income Holder Resolution"). Quorum for a meeting of Income Holders at which an Extraordinary Income Holder Resolution is to be considered will consist of two or more Income Holders present in person or by proxy representing not less than 10% of the principal amount of the Income Securities then outstanding. If quorum is not present at a meeting called for the purpose of passing an Extraordinary Income Holder Resolution, the meeting, if convened at the request of Income Holders shall be dissolved, but in any other case shall stand adjourned for not less than five and no more than ten business days, and at the adjourned meeting two Income Holders present in person or by proxy shall form a quorum.

The Trust Indenture also provides that where the Indenture Trustee determines on the advice of counsel that any modification to the Declaration of Trust that requires the approval of ROC Holders would (i) affect the timeliness or priority of payments to Income Holders (including, for greater certainty, a change to the Investment Objectives, the Investment Strategy or the Investment Restrictions), or (ii) otherwise materially adversely affect the Income Holders as a class, such modification may not be made to the Declaration of Trust unless Income Holders have approved such modification by an Extraordinary Income Holder Resolution.

Events of Default

The Trust Indenture provides that, upon the occurrence of an Event of Default, which is continuing, the Indenture Trustee will be entitled to (and shall, if instructed by holders of not less than 33% of the aggregate principal amount of Income Securities) demand payment ("Acceleration") of the principal amount of the Income Securities plus all accrued but unpaid interest. In connection with any such repayment following a Bankruptcy Event of Default (as hereinafter defined), the Trust, subject to the right of Income Holders to exercise their Exchange Right (to the extent the Exchange Right is then

effective), will be obligated to repay the Income Securities by the payment of an amount equal to the principal amount of the Income Securities, plus all accrued but unpaid interest to the date of payment (the “Default Amount”). The Trust shall be entitled to pay the Default Amount through the issuance of that number of ROC Securities having a net asset value at that time of not less than the Default Amount or by any combination of cash and ROC Securities, provided that the Trust shall withhold all applicable withholding taxes.

If an Event of Default occurs in respect of which the Indenture Trustee intends to declare an Acceleration, the Indenture Trustee shall give Income Holders 10 days’ prior notice of such Acceleration, or such shorter period of notice as may be prudent given the nature of such Event of Default. Such notice will also state that, to the extent the Exchange Right is then effective, the Indenture Trustee, on behalf of all Income Holders from whom the Indenture Trustee has not received contrary written instructions by 9:00 a.m. on the business day preceding the date of such intended Acceleration, shall exercise the Exchange Right of such Income Holders.

Under the Trust Indenture, an “Event of Default” includes the occurrence of any of the following, subject in certain cases to remedial time periods:

- (a) the Trust failing to make payment, when such payments become due, of the principal amount of or interest on any Income Security and such default having continued for 30 days, in the case of principal, or 60 days, in the case of interest, which the Trust was not then entitled to defer;
- (b) certain events of bankruptcy, insolvency, winding-up, liquidation or dissolution occurring with respect to the Trust (collectively, a “Bankruptcy Event of Default”);
- (c) an encumbrancer legally taking possession of the property of the Trust or any part thereof which is, in the opinion of the Indenture Trustee, a substantial and material part thereof or a distress or execution of any similar process being levied or enforced against such property and remaining unsatisfied for such period as would permit such property or such part thereof to be sold thereunder; or
- (d) the Trust defaults in the observation or performance of any other material covenant or condition contained in the Trust Indenture and such default remains unremedied for a period of 30 days.

REDEMPTION OF ROC SECURITIES

Redemption Rights

ROC Securities may be redeemed annually on September 30, provided that notice of the redemption is provided to the Manager at least 15 business days prior to the redemption date. ROC Holders whose ROC Securities are redeemed are entitled to receive a redemption price equal to the Net Asset Value per ROC Security determined as of the redemption date within ten business days after the redemption date. The Net Asset Value per ROC Security will vary depending on a number of market factors, including performance of the Portfolio, interest rates, commodity prices and the performance of equity markets generally. The Manager has the right to suspend redemptions in certain circumstances. See “Suspension of Redemptions” below.

A ROC Holder who desires to exercise redemption privileges must do so by causing the CDS Participant through which such ROC Holder’s ROC Securities are held to deliver to CDS at its office

in the City of Toronto on behalf of the ROC Holder, a written notice of the ROC Holder's intention to redeem ROC Securities. A ROC Holder who desires to redeem ROC Securities should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the redemption date deadline so as to permit CDS to deliver a notice to the Manager at least 15 business days prior to the redemption date.

By causing a CDS Participant to deliver to CDS a notice of the ROC Holder's intention to redeem ROC Securities, the ROC Holder is deemed to have irrevocably surrendered his or her ROC Securities for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed will for all purposes, be void and of no effect and the redemption privilege to which it relates will be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a ROC Holder's instructions will not give rise to any obligations or liability on the part of the Trust or the Manager to the CDS Participant or to the ROC Holder.

Recirculation of ROC Securities Tendered for Redemption

The Trust has entered into an agreement (a "Recirculation Agreement") with CIBC World Markets Inc. (the "Recirculation Agent") pursuant to which the Recirculation Agent will use commercially reasonable efforts to find purchasers for any ROC Securities properly surrendered for redemption by a ROC Holder, provided that such ROC Holder has not withheld consent thereto. The Trust may from time to time appoint additional dealers to act as recirculation agents for any ROC Securities surrendered for redemption. The Trust may, but will not be obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the ROC Holder on the redemption date will be an amount equal to the proceeds of the sale of the ROC Securities less any applicable commission, provided that such amount will not be less than the redemption price described above. Any ROC Securities for which the Trust requests the Recirculation Agent to find purchasers and for which purchasers are not found will be redeemed.

Suspension of Redemptions

The Trust may suspend the redemption of ROC Securities or the payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the assets (by value) in the Portfolio are listed and traded, or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Manager to determine the value of the assets of the Trust.

A suspension may apply to all requests for redemption received prior to the suspension, for which payment has not been made, as well as to all requests received while the suspension is in effect. All ROC Holders who have requested redemptions during such period shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first business day on which the condition that gives rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. ROC Securities surrendered for redemption during a period of suspension of redemptions shall be redeemed following the termination of the suspension of redemptions utilizing the Net Asset Value per ROC Security at the next scheduled Valuation Date, and payment to the redeeming ROC Holders

will be made within 10 business days thereafter. To the extent not inconsistent with official rules and regulations promulgated by any regulatory body having jurisdiction over the Trust, any declaration of suspension made by the Manager shall be conclusive.

REDEMPTION OF INCOME SECURITIES

The Income Securities may be redeemed by the Trust on or after September 16, 2013 and prior to the Maturity Date, on not less than five days' prior notice for cash payment equal to their principal amount and accrued unpaid interest (the "Redemption Value"). At the option of the Trust, the Redemption Value may be satisfied in respect of each Income Security by (i) delivery of a Proportionate Interest in the Net Portfolio Securities; or (ii) a cash payment equal to the value thereof. If the Trust exercises this option, the value received on redemption of an Income Security will generally be equivalent to the Net Asset Value per ROC Security.

VALUATION, TOTAL ASSETS AND NET ASSET VALUE

The Net Asset Value is the value of the assets of the Trust less any liabilities of the Trust (other than the outstanding principal amount and deferred interest of the Income Securities).

The Net Asset Value per ROC Security is calculated by dividing (i) the Net Asset Value on such Valuation Date less the cost to redeem all Income Securities on such date determined as if the Trust had exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities or a cash payment equal to the value thereof; by (ii) the total number of ROC Securities outstanding on such Valuation Date (before giving effect to any issue or redemption of ROC Securities issued or redeemed on that date). The Net Asset Value per ROC Security will be calculated as at the close of business on each Valuation Date, being Thursday of each week (or if Thursday is not a business day, the immediately preceding business day) and the last business day of each month. The Manager may elect to calculate the Net Asset Value per ROC Security on a day other than Thursday of each week, in which case the date on which such calculation is made shall be deemed to be the Valuation Date. The Trust makes available to the financial press for publication on a weekly basis the Net Asset Value per ROC Security.

The value of the property held by the Trust is determined by a valuation agent retained by the Manager as follows:

- (a) the value of any cash or its equivalent on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Trust on a date before the Valuation Date as of which the net asset value is being determined, and to be received); interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Manager has determined that any such deposit, bill, demand note, accounts receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Trust on a date before the Valuation Date as of which the net asset value is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair market value thereof;
- (b) the value of any security, index future or index option which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager) shall be determined by taking the latest

available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Manager such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the net asset value is being determined, all as reported by any means in common use;

- (c) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer in such securities or as the Manager determines to be the fair market value;
- (d) the value of any purchased or written clearing corporation options, options on futures or over-the-counter options, debt-like securities and listed warrants shall be the current market value thereof;
- (e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the net asset value is being determined as determined by the Manager (generally such asset will be valued at cost until there is a clear indication of an increase or decrease in value);
- (f) any market price reported in currency other than Canadian dollars shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Manager;
- (g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Manager; and
- (h) the value of any security or property to which, in the opinion of the Manager, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Manager from time to time adopts.

The discretion to deviate from the Trust's valuation practices has not been exercised in the past three years.

RESPONSIBILITY FOR TRUST OPERATIONS

The Manager

The Manager is located at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4. The Manager may be contacted by calling (416) 362-4999 or 1-866-404-4999, or by e-mailing at info@navinaasset.com. Additional information about the Manager is may also be found on its website at www.navinaasset.com.

Pursuant to the Declaration of Trust, the Manager is responsible for providing or arranging for administrative services required by the Trust including, without limitation, authorizing the payment of all fees and operating expenses, preparing financial statements, income tax returns, financial and accounting information as required, ensuring that ROC Holders and Income Holders are provided with financial statements (including unaudited interim and audited annual financial statements) and other reports and continuous disclosure materials, ensuring that the Trust complies with regulatory requirements and applicable stock exchange listing requirements, preparing the Trust's reports to ROC Holders and Income Holders and the Canadian securities regulatory authorities, determining the amount of distributions to be paid by the Trust; retaining and negotiating contractual agreements with third-party providers of services, including advisers, registrars, transfer agents, auditors and printers.

The Manager also provides investment advisory and portfolio management services to the Trust which will include making all investment decisions for the Trust. Preserving capital and limiting risk to levels appropriate to meet the Investment Objectives is the foundation of its investment philosophy. The Manager's investment strategy always focuses on value creation and realization, and its objective is to meet the Trust's Investment Objectives by investing the assets of the Trust in accordance with the Investment Strategy and subject to the Investment Restrictions. The Manager's team utilizes fundamental and technical analysis to select investments, having regard to the portfolio criteria and Investment Restrictions of the Trust. Direct access to real time global market activity, historical data, market statistics, sector profiles and management systems supports their efforts. Investment decisions are not subject to the oversight, approval or ratification of a committee.

The team primarily responsible for investment decisions is comprised of two employees of the Manager who have significant experience in the investment industry: Ravi Sood and Lawrence Guy. Each of them is described below.

Ravi Sood is the Chief Executive Officer of the Manager. Prior to joining Navina in 1998 when the firm was called Lawrence & Co., Mr. Sood was employed by a major international investment bank. In 2001, Mr. Sood co-founded Lawrence Asset Management Inc., where he served as President and COO, responsible for the firm's direction, leadership and strategy for investing activities. He is currently a director of a number of public and private companies, including Trinorth Capital Inc. and Phoenix Coal Inc., and a non-executive Chairman of Feronia Inc. and Consilium Training Services. He holds a Bachelor of Mathematics with distinction from the University of Waterloo, Ontario.

Larry Guy has more than ten years experience in the specialty investment fund business working with retail structured products, closed end funds, and various specialty limited partnerships. Larry has responsibility for product development, sales and marketing, and execution of the overall business strategy of the firm and is an Associate Portfolio Manager. Larry co-founded Navina Capital Corp. in 2006. Prior to that, he held senior management roles with Fairway Capital Corp., First Trust Portfolios of Toronto, Canada and Lawrence & Company Inc. Larry holds a B.A. (Economics) degree from The University of Western Ontario. Mr. Guy is a Chartered Financial Analyst.

The Manager is required to exercise the powers and discharge the duties of its office honestly, in good faith and with a view to the best interests of the Trust, and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances.

The Manager may resign upon 60 days' notice to the Trust. The appointment of a successor manager requires the approval of the ROC Holders unless it is an affiliate of the resigning manager, in which case no notice or approval of such ROC Holders is required. If the Manager commits certain events of bankruptcy or insolvency or is in material breach or default of its obligations as Manager under the

Declaration of Trust and such breach or default has not been cured within 30 days, the ROC Holders may by Extraordinary Resolution remove the Manager and appoint a successor manager. The Manager and its affiliates shall not be entitled to vote any ROC Securities then held at any meeting called to remove the Manager. Except as described above, the Manager cannot be terminated as manager of the Trust.

The management services of the Manager are not exclusive and nothing in the Declaration of Trust prevents the Manager or any of its affiliates from providing similar management services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Trust) or from engaging in other activities.

Brokerage Arrangements

The Manager has been delegated authority to determine the brokerage arrangements of the Trust. Decisions that the Manager may make as to the purchase and sale of portfolio securities and the execution of portfolio transactions for the Trust, including the selection of markets and dealers and the negotiation of commissions, are based on elements such as price, speed of execution, certainty of execution and total transaction costs.

Directors and Officers of the Manager, Investment Manager and Trustee

The names and municipalities of residence of the directors and officers of the Manager, Trustee and the Investment Manager and their principal occupations during the last five years are as follows:

Name and Municipality of Residence	Position with the Manager	Principal Occupation During Last 5 Years
ANDREW BENTLEY, TORONTO, ONTARIO	President and Director	President & CEO, Navina Capital Corp., Senior Vice President Fairway Capital Management
LAWRENCE GUY, CAMBRIDGE, ONTARIO	Chief Financial Officer	Chief Financial Officer, Navina Capital Corp., Senior Vice President Fairway Capital Management
HUGH MACLEAN, TORONTO, ONTARIO	Vice President	Vice President, Lawrence Asset Management Inc.
RAVI SOOD, TORONTO, ONTARIO	Chief Executive Officer and Director	President and Chief Operating Officer of the Manager
CATHERINE STRETCH, TORONTO, ONTARIO	Chief Operating Officer	Vice President, Lawrence Asset Management Inc.

Custodian

State Street Trust Company Canada at its head office in Toronto is custodian for the Trust and also acts as the accounting agent providing portfolio valuation and fund accounting services to the Trust pursuant to a custody agreement dated July 5, 2006.

Auditors

The auditors of the Trust are Ernst & Young LLP at its office in Toronto.

Registrar and Transfer Agent

Computershare Investor Services Inc. acts as registrar and transfer agent for the Trust at its office in Toronto.

CONFLICTS OF INTEREST

Principal Holders of Securities

To the knowledge of the Manager, as at March 31, 2010, no person or company owns, beneficially or of record, either directly or indirectly, or exercises control or direction, over more than 10% of the outstanding ROC Securities or Income Securities.

The employees of the Manager own approximately 61% of the issued and outstanding common shares of the Manager.

The members of the IRC did not own, directly or indirectly, in aggregate, any class of voting or equity securities of the Manager, any class of voting securities of any person or company that provides services to the Fund or the Manager, or more than 10% of any class of units of the Fund as at the date hereof.

FUND GOVERNANCE

The Trustee

The Manager is also the Trustee of the Trust. The Trustee is responsible for certain aspects of the administration of the Trust as described in the Declaration of Trust.

The Trustee or any successor Trustee may resign upon 90 days' written notice to the Trust or may be removed if approved by an extraordinary resolution of ROC Holders. Any such resignation or removal shall become effective only on the appointment of a successor Trustee. If the Trustee resigns, the Manager may appoint a successor Trustee. If within 60 days of receipt of notice of the Trustee's resignation, the Manager fails to select a successor to the Trustee, the Trustee or any ROC Holder may apply to a court of competent jurisdiction for the appointment of a successor to the Trustee. The ROC Holders may remove the Trustee at a meeting duly called for the purpose, in accordance with the Declaration of Trust. The ROC Holders may only remove the Trustee if they elect a successor Trustee at the same meeting at which the Trustee was removed.

The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the ROC Holders or to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee, in its capacity as trustee of the Trust, is not entitled to receive fees from the Trust but is entitled to be reimbursed by the Trust for all expenses that are reasonably incurred by the Trustee in connection with the activities of the Trust.

Policies on Conflicts of Interest

The Declaration of Trust acknowledges that the Trustee may provide services to the Trust in other capacities, provided that the terms of any such arrangements are no less favourable to the Trust than those which would be obtained from parties which are at arm's length for comparable services.

The services of the Manager are not, subject to certain exceptions, exclusive to the Trust. The Manager acts as the manager or investment manager of other funds which invest primarily in income funds and which could be considered competitors of the Trust. In addition, the directors and officers of the Manager may be directors, officers, shareholders or securityholders of one or more issuers from which the Trust may acquire securities. The Manager or its affiliates may also be managers of one or more issuers from which the Trust may acquire securities.

Since the Manager, in its capacity as investment manager of the Trust, will continue to manage the investments of its other clients, the Manager may acquire or dispose of the same investment for the Trust and one or more of its other clients. However, because of different investment policies, the Manager may be selling an investment for one client and buying the same investment for another client. Under the Declaration of Trust, the Manager has agreed, in accordance with its policies and procedures, to allocate opportunities to acquire and dispose of investments fairly among the Trust and its other clients that have similar investment objectives.

The Independent Review Committee

On November 1, 2006, National Instrument 81-107 – *Independent Review Committee for Investment Fund* (“NI 81-107”) came into force. NI 81-107 requires all investment funds that are reporting issuers, upon obtaining a receipt for a final prospectus, to establish an Independent Review Committee (the “IRC”).

NI 81-107 imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters (the “Policies”), maintain records in respect of these matters and provide assistance to the IRC in carrying out its functions. The Policies have been adopted by the Manager and the IRC.

The IRC must be comprised of a minimum of three independent members, and is required to conduct regular assessments and provide reports to the Manager and to unitholders in respect of its functions. The members of the IRC for the Fund, who were appointed as of May 1, 2007, are Mr. John Crow and Mr. Amar Bhalla. Carrie Freeborough was appointed to the IRC in April 9, 2009. The IRC has adopted a written charter that sets forth its mandate, responsibilities and functions and the policies and procedures it will follow when performing its functions. The IRC will review all conflict of interest matters referred to it by the Manager and make recommendations on whether a course of action achieves a fair and reasonable result for the Fund. Only upon making that determination will the IRC recommend to the Manager that the transaction proceed.

The IRC also reviews and assesses the adequacy and effectiveness of the Manager's Policies, of any standing instruction the IRC may have provided to the Manager, of the Manager's and the Fund's compliance with any conditions which the IRC may have imposed in a recommendation or

approval which it may have provided to the Manager and of any subcommittee to which the IRC may have delegated any of its functions.

The report prepared by the IRC will be available on the Manager's website (www.navinaasset.com), or at a unitholder's request at no cost, by contacting the Trust at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4; telephone: (416) 362-4999; or toll free: 1-866-404-4999-.

Policies on Proxy Voting

The proxies associated with securities held by the Trust will be voted in accordance with the best interests of ROC Holders determined at the time the vote is cast. The Manager maintains policies and procedures that are designed to be guidelines for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote. Any conflict of interest must be resolved in a way that most benefits ROC Holders.

The Manager's proxy voting policies and procedures set out various considerations that the Manager will address when voting, or refraining from voting, proxies, including that:

- (a) the Manager will generally vote with management on routine matters such as electing corporate directors, appointing external auditors and adopting or amending management compensation plans unless it is determined that supporting management's position would not be in the best interests of ROC Holders;
- (b) the Manager will address on a case-by-case basis, non-routine matters, including those business issues specific to the issuer or those raised by shareholders of the issuer with a focus on the potential impact of the vote on the Trust's value; and
- (c) the Manager has the discretion whether or not to vote on routine or non-routine matters. In cases where the Manager determines that it is not in the best interests of ROC Holders to cast a vote, or in cases where no value is added by voting, there is no requirement to vote.

The policies and procedures that the Trust follows when voting proxies relating to portfolio securities are available on request, at no cost, by calling toll free (866) 404-4999 or by writing to the Trust at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4.

The Trust's proxy voting record for the most recent period ended June 30 of each year will be available free of charge to any ROC Holder or Income Holder of the Trust upon request at any time after August 31 of the current year. The proxy voting record will also be available on the Lawrence Asset Management Inc.'s internet site at www.navinaasset.com.

The Portfolio Manager

The Manager has been retained to provide investment advisory and portfolio management services to the Trust. The Manager is a highly disciplined and performance-oriented investment firm that is dedicated to prudent management of its clients' assets. Preserving capital and limiting risk is the foundation of its investment philosophy. The Manager's investment strategy always focuses on value creation and realization, and its objective is to maximize its clients' assets through preserving capital, managing risk and compounding returns. The Manager's team utilizes fundamental and technical analysis to select investments that show above-average growth potential and are poised to outperform

the market. Direct access to real time global market activity, historical data, market statistics, sector profiles and management systems supports their efforts.

The Manager manages the Portfolio in a manner consistent with the Investment Objectives, Investment Strategy and Investment Restrictions. The Manager seeks to achieve the Investment Objectives by selecting and actively managing a diversified portfolio of income funds, REITs, operating business trusts and other similar entities. One of the key components of the Investment Strategy is the selection of undervalued securities and securities with growth potential. In addition, the Manager prefers securities that provide tax-advantaged sources of income and employ debt to enhance yield.

FEES AND EXPENSES

Management Fee

The Manager receives from the Trust an annual fee equal to 1.10% per annum of the Net Asset Value, calculated daily and payable monthly in arrears, plus applicable taxes.

Service Fee

The Trust pays to the Manager a service fee equal to 0.40% per annum of the aggregate Net Asset Value per ROC Security of the ROC Securities held at the end of each calendar quarter by clients of dealers, and 0.40% of the aggregate value of the Income Securities (assuming the value of one Income Security is equal to the cost to redeem an Income Security determined as at the immediately preceding Valuation Date as if the Trust exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities or a cash payment equal to the value thereof), plus applicable taxes, for services rendered to the Trust. The Manager remits the service fee to the relevant dealers as soon as practicable following the end of the relevant calendar quarter.

Operating Expenses of the Trust

In addition to the foregoing fees, the Trust pays all expenses incurred in connection with its operation and administration. These expenses include the fees of the Indenture Trustee, custodial fees, legal, audit and valuation fees and expenses, costs of reporting to ROC Holders and Income Holders, registrar, transfer, distribution and payment agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with continuous public disclosure requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of ROC Securities and Income Securities, costs and expenses of preparing financial and other reports and costs and expenses as a result of complying with all applicable laws, regulations and policies. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Custodian, the Indenture Trustee or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Trust, in the aggregate.

INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a person who is an individual (other than a trust), who acquired ROC Securities or Income Securities pursuant to the Offering and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Trust and the Agents (as defined in the Declaration of Trust) and holds the ROC Securities or Income Securities as capital

property. Generally, ROC Securities and Income Securities will be considered to be capital property to an investor provided that the investor does not hold such securities in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain purchasers who might not otherwise be considered to hold their ROC Securities or Income Securities as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act.

This summary is based upon the current provisions of the Tax Act, counsel's understanding of the current administrative practices of the Canada Revenue Agency ("CRA") and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "Proposed Amendments"). This summary assumes that the Proposed Amendments will be enacted as proposed, although there can be no assurance that such Proposed Amendments will be enacted as proposed or at all. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account other federal or any provincial or foreign tax legislation or considerations.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in ROC Securities or Income Securities, and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire ROC Securities or Income Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of ROC Securities or Income Securities will vary according to the status of the investor, the province or provinces in which the investor resides or carries on business and, generally, the investor's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute advice to any particular investor. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in ROC Securities or Income Securities, based upon the investor's particular circumstances.

This summary is based on the assumption that the Trust will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act. In order to so qualify, the Trust must comply on a continuous basis with certain Investment Restrictions and certain minimum distribution requirements relating to the ROC Securities. In addition, at any time the Trust may not reasonably be considered to be established or maintained primarily for the benefit of non-resident persons, unless at that particular time all or substantially all of its property consisted of property other than taxable Canadian property and, pursuant to certain Proposed Amendments (which are being considered further by the Department of Finance), at no time may more than 50% of the ROC Securities be owned by non-residents and partnerships (other than "Canadian partnerships" as defined in the Tax Act). The Trust has made an election so that it will qualify under the Tax Act as a mutual fund trust from the commencement of its first taxation year. In the event that the Trust were not to qualify as a mutual fund trust at all times, the income tax consequences described below will in some respects be materially different.

This summary is based on advice from the Manager that the stipulated interest rate of 11.00% per annum on the Income Securities is a reasonable rate of interest that is consistent with commercial interest rates prevailing in the market between arm's length third parties in comparable circumstances.

This summary is also based on advice from the Manager that the Trust will not, after September 15, 2013, hold any securities that would not be qualified investments under the Tax Act for Plans.

This summary is also based on the assumption that none of the issuers of the securities held by the Trust will be foreign affiliates of the Trust or of any ROC Holder or Income Holder and that none of the securities held by the Trust will be participating interests, other than exempt interests, in foreign investment entities or tracking entities under the proposals to amend the Tax Act contained in Bill C-10 (or such proposals as amended or enacted or successor provisions thereto).

SIFT Tax Rules for Income Trusts

On June 22, 2007 amendments to the Tax Act received Royal Assent which change the taxation regime applicable to certain publicly traded trusts and partnerships (“SIFTs”) and their investors (the “SIFT Rules”).

A SIFT trust paying a distribution attributable to the SIFT’s “non-portfolio earnings” will not be entitled to deduct the distribution and generally, will be subject to tax on the “non-portfolio earnings” at a rate similar to the combined federal and provincial corporate rate. A SIFT partnership will be subject to a special tax on its “non-portfolio earnings”, also levied at a rate similar to the combined federal and provincial corporate tax rate.

“Non-portfolio earnings” of a SIFT are generally income of the SIFT attributable to a business carried on by the SIFT in Canada or to income from, or capital gains on, non-portfolio properties (other than certain dividends). “Non-portfolio properties” of a SIFT are Canadian real, immovable or resource properties (if at any time in the taxation year the total fair market value of the SIFT’s Canadian real, immovable or resource properties is greater than 50% of the equity value of the SIFT), properties that the SIFT (or persons or partnerships which do not deal at arm’s length with the SIFT) uses in the course of carrying on business in Canada and securities of a “subject entity” (if the SIFT holds securities of the subject entity that have a fair market value greater than 10% of the subject entity’s equity value, or if the SIFT holds securities of the subject entity that, together with securities held by the SIFT in entities affiliated with the subject entity that, have a total fair market value greater than 50% of the equity value of the SIFT). A subject entity is a corporation resident in Canada, a trust resident in Canada, a Canadian resident partnership, or a non-resident person or partnership if its principal source of income is from one or more sources in Canada.

If a SIFT trust has “non-portfolio earnings” that are considered to have become payable to its beneficiaries in the year, this amount will be deemed to be a taxable dividend paid by a taxable Canadian corporation to the beneficiaries. If a SIFT partnership has “non-portfolio earnings”, the portion not subject to the special tax will be deemed to be a taxable dividend paid by a taxable Canadian corporation to the partners. Such taxable dividends will be eligible for the new enhanced tax credit if paid to an individual resident in Canada.

Effective Dates for New Taxation Regime

The SIFT Rules apply to SIFTs for taxation years that end after 2006, except that if a trust or partnership would have been a SIFT on October 31, 2006 had the definition been in force and applied to the entity as of that date, the SIFT Rules will apply to the entity for its taxation year that ends before the earlier of 2011 and the first day after December 15, 2006 on which the entity exceeds normal growth, as determined by reference to the normal growth guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time (the “Guidelines”).

Application of SIFT Rules to Trust and Unitholders

The Trust should not be a “SIFT trust”, as defined in the SIFT Rules, provided it does not hold any “non-portfolio properties”. The Manager has determined that the Trust does not currently hold any “non-portfolio properties”.

Publicly traded trusts and partnerships in which the Trust has invested may be SIFTs subject to the SIFT Rules.

Taxation of the Trust

The Trust will be subject in each taxation year to tax under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to ROC Holders in the year.

Where the Trust holds units of an income fund that is a trust, the Trust will be required to include in the calculation of its income such portion of the net income (including net taxable capital gains) of such income fund as is paid or becomes payable to the Trust in the year, notwithstanding that certain of such amounts may be reinvested in additional units of such income fund. Provided appropriate designations are made by the income fund, net taxable capital gains realized by the income fund and taxable dividends received by the income fund from taxable Canadian corporations that are paid or become payable to the Trust will effectively retain their character as such in the hands of the Trust. In addition, the Trust’s share of a SIFT trust’s “non-deductible distributions amount” will be deemed to be a taxable dividend received from a taxable Canadian corporation.

The SIFT Rules will permit the Trust to designate an amount in respect of such designated amount to ROC Holders with the result that the Trust will be permitted to deduct the amount it designates in computing its income and ROC Holders will be required to include in their income their share of such amount. The Trust will generally be required to reduce the adjusted cost base of its units in such income fund to the extent that all amounts paid or payable in a year by the income fund to the Trust exceed the amounts included in the income of the Trust for the year plus the Trust’s share of the non-taxable portion of capital gains of such income fund for the year. To the extent that the adjusted cost base to the Trust of the Trust’s units in such income fund is negative, the amount by which it is negative will be deemed to be a capital gain realized by the Trust and the Trust’s adjusted cost base of such units will be increased by the amount of such deemed capital gain.

Where the Trust holds limited partnership units of an income fund that is a limited partnership, the Trust will be required to include or, subject to certain restrictions, will be entitled to deduct, in computing its income, its share of the net income or loss for tax purposes of the income fund allocated to the Trust for the fiscal period of the income fund ending in the Trust’s taxation year, whether or not a distribution is received. In general, the adjusted cost base to the Trust of its limited partnership units in such an income fund at a particular time will be equal to the actual cost of such limited partnership units plus the share of the income and the full amount of capital gains of the income fund allocated to the Trust for fiscal periods of the income fund ending before the particular time less the share of losses and the full amount of capital losses of the income fund allocated to the Trust for fiscal periods of the income fund ending before the particular time, and less the Trust’s share of any distributions received from the income fund before the particular time. If the adjusted cost base to the Trust of its limited partnership units in such an income fund is negative at the end of a fiscal period of the income fund, the amount by which it is negative will be deemed to be a capital gain realized by the Trust and the Trust’s adjusted cost base of such limited partnership units will be increased by the amount of such deemed capital gain.

The Trust will also be required to include in its income for each taxation year, all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

In computing its income for tax purposes, the Trust may deduct reasonable administrative and other expenses incurred to earn income, including interest on the Income Securities and the Loan Facility generally to the extent borrowed funds are used to purchase investments. The Trust may deduct over five-year period the costs and expenses of the Offering paid by the Trust. On an exchange or repurchase of an Income Security, the Trust will be entitled to deduct one-half of the amount by which the amount paid by the Trust on such exchange or repurchase exceeds the issue price of the Income Security.

On October 31, 2003, the Department of Finance released draft proposals regarding the deductibility of interest and other expenses (the “October 31 Proposed Amendments”) for public comment. The October 31 Proposed Amendments propose that the Tax Act be amended to require, for taxation years commencing after 2004, that there be a “reasonable expectation of cumulative profit”, determined without reference to capital gains, from a business or property in order for a taxpayer to have a loss from the business or property resulting from the deduction of interest and other expenses. The Manager has advised counsel that it expects the Trust to have cumulative profit, determined without reference to capital gains, from its portfolio securities and, accordingly, the October 31, 2003 Proposed Amendments, if enacted in the form proposed, should not adversely affect the deduction by the Trust of interest and other expenses incurred by it. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the October 31 Proposed Amendments would be released for comment at the earliest opportunity.

On a disposition of an investment held by the Trust that is capital property, the Trust will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such investment. The Trust has made an election under subsection 39(4) of the Tax Act so that all of the Trust’s investments that are “Canadian securities” (as defined in the Tax Act) will be deemed to be capital property.

The Trust will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of ROC Securities during the year (“capital gains refund”). The capital gains refund in a particular taxation year may not completely offset the tax liability of the Trust for such taxation year in respect of net capital gains realized in the year.

The Manager has advised that the Trust generally intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year. Therefore, provided the Trust makes distributions in each year of its net income for tax purposes and net realized capital gains, it will generally not be liable in such year for income tax under Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year by reason of the capital gains refund.

The Trust is a registered investment under the Tax Act.

Taxation of ROC Holders

A ROC Holder will generally be required to include in computing income for a particular taxation year of the ROC Holder such portion of the net income, including net realized taxable capital gains, of the Trust for a taxation year as is paid or becomes payable to the ROC Holder in that particular taxation year, whether received in cash or in ROC Securities.

Provided that appropriate designations are made by the Trust, such portion of the net realized taxable capital gains of the Trust, and the taxable dividends received or deemed to be received by the Trust on shares of taxable Canadian corporations, as is paid or becomes payable to a ROC Holder will effectively retain its character and be treated as such in the hands of the ROC Holder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules will apply, including the enhanced gross-up and tax credit for eligible dividends.

Any loss of the Trust for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, the ROC Holders.

The non-taxable portion of net realized capital gains of the Trust that are paid or become payable to a ROC Holder in a year will not be included in computing the ROC Holder's income for the year. Any amount in excess of a ROC Holder's share of the net income and the net realized capital gains of the Trust for a taxation year that is paid or becomes payable to the ROC Holder in such year will not generally be included in computing the ROC Holder's income for the year but will reduce the adjusted cost base of ROC Securities to the ROC Holder. A reduction in the adjusted cost base of a ROC Security has the effect of increasing the amount of capital gain or reducing the amount of capital loss, as the case may be, otherwise realized on a subsequent disposition of the ROC Security. To the extent that the adjusted cost base of a ROC Security is negative, the negative amount will be deemed to be a capital gain realized by the ROC Holder from the disposition of the ROC Security and the ROC Holder's adjusted cost base will be increased by the amount of such deemed capital gain.

The Net Asset Value per ROC Security will reflect any income and gains of the Trust that have accrued or been realized but have not been made payable at the time securities are acquired. A ROC Holder who acquires ROC Securities may become taxable on the securityholder's share of such income and gains of the Trust.

Upon the disposition or deemed disposition by a ROC Holder of a ROC Security, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the ROC Holder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the ROC Security to the ROC Holder immediately before the disposition.

One-half of any capital gain (a "taxable capital gain") realized on the disposition of ROC Securities by, or designated by the Trust in respect of, a ROC Holder in a taxation year must be included in computing the income of the ROC Holder for that year and one-half of any capital loss (an "allowable capital loss") realized by a ROC Holder in a taxation year may be deducted from taxable capital gains realized by, or designated by the Trust in respect of, the ROC Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act.

Capital gains realized on the disposition of ROC Securities or amounts designated by the Trust to a ROC Holder as taxable capital gains or as taxable dividends from taxable Canadian corporations may give rise to a liability for alternative minimum tax.

Taxation of Income Holders

An Income Holder will generally be required to include in computing income for a taxation year all interest on the Income Securities that is received or receivable by the Income Holder in that taxation year (depending upon the method regularly followed by the Income Holder in computing income), except to the extent that the interest was included in the Income Holder's income for a preceding taxation year. In addition, an Income Holder will be required to include in computing income for a taxation year any interest that accrues to the Income Holder (including deferred interest) on an Income Security up to any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Income Holder's income for that year or a preceding year.

If the Trust redeems or repurchases an Income Security prior to maturity or repays an Income Security upon maturity, the Income Holder will be considered to have disposed of the Income Security for proceeds of disposition equal to the amount received by the Income Holder (other than the amount received as interest) on such redemption or repayment.

A disposition or deemed disposition of an Income Security by an Income Holder will generally result in the Income Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below), net of any reasonable costs of disposition, exceed (or are less than) the Income Holder's adjusted cost base thereof. Any such capital gains or capital losses will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of ROC Securities, which treatment is discussed above under "Taxation of ROC Holders".

Upon such a disposition or deemed disposition of an Income Security (other than to the Trust), interest accrued thereon to the date of disposition will be included in computing the income of the Income Holder, except to the extent such amount was otherwise included in the income of such Income Holder, and will be excluded in computing such Income Holder's proceeds of disposition of the Income Security.

If an Income Holder disposes of an Income Security for consideration equal to its fair market value, the Income Holder may deduct in computing income the amount, if any, by which the amounts included in computing income as interest on the Income Security exceed all amounts received in respect of such interest.

An Income Holder who exchanges an Income Security for cash or a combination of cash and securities in the Portfolio will be considered to have disposed of the Income Security for proceeds of disposition equal to the amount of the cash received or the aggregate of the cash received and the fair market value of the securities in the Portfolio so acquired at the time of the exchange. The Income Holder may realize a capital gain or capital loss computed as described above. The cost to an Income Holder of securities in the Portfolio so acquired will be equal to such fair market value. On a subsequent disposition of a security in the Portfolio acquired by an Income Holder on an exchange, the amount by which the proceeds of disposition of such security exceed the cost of the security to the Income Holder will be included in computing the income of the Income Holder, whether or not the security is held by the Income Holder as capital property.

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to an investor in ROC Securities and Income Securities of the Trust:

- (a) Declaration of Trust dated September 29, 2003.
- (b) Trust Indenture dated October 17, 2003.
- (c) Custody Agreement between the Trust and State Street Trust Company Canada (previously, IBT Trust Company (Canada)) dated July 5, 2006.

Copies of the foregoing agreements may be inspected by existing investors in ROC Securities and Income Securities of the Trust during business hours at the office of the Trust at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Trust and the Manager are not involved in any material legal proceedings, nor is the Manager aware of existing or pending legal or arbitration proceedings involving the Trust or the Manager.

OTHER MATERIAL INFORMATION

Risk Factors

There are many risks associated with an investment in ROC Securities and/or Income Securities, some of which are outlined below. Investors should consider the following risk factors before subscribing for ROC Securities or Income Securities.

No Assurance in Achieving Investment Objectives or Providing Distributions

There is no assurance that the Trust will achieve its Investment Objectives or be able to provide distributions to ROC Holders in a tax efficient manner, as intended. There is no assurance that the Trust will be able to make monthly distributions or that the Trust will be able to preserve and enhance the Net Asset Value.

As the Trust will invest its net proceeds in the Portfolio, the ability to achieve its Investment Objectives and provide distributions will be dependent upon the return on the Portfolio. There is no assurance that the Portfolio will earn any return.

It is intended that the Trust will pay interest on the Income Securities to the Income Holders from the cash distributions from the Portfolio. There is no assurance that the return on the Portfolio will be sufficient for the Trust to make such interest payments on the Income Securities. There is no assurance that the Portfolio will earn any return.

Fluctuations in Net Asset Value

The Net Asset Value and the funds available for distributions or the payment of interest, if any, will vary according to, among other things, the value of the securities in the Portfolio, the market performance, interest rates and foreign currency exposure. Fluctuations in the market values of the

securities in the Portfolio may occur for a number of reasons beyond the control of the Portfolio Manager.

Substantial Redemptions

ROC Securities are redeemable annually at the Net Asset Value per ROC Security. While the redemption right provides investors the option of annual liquidity based on the Net Asset Value, there can be no assurance that it will reduce trading discounts. Furthermore, if holders of a substantial number of ROC Securities exercise their redemption privilege, the number of ROC Securities outstanding and the Net Asset Value of the Trust could be significantly reduced with the effect of decreasing the liquidity of the ROC Securities in the market and increasing the management expense ratio of the Trust.

Suspension of Redemptions

The Trust may suspend the redemption of ROC Securities or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the Trust's assets (by value) are listed and traded; or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Manager to determine the value of the assets of the Trust. In the event of a suspension of redemptions, ROC Holders may experience reduced liquidity.

Loss of Investment

An investment in the ROC Securities or Income Securities is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand targeted distributions not being made or interest not being paid, as applicable, for any period of time.

Trading Price

ROC Securities and Income Securities may trade in the market at a premium or discount to the Net Asset Value per ROC Security and there can be no assurance that ROC Securities or Income Securities will trade at a price equal to the Net Asset Value per ROC Security.

Potential for Conflicts Between Interests of ROC Holders and Income Holders

The Investment Objectives for the ROC Securities and the Income Securities are not the same. There may be circumstances in which it may not be possible for the Manager to balance the objectives and interests of ROC Holders and Income Holders and to achieve all of the Investment Objectives. In addition, although it is currently expected that all Investment Objectives can generally be pursued simultaneously, there can be no assurance that market and economic conditions and the legal environment will continue to permit this. If any of these circumstances were to arise, it might be impossible to pursue all specific Investment Objectives simultaneously and it might be necessary for the Manager to give precedence to one or more of the Investment Objectives over the others.

Income Holders May Receive Less than Principal and Interest

The terms of the Income Securities differ in some respects from those of certain other debt securities in that an Income Holder will receive upon exchange, and may receive upon redemption, a combination of cash and a Proportionate Interest in the Net Portfolio Securities or a cash payment

equal to the value thereof which may be less than the principal amount of the Income Securities. There can be no assurance that the amount received on an exchange or redemption will be equal to or greater than the principal amount of the Income Securities, plus accrued but unpaid interest. If the amount received on an exchange or redemption is less than the principal amount paid for the Income Securities in the Offering, an investment in the Income Securities may result in a loss.

Deferral of Interest

The Trust will only be required to pay interest to the extent of 54% of the Monthly Net Cashflow up to the stipulated rate of 11.00% per annum and may defer the excess interest due on the Income Securities for any given month. The amount of Monthly Net Cashflow available will be dependent entirely upon the cash distributions generated by the Portfolio.

Subordination of Income Securities

The Income Securities will be subordinate to the payment of all amounts payable under the Loan Facility.

Sensitivity to Interest Rates

The market price of the ROC Securities and the Income Securities may be affected by the level of interest rates prevailing from time to time. In addition, the Net Asset Value may be highly sensitive to interest rate fluctuations because the value of the Trust investments will fluctuate based on interest rates. Further, any decrease in the Net Asset Value resulting from an increase in interest rates may also negatively affect the market price of the ROC Securities. ROC Holders who wish to redeem or sell their ROC Securities and Income Holders wishing to sell their Income Securities will, therefore, be exposed to the risk that the Net Asset Value or the market price of the ROC Securities or Income Securities will be negatively affected by interest rate fluctuations.

Risks Associated with Portfolio

An investment in ROC Securities or Income Securities is subject to risk of depreciation in the value of the Portfolio.

Risks Associated with Investments in Commodity-Based Trusts

The operations and financial condition of some of the issuers in the Portfolio, including resource-based issues such as oil and gas royalty trusts and the amount of distributions paid on their units will be dependent in part on commodity prices applicable to the commodities sold by such issuers. Prices for commodities may vary and are determined by supply and demand factors including weather and general economic and political conditions. A decline in commodity prices could have an adverse effect on the operations and financial condition of such issuers and on the amount of distributions received from the Portfolio. In addition, certain commodity prices are based on a U.S. dollar market price. Accordingly, a decrease in the value of the U.S. dollar against the Canadian dollar could reduce the amount of distributions paid on such securities.

Risks Associated with Investments in Business Trusts

The value of the Portfolio is highly dependent upon the operations and assets of the underlying businesses of the income funds, REITs, operating business trusts and similar entities in which the Trust will hold its investments. Accordingly, the distributions made on such securities will be

affected by general economic factors affecting the market in which such businesses operate, by the management of such businesses, the business model of such businesses, the maturity of the businesses or the markets in which they operate and by competitive forces in the particular industry.

Risks Associated with Investments in REITs

Investments in REITs are subject to the general risks associated with real property investments. Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long term mortgage funds) and in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors.

The value of a real property and any improvements thereto may also depend on the credit and financial stability of the tenants. A REIT's income and funds available for distribution to its unitholders would be adversely affected if a significant number of tenants were to become unable to meet their obligations to the REIT or if the REIT were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

Securities Lending

The Trust may engage in securities lending as described under "Investments of the Trust — Securities Lending". Although the Trust will receive collateral for the loans and such collateral will be marked-to-market, the Trust will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

Reliance on the Portfolio Manager and the Manager

The Trust will be dependent on the services of the Manager and the Portfolio Manager. There may be circumstances in which the Manager is expected to take steps, such as causing the Trust to redeem Income Securities prior to maturity, which, if not taken, could adversely affect the interests of ROC Holders, Income Holders or both. Investors who are not willing to rely on the Portfolio Manager or the Manager should not invest in ROC Securities or Income Securities.

Conflicts of Interest

The Portfolio Manager and its directors and officers engage in, and the Manager and its directors and officers and their respective affiliates and associates may engage in, the promotion, management or investment management of other investment products. Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Trust, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Trust.

Taxation of the Trust

While the Trust has been structured so that the Trust will generally not be liable to pay income tax, the information available to the Trust and the Manager relating to the characterization, for tax purposes, of the distributions received by the Trust in any year from issuers of the Trust's investments may be insufficient as at December 31 of that year to ensure that the Trust will make sufficient distributions in order that it will not be liable to pay income tax in respect of that year.

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the ROC Holders. If the Trust ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described in this Annual Information Form would be materially and adversely different in certain respects. Counsel is of the view that the Trust may deduct as interest amounts paid on the Income Securities in computing its income to the extent the proceeds from the issuance thereof are used to purchase securities in the Portfolio. This view is based on the characterization of the payments as interest for tax purposes which, in turn, is based, in part, on advice from the Manager that the stipulated interest rate of 11.00% per annum on the Income Securities is a reasonable rate of interest that is consistent with commercial interest rates prevailing in the market between arm’s length third parties in comparable circumstances. There is no assurance that the CRA would not take a contrary view and, if such view were to prevail, after-tax returns to ROC Holders and Income Holders could be reduced and the Trust could be subject to non-refundable income tax.

The CRA has also expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income fund may be reduced on a pro rata basis in respect of distributions from the income fund that are a return of capital which are not reinvested for an income earning purpose. Counsel is of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence, the CRA’s position should not impact on the Trust’s ability to deduct interest on money borrowed to acquire securities of income funds. If the CRA’s view were to prevail and apply to the Trust, part of the interest payable by the Trust on the Income Securities or the Loan Facility could be nondeductible, increasing the net income of the Trust for tax purposes and the taxable component of distributions to ROC Holders. Income of the Trust that is not distributed to ROC Holders would be subject to non-refundable income tax in the Trust.

SIFT Rules

On June 22, 2007 amendments to the Tax Act received Royal Assent which change the taxation regime applicable to certain publicly traded trusts and partnerships (“SIFTs”) and their investors (the “SIFT Rules”). However, certain trusts that meet a series of conditions relating to the nature of their income and their investments are excluded from the taxes imposed under the SIFT Rules.

If the Trust is a SIFT certain of its income would not be deductible in computing its income when made payable to Unitholders and would be subject to rates comparable to the combined federal and provincial corporate rates. Such income would be treated as taxable dividends from taxable Canadian corporations and be subject to all the normal rules applicable to dividends including the enhanced dividend tax credit.

In the event that the SIFT Rules apply to the Trust, they may adversely affect the marketability of the ROC Securities and Income Securities and the level of cash distributions made by the Trust and, among other things, there can be no assurance that the Trust will be able to maintain the current level of distributions and the current portion of distributions that is treated as a non-taxable return of capital.

Changes in Legislation

There can be no assurance that income tax laws and government incentive programs relating to the natural resource, energy or real estate industries will not be changed in a manner that adversely affects the Portfolio or the Trust and as a result the distributions received by the Trust or by the ROC Holders.

Status of the Trust

As the Trust is not a mutual fund as defined under Canadian securities laws, the Trust is not subject to the Canadian policies and regulations that apply to open-end mutual funds such as NI 81-102.

The Trust is not a trust company and is not registered under legislation of any jurisdiction governing trust companies as it does not carry on, nor does it intend to carry on, the business of a trust company. The ROC Securities and Income Securities are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. The Income Securities will not represent interests in or obligations of Computershare Investor Services Inc. (other than in its capacity as Indenture Trustee), the Manager, the beneficiaries of the Trust or any affiliate of any of the foregoing.

**ANNUAL INFORMATION FORM FOR TAX OPTIMIZED RETURN ORIENTED
SECURITIES TRUST**

Manager: Navina Asset Management Inc.

Address: 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4

Tel No: (416) 416-362-4999

ADDITIONAL INFORMATION:

Additional information about the Trust is available in the Trust's management report of fund performance and financial statements, copies of these documents may be obtained at no cost:

- By calling toll-free at (866) 404-4999,
- Direct from your dealer, or
- By email at info@navinaasset.com

Copies of these documents and other information about the Trust, such as information circulars and material contracts, are also available on the Lawrence Asset Management Inc. Internet site at www.navinaasset.com or at www.sedar.com.