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Inside

Income Trusts

Income Trust Primer - Update

Growth of an asset class

Overview

This publication provides a synopsis of the income trust market in Canada, how they are structured and taxed, and a summary of what we believe will be key questions surrounding trusts in the future.

Phenomenal growth of the trust market

Income trusts represent a market capitalization of over $50 billion, with 114 companies representing 49 separate operating businesses. We believe there will be continued growth in this market.

Structure creates tax advantage

The structure allows trusts to significantly reduce or eliminate taxation at the corporate level, and resulting distributions to unitholders are higher than dividends from an equivalent corporate entity.

Historical returns have exceeded broader market indices

A series of one-year total rate of returns for oil and gas royalty trusts, REITs and diversified income trusts have shown a higher percentage of positive returns when compared to TSX index equivalents.

Maturing asset class

The size and scope of the income trust market has reached a point where it can no longer be ignored by large institutional investors. The issue of unlimited liability looks like it will be solved sooner than later, paving the way for income trusts to be included in the broader TSX Composite Index. Income trusts are poised to make the leap from a retail-oriented product to one with broad institutional ownership.

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INCOME TRUST PRIMER

What is an income trust?

An income trust is an **equity vehicle** designed to deliver cash flow from operations to unitholders in a tax-efficient manner. Income trusts are created to invest in the securities of an operating business (usually wholly-owned) but are not in themselves operating businesses.

Governance of income trusts is usually divided between trustees of the fund, and a board of directors who oversee the operating business. For limited partnerships, the general partner has its own board of directors that provides governance over the operating assets.

It is important to note that distributions to unitholders do carry similar risks to dividends from corporate equities in that they are dependent on the earnings of the underlying business. They also carry none of the guarantees of fixed income payments from bonds.

Income trusts reduce the incidence of double taxation of income – where business profits are first taxed at the corporate level, and then the resulting dividends to shareholders are taxed in the hands of the shareholder. Income trusts, unlike corporations, distribute cash flows from underlying businesses on a "before tax" basis.

The underlying business of an income trust can vary widely from company to company, but usually exhibits the following characteristics: stable, mature business operations, low capital intensity and relatively high degree of cash flow predictability.

Investors in income trusts should be seeking an investment that provides a high yield, and most of its total return through distributions, with only modest capital appreciation.

Growth of the sector

Although a few royalty trusts have been around since the mid-1980s, it wasn't until the late 1990s that a number of industrial, real estate, and royalty trusts issues came to market and firmly established the product line. Growth of the income trust market in Canada since that time has been nothing short of phenomenal. At year-end 1997, there were 46 trusts in existence in only 18 separate business lines, comprising a market capitalization of $10 billion. Today, there are 114 trusts operating in 49 separate business lines with a combined market capitalization of just over $51 billion.

Figure 1: Count of income trusts

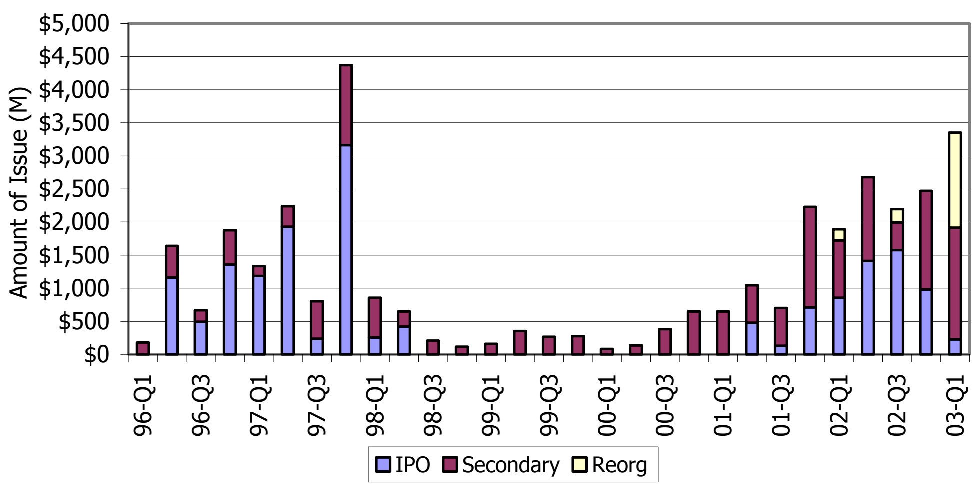
	1997	2003	Compound annual growth
Number of businesses	18	49	18%
Total market capitalization ($B)	10	51	31%
Total trusts	46	114	17%

Source: Canaccord Capital, SEDAR

The growth in the number of income trusts has not just been through Initial Public Offerings of subsidiary or private companies, but also through conversion of existing public entities into income trusts. In 2002, we saw seven companies in a variety of sectors worth over $371 million in market value convert to income trusts.

Growth in market capitalization over the past seven years has been predominantly fueled by new IPOs, followed by secondary offerings, and corporate conversions. Approximately half of the $31 billion in financings have come from IPOs, with the remainder from secondary treasury offerings and conversion of existing corporate entities.

Figure 2: Income trust sector growth by financing category



Source: Canaccord Capital

This growth has been driven not only by investor demand for a high yield product with an attractive risk/return profile, but also by the tax efficiency (reduces the incidence of double taxation), capital efficiency (high cash flow payout rates impose strong capital budgeting discipline), and low cost of equity (valuations on trusts are typically higher than public or private counterparts' facility acquisitions).

The demand for Canadian trust products by investors has created a unique situation where US companies with the appropriate business models have been able to reorganize into Canadian income trusts. Heating Oil Partners and ACS Media for example, have all of their operations and management in the United States, and report in US currency.

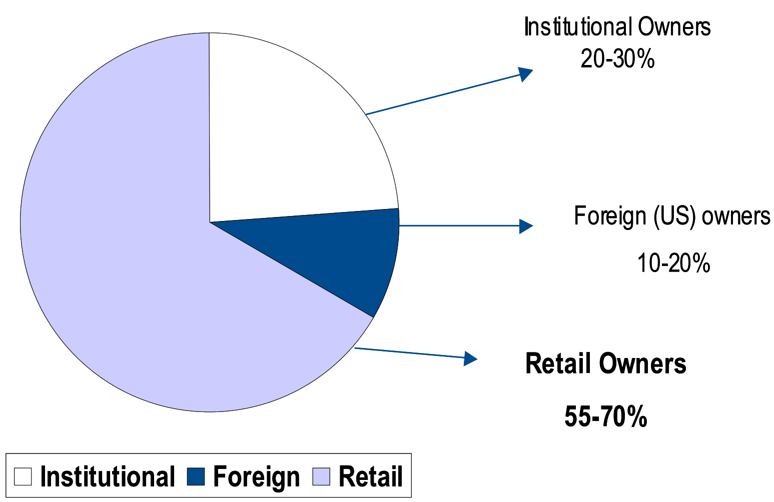
TYPICAL OWNERSHIP OF AN INCOME FUND

Income trusts are broadly held by both retail and institutional investors, with the vast majority held in retail hands. Income trusts have historically been a very retail investor oriented product although we have seen increasing levels of interest by institutional investors.

Ontario Teachers Pension Plan has started a special purpose fund to invest in income trusts. This is the first step into this market from one of the major Canadian pension plans, and we believe that the income trust sector will garner more attention, and investment, from these large institutional players in the future.

Although the lack of limited liability is usually touted as a deterrent to pension funds and large institutional investors investing in income trusts, we may see more funds willing to assume that risk in order to realize the superior returns that income trusts have provided.

Figure 3: Typical ownership of an income trust



Source: Canaccord Capital

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INCOME TRUST TAXATION

The basic structure of an income trust provides a tax advantage to unitholders when compared to a corporate entity by substantially reducing or eliminating the income tax at the corporate level.

For instance, compare an income trust with a corporate entity where both start off with $100 of pre-tax income to distribute to shareholders. In the corporate case, the $100 of pre-tax income is taxed at the corporate rate, and then the remaining after-tax income is paid to shareholders in the form of dividends – $61.38 in this instance. The shareholders then report the dividends on their income tax return, after the applicable dividend gross-up. Taking that same $100 in an income trust structure, the entire amount flows to the unitholders and is taxed in the unitholder's hands. The example below shows that income trusts would return 27% more to unitholders than a corporation. This example assumes that distributions are treated as income, which garners the highest tax treatment in the hands of unitholders.

If the distributions were treated as dividend income or a return of capital (taxed as capital gains when the units are sold), the relative advantage over the corporate structure would be even greater.

Figure 4: Comparative after-tax returns

	Income trust	Corporation
Earnings before tax	$100.00	$100.00
Corporate tax (excludes LCT)		($38.62)
Distributable earnings	$100.00	$61.38
Distribution	$100.00	
Dividend		$61.38
Individual tax paid	($46.41)	($19.24)
After-tax income	$53.59	$42.14
% difference	27%	

Note: Assumes top marginal tax rate (46.41%) in Ontario, and general non-manufacturing rate of 38.62%. Dividend tax rate is 31.34% (Ontario).

Source: Canaccord Capital

TYPES OF DISTRIBUTION

Distributions from an income trust will fall into four categories for income tax purposes.

Figure 5: Distribution of income trusts

	Business inc.	Interest inc.	Dividend inc.	Return inc.
Limited partnership	X			X
REIT	X			X
Income trust	X	X	X	X
Oil & gas royalty trust	X			X

Source: Canaccord Capital

For income tax purposes, investors will receive a T3 form each year from Revenue Canada outlining the amount paid as business, interest, and dividend income. Both business and interest income are taxed at the investor's marginal tax rate, while dividends are eligible for the dividend tax credit.

The table below shows an example of the tax treatment for the three types of distributions.

Figure 6: Taxation treatment of distributions

	Dividends	Income	Capital Gain
Distribution	$100.00	$100.00	$100.00
Less tax paid	($31.34)	($46.41)	($23.20)
After-tax income	$68.66	$53.59	$76.80

Note: Assumes top marginal rates in Ontario.

Source: Canaccord Capital

When distributions are received as a return of capital (tax-deferred distribution), the tax-deferred portion of the distribution reduces the Adjusted Cost Base (ACB) of the units. That is, the cost of the unit is reduced by the distributed amount deemed to be a return of capital. The cost of the unit is reduced by each successive return of capital ("ROC") payment, until the ACB either reaches zero, or the unitholder sells the unit. In the former case, distributions treated as ROC will now be treated as income. In the latter case, the sale of the units has triggered a taxable event, and the unitholder will pay tax on 50% of the difference between the sale price and the ACB.

Figure 7: Tax treatment – Return of Capital

	Year 1	Year 2	Year 3	Year 4	End of Yr. 4
A. Purchase price	$10.00				
B. Tax-deferred distribution	$1.00	$1.00	$1.00	$1.00	
C. Adjusted cost base (C_1-C_0)	$9.00	$8.00	$7.00	$6.00	
D. Sales price					$11.00
Capital gain less ACB (D-C)					$5.00
Taxable portion of capital gain (50% inclusion)					$2.50
Total capital gain tax (1)					$1.16

(1) Assumes top marginal rate of 46.41% in Ontario.

Source: Canaccord Capital

Tax-deferred distributions are not reported on the T3 form, and it is the unitholder's responsibility to keep track of the adjusted cost base of their units, and report the capital gain when the units are sold. Information on the tax treatment of distributions for a given calendar year is usually available in a report sent to the investor during the first quarter of the new year, or it can be obtained from the income trust's website, annual report or annual information form.

The ability of an income trust to provide tax-deferred distributions is a function of the amount and type of tax pools available to the trust. As the trusts spend capital on expanding or acquiring business operations, they are able to generate tax pools that can be used to provide tax-deferred income to unitholders. In particular, oil and gas royalty trusts have been able to increase the size of their tax pools through acquisitions and capital expenditures, which can in turn increase the amount of tax-deferred distributions paid.

Non-resident taxation

Distributions paid to unitholders who are non-residents of Canada are typically subject to a withholding tax at a rate of 25%, pursuant to the Income Tax Act of Canada. This withholding rate may be reduced in accordance with provisions of a tax treaty between Canada and the unitholder's country of residence. For instance, the withholding rate for residents of the United States has been reduced to 15% from 25%.

We would encourage non-residents to seek advice from a qualified tax advisor in their country of residence on how distributions will be taxed.

STRUCTURES OF INCOME FUNDS

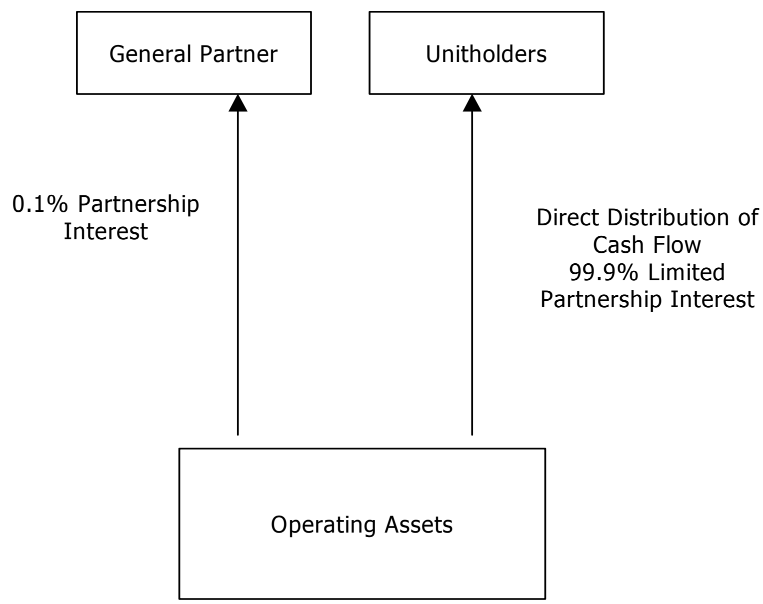
Within the broader heading of "Income Trust," there are four different investment structures:

- Limited partnerships
- Oil and gas royalty trusts
- Income trusts
- Real estate investment trusts (REITs)

LIMITED PARTNERSHIP

A limited partnership is the simplest structure in the income trust universe.

Figure 8: Structure of a limited partnership



Source: Canaccord Capital

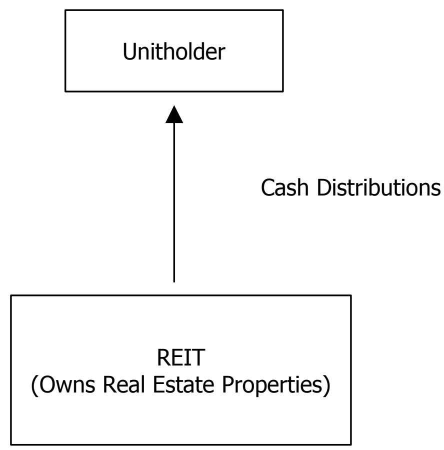
Examples of limited partnership units are Inter Pipelines, Fort Chicago Energy Partners and TransCanada Power. In a limited partnership, the limited partnership owns the assets of the underlying business, and investors buy units of the limited partnership that trade on the TSX exchange. The assets are managed by a general partner, typically closely related to the sponsor of the partnership. There are three key points with limited partnerships that make them very distinct from the other types of income trusts:

- Limited partnerships are counted as foreign property in Retirement Savings Plan accounts, and thus count towards the 30% foreign content limit when held in this type of account.

- Non-residents of Canada may not own limited partnership units, whereas conventional income trusts, REITs as well as oil and gas royalty trusts are qualifying RSP investments, and eligible for foreign ownership up to a 49% limit.
- Owners of limited partnership units have limited liability to the obligations of the partnership – just as shareholders of a corporation have limited liability to the corporation. We would note that unitholders of income trusts may potentially under certain circumstances have unlimited liability.

REAL ESTATE INVESTMENT TRUSTS (REITS)

Figure 9: Structure of a REIT



Source: Canaccord Capital

REITs are unique among the trusts in that they are allowed to own the business assets directly, which eliminates the need to involve wholly owned subsidiaries that use high yield debt or equity to minimize the corporate tax.

Within the REIT universe, there are several sub-sectors with unique characteristics:

Office REITs – Office real estate investment trusts may own, manage, lease, develop, or redevelop office properties. Office REITs can be differentiated by class A and class B office buildings. An example of an office REIT is O&Y.

Apartment REITs – Apartment REITs can focus on the development, acquisition, or management of multi-family units. Such units can consist of apartment buildings or townhouses. Examples of apartment REITs include Canadian Apartment Properties, and Northern Properties.

Retail REITs – This type of REIT focuses on the acquisition, ownership and redevelopment of retail centres. Retail REITs can be distinguished by freestanding retail outlets, regional malls, and shopping centres. An example of a retail REIT is Canadian REIT.

Healthcare REITs – This type of REIT invests in healthcare facilities such as nursing homes and assisted living facilities. Healthcare REITs specialize in healthcare facilities, including acute care, rehabilitation and psychiatric hospitals, medical office buildings, nursing homes and assisted living centres. An example of a healthcare REIT is Retirement Residences.

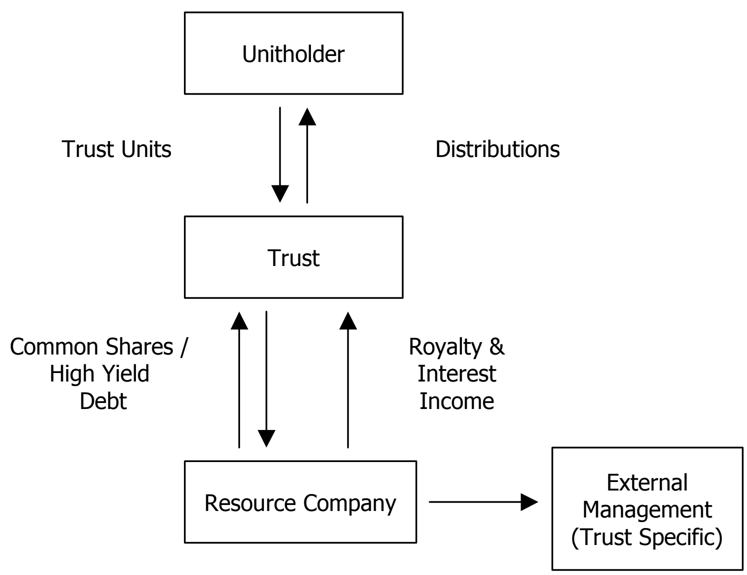
Hotel REITs – This type of REIT specializes in owning and acquiring lodging complexes such as hotels, motels, and resorts. Hotel REITs can be distinguished by mid-market limited service or first-tier full service hotels. Examples of hotel REITs include Canadian Hotel Income Properties, InnVest, and Legacy Hotels.

These separate classes of REITs can be segmented from lowest to highest level of risk due to the underlying assets: Apartment, Healthcare, Retail, Office, and Hotel. Generally, the quality/turnover rate of the leaseholder and the level of economic variability will affect the risk of the REIT.

ROYALTY TRUSTS

The most common royalty trusts are the conventional oil and gas royalty trusts (for example ARC Energy Trust, Pengrowth Energy Trust and NAL Oil & Gas Royalty Trust). Royalty trusts are typically structured as follows:

Figure 10: Structure of a royalty trust



Source: Canaccord Capital

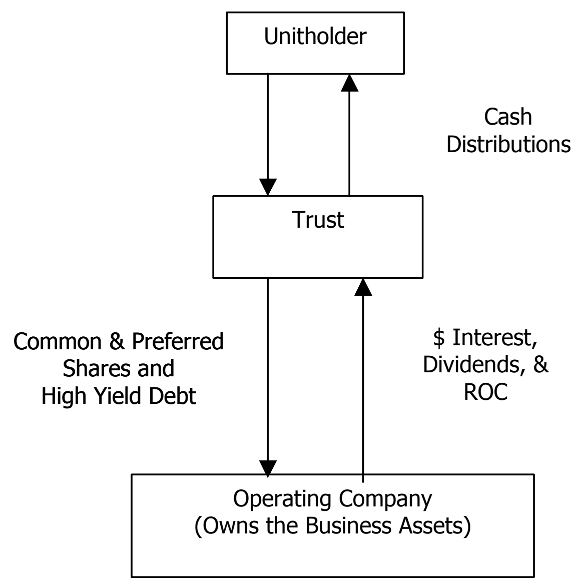
The resources (i.e. oil and gas assets) are typically held below the trust structure through a share ownership. The trust, either through shares or debt, purchases a royalty from the resource company, which allows cash flow to flow from the resource company to the trust on a "before tax" basis. As a result of the "royalty" purchased, tax pools associated with acquisition purchases (COGPE tax pools in the case of oil and gas royalty trusts) flow from the resource company to the trust for the benefit of the trust unitholders. It is this tax pool that creates the "return of capital" component of the distribution that the trust unitholder receives.

INCOME TRUSTS

The majority of funds use a variation of this structure in which a combination of high yield debt and equity serves to flow the income from the corporate entity into the trust owned by unitholders. The interest payments on the high yield debt owed to the trust by the operating company are tax deductible, and are generally sufficient to ensure that no tax is paid at the operating company level. Examples of income trusts include Chemtrade Logistics Income Fund and Superior Plus Income Fund.

Most of the power income funds have publicly traded power operating companies as a sponsor. The operating companies have an interest in the income fund, typically 30-50%. This provides stable distributions, but it also provides for access to a lower cost of capital. The operating company may look to sell more assets to the fund to fuel further growth of the operating company. Of course, the transaction must be beneficial to the fund as well and will typically require the asset to be a mature facility with stable cash flows and be accretive to distributions, among other criteria. The operating company will also typically be paid a bonus (a percentage of increased distributions).

Figure 11: Structure of an income trust



Source: Canaccord Capital

ISSUES GOING FORWARD

Index inclusion

Currently, income trusts (including REITs, limited partnerships, exchangeable shares and royalty trusts) are not included in the S&P/TSX Composite Index – as per the S&P/TSX Index Committee.

With the huge growth and increasing popularity of the sector, we believe that it is only a matter of time before the S&P revises their inclusion rules to include income trusts, although the issue of unlimited liability must be decisively settled in order for this to occur.

Index inclusion would open the potential unitholder base to a much wider audience of investors including index funds that must now become buyers of the trusts, and legitimatize the sector through increased recognition.

Figure 20 lists the TSX Composite Index, including the income trusts and REITs currently members of the S&P/TSX Income Trust Index. The inclusion would significantly alter the index composition, as 40 trusts could be included in the composite based on market capitalization, and two are on the cusp of inclusion in the TSX 60 Index.

While we believe it is a question of "when" rather than "if" income trusts are put into the Composite Index, the mechanics of rolling the trusts into the broader index in an orderly fashion will be tricky. The fact that some of the trusts are large enough to be considered for inclusion in the TSX 60, coupled with the fact that the level of institutional ownership is very low relative to the broader market, means that there would be an explosion in demand, which would drive unit prices sharply upward.

Unlimited liability

One of the issues that has kept the trusts out of the index, and a number of institutional investors from holding them, is the potential for unlimited liability that is inherent in a mutual fund trust. Shareholders of corporate entities, by statute law, are afforded limited liability from the obligations of the corporation. With an income trust (which is defined under the Trustee's Act as a mutual fund trust), there has been no definition under the Trustee's act as to what defines the legal liability to unitholders of the trust – if any – in the event of corporate default or legal action. With a corporate entity, shareholders have limited liability from the obligations of the corporation.

At this time, the Ontario government has tabled Bill 41 which implements among other things, the Trust Beneficiaries Liability Act, whose objective is "to clarify that investors in publicly traded trusts would not be liable for the activities of the trust or the trustees" – effectively granting limited liability. Unless the Premier calls an election, or there is unusually strong opposition to this particular Bill, we believe that this will be passed by the end of the summer. Once Ontario passes this legislation, other provinces, including Alberta and British Columbia will be quick to follow suit.

Removal of unlimited liability is the first step towards index inclusion, and increasing investor participation from pension funds and institutional investors in this asset class.

While the possibility of unitholders being held liable for obligations of the trust is remote, until there are changes to the Trustee's Act, the potential for unlimited liability will exist.

Exchange traded funds

Standard & Poor's has created the Canadian Income Trust Index and two sub-indices that include 40 constituents in six Global Industry Classification Standards sectors, having a float of approximately $33 billion. The two sub-indices are the Canadian Energy Trust Index and the Canadian REIT Index, representing floats of $14.3 billion and $6.7 billion respectively. The constituents of the indices are capped at a 25% maximum market capitalization within the index. Barclays Global Investors Canada has been licensed to create an exchange traded fund on the Toronto Stock Exchange based on the aforementioned REIT Index. Over time, we expect the Income Trust Index will grow to include a number of the new issues that meet its market capitalization requirements of approximately $200 million and its one-year listing requirement. The indices and the fund were launched on October 15, 2002. The composition of the index as of June 4, 2003 is listed in Figure 12. Since inception, Davis & Henderson, Acclaim Energy Trust, and Fording Canadian Coal Trust have entered the index, replacing Freehold Royalty Trust, Morguard REIT and O&Y REIT as the original constituents.

Figure 12: S&P/TSX Income Trust Index – June 4, 2003

	Name	Sector	Current Weight in the Composite	Current Weight in REIT Index	Current Weight in Energy Index
1	Acclaim Energy Trust	Energy	1.94%		4.39%
2	Advantage Energy Income Fund	Energy	1.40%		3.17%
3	Algonquin Power Income Fund	Utilities	1.91%		
4	APF Energy Trust	Energy	1.05%		2.37%
5	ARC Energy Trust	Energy	5.10%		11.56%
6	Atlas Cold Storage Income Trust	Industrials	2.22%		
7	Canadian Apartment Properties REIT	Financials	1.25%	6.07%	
8	Canadian Hotel Income Properties Reit	Financials	0.67%	3.27%	
9	Canadian Oil Sands Trust	Energy	7.71%		17.45%
10	Canadian Real Estate Inv	Financials	2.18%	10.60%	
11	Cominar Real Estate Investment Trust	Financials	0.78%	3.80%	
12	Davis & Henderson Income Fund	Financials	1.66%		
13	Energy Savings Income Fund	Utilities	2.44%		
14	Enerplus Resources Fund	Energy	8.61%		19.44%
15	Fording Canadian Coal Trust	Materials	2.36%		
16	Fort Chicago Energy Partners LP	Utilities	2.00%		
17	Great Lakes Hydro Income Fund	Utilities	1.14%		
18	H&R Real Estate Investment	Financials	3.31%	16.08%	
19	Inter Pipeline Fund	Energy	1.89%		
20	Labrador Iron Ore	Materials	1.12%		
21	Legacy Hotels Real Estate Investment Trust	Financials	1.12%	5.46%	
22	NAL Oil & Gas Trust	Energy	1.07%		2.43%
23	NCE Petrofund Corp	Energy	2.31%		5.23%
24	North West Co Fund	Consumer Discretionary	1.14%		
25	Northland Power Income Fund	Utilities	1.28%		
26	Pembina Pipeline Income Fund	Energy	3.41%		
27	Pengrowth Energy Trust	Energy	5.44%		12.32%
28	PrimeWest Energy Trust	Energy	3.59%		8.14%
29	Provident Energy Trust	Energy	1.98%		4.48%
30	Residential Equities REIT	Financials	1.18%	5.70%	
31	Retirement Residences REIT	Financials	2.43%	11.77%	
32	RioCan REIT	Financials	7.13%	25.41%	
33	Shiningbank Energy Income Fund	Energy	2.24%		5.08%
34	Summit Real Estate Investment Trust	Financials	2.44%	11.84%	
35	Superior Plus Income Fund	Industrials	3.55%		
36	Timberwest Forest Corp	Materials	2.65%		
37	Transalta Power LP	Utilities	1.02%		
38	Transcanada Power LP	Utilities	2.64%		
39	Viking Energy Royalty Trust	Energy	1.74%		3.94%
40	Westshore Terminals Income Fund	Industrials	0.92%		

Source: S&P

Revenue Canada

Because the structure of an income trust is tax advantageous and can potentially reduce the total amount of tax paid to the Canada Customs & Revenue Agency, there have been a number of articles in the media discussing this opportunity loss – essentially "will the CCRA kill the golden goose?" On one hand, by reducing the taxation at the corporate level, there exists an opportunity loss to the CCRA. On the other, tax rates for individuals are typically higher than the corporate tax rates. Additionally, the trust structure has allowed a number of companies access to the capital markets they may not have had access to previously, and we have seen cross-border transactions where US companies are taking advantage of the trust structure and the Canadian capital markets. At this point, we will not speculate on what actions, if any, may be taken by the federal government. However, we would warn investors of the probability of tax law changes.

New businesses

As mentioned previously, the size of the income trust market and the number of separate business lines have mushroomed over the past five years. We expect this trend will continue based on a number of observations:

- The total returns of royalty trusts and REITs have generally outperformed their corporate peers over long time periods
- The current exceptionally low interest rate environment has attracted yield-hungry investors to invest in the much higher yields on income trusts to boost portfolio returns
- The structure is attractive to public or private companies that wish to realize additional value for their shareholders – income trust valuations are often much higher than their public or private sector counterparts

While the increasing number of income trusts available to investors provides the benefits of diversification among industries and varying yields, we would caution investors that direct comparisons of cash on cash yields among trusts in different business categories may not be appropriate – all yields are not the same. The risk/reward profile for each trust must be considered before valid comparisons across sectors can be made. In assessing trusts that operate across different business lines, investors must be aware of items such as commodity exposure, contractual arrangements that limit revenue variability (such as take or pay contracts for pipelines), degree of leverage, the maturity of the industry, and the trust's position within its industry (dominant or not).

The ability to borrow

Early in 2003, we saw a number of the custodian companies clamp down on the lending of income trust units, since income trusts are not considered permitted lending investments due to the fact that the income trust act that enumerates the allowed investments pre-dates the development of the income trust! The effect of this was an almost complete inability to short-sell the trusts.

At this time, the ability to borrow has improved. However, it does outline some of the growing pains that can crop up with an emerging asset class.

Increasing capital markets sophistication

As the income trust market matures, we believe that they will look to more sophisticated sources of financing their capital needs. Already, trusts have moved from a simple bank debt/equity capital structure, to ones that include portions bank debt, secured receivables, term debt, convertible debentures, and private equity. Because of the transparency inherent in the underlying cash flows and the need to externally finance acquisitions or growth capital expenditures, we believe that income trusts will be at the forefront in adopting more exotic financing alternatives.

The rush to re-org

Oil and gas producers continue their headlong rush to convert themselves to oil and gas royalty trusts. Over the past six months, there have been five announced conversions to royalty trusts worth approximately $3.3 billion in market capitalization. The trend appears to be accelerating, as the large valuation gap between the trusts and producers makes it attractive for management to add immediate value to its shareholders via an expected jump in stock price.

Additionally, companies such as Fording Coal and Newalta have completed their conversion into income trusts. We believe this trend will continue to gain momentum in the future for non-oil and gas royalty trusts, as investors and companies see the benefits that an income trust structure can offer the right type of business.

Management contracts

The oil and gas royalty trusts were originally created with an external management structure outside of the trust. For the management of the trust's oil and gas assets, the manager would receive fees based on a percentage of operating income and transaction fees for acquisition and dispositions for the contract term.

Management structures have been a contentious issue as a result of potential conflicts arising from the fee structure and alignment with unitholder interests. Over the past six months, we have seen an increasing number of management internalizations in both oil and gas royalty trusts (NCE Petrofund and Provident Energy Trust to name a few) and diversified income trusts (Superior Plus). Virtually all of the existing trusts with management contracts have now internalized – a process that is similar to what happened in the REIT market during the 1990s. New trusts are generally structured with a long-term incentive program that rewards management with units on a sliding scale, when per unit distribution targets have been exceeded. This compensation method is much more comparable to traditional option-based plans implemented by corporations.

RISKS

In addition to the business specific risks inherent within the operating businesses of each trust, there are several factors that can materially affect the distributions and unit prices of the income trusts.

Leverage

Because income trusts pay out the majority of their cash flow to unitholders, there is very little left for debt repayment or capital expenditures. If the trust gets into a situation where the debt covenants are triggered, the trust may have to reduce or eliminate distributions to unitholders in order to satisfy its financial obligations to its lenders. In the past, there have been several commodity-based trusts that had to eliminate distributions in order to repay bank debt. Additionally, companies that borrow to pay for capital expenditures or acquisitions may eventually recapitalize by issuing equity to repay bank debt, which could dilute distributions.

Interest rates

As income trusts are high-yielding equities, their cash-on-cash yield will fluctuate with changes in the prevailing interest rate environment. Yields between bonds and income trusts have a strong correlation – as bond yields fall, trust yields fall and unit prices rise, and vice versa. For trusts that have no commodity exposure and very stable revenue streams (such as the pipeline or power trusts), the interest rate sensitivity is higher than trusts that have more exposure to the business cycles or commodity prices.

Commodity risk

Trusts with exposure to commodity prices will have a higher risk level associated with them than trusts without commodity exposure. Distributions will have a larger volatility associated with them as the commodity moves through the cycle. Trusts with commodity exposure would be expected to have a higher yield than trusts with no commodity exposure, to compensate investors for the additional risk involved.

Bond rating agencies – S&P and DBRS

As a measure of the relative stability of distributions across various sectors, Standard & Poor's has created the Canadian Stability Rating system, which rates the funds according to S&P's analysis of the sustainability of the cash flows on a 1 to 7 basis from most stable to least stable.

In March of 2003, DBRS launched a similar system that rates the funds on the company's perception of the stability of distributions.

The ratings of the two agencies show little variation across names and assets classes. This is unsurprising, since trusts that have take-or-pay contracts, or fixed price sale contracts that limit revenue variability such as the power income funds and pipeline income trusts have the lowest rating, while those that are exposed to commodity price cycles will naturally have the highest ratings, indicating the higher level of risk.

Figure 13: Standard and Poor's ratings and outlook as of June 4, 2003

	S&P		DBRS	
Fund	**Rating**	**Outlook/Stability Watch**	**Rating**	**Outlook/Stability Watch**
Algonquin Power Income Fund	SR-2	Stable	STA-3	Good Stability
Amtelecom Income Fund	SR-3	Stable	NA	NA
Bell Nordiq Income Fund	SR-2	Stable	NA	NA
Boralex Power Income Fund	SR-2	Positive	STA-3	Good Stability
Brompton Stable Income Fund	SR-1	Stable	NA	NA
Calpine Power Income Fund	SR-2	Stable	NA	NA
Canadian Oil Sands Trust	SR-4	Positive	NA	NA
Citadel S-1 Investment Trust	SR-1	Stable	NA	NA
Clean Power Income Fund	SR-2	Stable	STA-3	Good Stability
Consumers' Waterheater Income Fund (The)	SR-2	Stable	NA	NA
Fort Chicago Energy Partners L.P.	NA	NA	STA-2	Very Good Stability
Firm Capital Mortgage Investment Trust	SR-3	Stable	NA	NA
Gaz Metropolitain and Co. LP	SR-1	Stable	STA-1	Highest Stability
Great Lakes Hydro Income Fund	SR-2	Positive	STA-2	Very Good Stability
Home Equity Income Trust	SR-2	Stable	NA	NA
Innergex Power Income Fund	SR-2 (prelim)	Positive	NA	NA
Inter Pipeline Income Fund	SR-3	Watch Pos	STA-3	Good Stability
Keyspan Facilities Income Fund	SR-3 (prelim)	Stable	NA	NA
Labrador Iron Ore Royalty Income Fund	SR-3	Stable	NA	NA
NCE Petrofund	SR-5	Watch Pos	NA	NA
Noranda Income Fund	SR-2	Stable	NA	NA
Northland Power Income Fund	SR-2	Stable	STA-3	Good Stability
Pembina Pipeline Income Fund	NA	NA	STA-2	Very Good Stability
Pengrowth Energy Trust	SR-4	Positive	NA	NA
PrimeWest Energy Trust	SR-5	Positive	NA	NA
RioCan Real Estate Investment Trust	SR-2	Stable	NA	NA
Sentry Select Diversified Income Trust	SR-3	Positive	NA	NA
Series S-1 Income Fund	SR-1 (prelim)	Stable	NA	NA
TransAlta Power L.P.	SR-1	Stable	STA-2	Very Good Stability
TransCanada Power L.P.	SR-1	Stable	STA-1	Highest Stability
Westshore Terminals Income Fund	SR-4	Negative	NA	NA

Rating Definitions

SR-1 Funds rated 'SR-1' have the HIGHEST level of cash distribution stability relative to other rated Canadian income funds.
SR-2 Funds rated 'SR-2' have a VERY HIGH level of cash distribution stability relative to other rated Canadian income funds.
SR-3 Funds rated 'SR-3' have a HIGH level of cash distribution stability relative to other rated Canadian income funds.
SR-4 Funds rated 'SR-4' have a MODERATE level of cash distribution stability relative to other rated Canadian income funds.
SR-5 Funds rated 'SR-5' have a MARGINAL level of cash distribution stability relative to other rated Canadian income funds.
SR-6 Funds rated 'SR-6' have a LOW level of cash distribution stability relative to other rated Canadian income funds.
SR-7 Funds rated 'SR-7' have a VERY LOW level of cash distribution stability relative to other rated Canadian income funds.
STA-1 Highest stability and sustainability of distributions per unit
STA-2 Very good stability and sustainability of distributions per unit
STA-3 Good stability and sustainability of distributions per unit
STA-4 Adequate stability and sustainability of distributions per unit
STA-5 Weak stability and sustainability of distributions per unit
STA-6 Very weak stability and sustainability of distributions per unit
STA-7 Poor stability and sustainability of distributions per unit

Source: Standard & Poor's and DBRS

Risk continuum

While it is difficult to place individual trusts in an ordered risk ranking, we can segregate several classes of trusts from lowest risk to highest risk, and include the corresponding S&P/DBRS ratings.

Figure 14: Risk rating

Income trust sector		S&P stability rating	DBRS stability rating
Power income funds	Lowest risk	SR-1 to SR-2	STA 1 to STA 3
Pipeline income funds	↓	SR-3	STA 1 to STA 3
REITs		SR-3	N/R
Business trusts		SR-2 to SR-4	N/R
Oil & gas royalty trusts	Highest risk		
Commodity-based trusts		SR-4 to SR-7	N/R

Source: Canaccord Capital, Standard & Poor's, DBRS

Generally, the risk spectrum moves from trusts that have low degrees of revenue volatility due to take or pay contracts, fixed price guarantees, and volume commitments, etc. through to trusts that have more economic exposure to those that have commodity and volume risk, such as oil and gas royalty trusts.

Because income trusts offer equity ownership in an underlying business, they have a similar risk profile to conventional equities. We would remind investors that there are no guarantees with regards to the distribution policy of an income trust to either fixed or minimum levels of distribution, and that distributions may not remain constant over time. Like common equity, there is no guarantee on the return of an investor's original investment at a specified maturity date.

GENERAL QUESTIONS

Q: How do income trusts continue to exist if they pay out all of their cash flow as distributions?

A: The underlying businesses in most income trusts are generally in mature industries that have both low capital requirements to maintain existing operations, and limited opportunities to acquire or grow revenues. The capital expenditures necessary to maintain productive capacity are either funded from cash flow before distributions are paid, or funded by drawing on bank debt. Trusts intend to keep their business as a going concern, while maintaining a high payout rate to unitholders.

Q: Are income trusts growth vehicles or are they harvest vehicles?

A: The growth prospect of an income trust depends entirely on the underlying business and the sector it is in. Many industries offer the opportunity for consolidation and acquisition, such as the refrigerated storage industry that has allowed Atlas Cold Storage to grow from a $64 million revenue company in 1998 to one that generates over $200 million of revenue per year. The oil and gas royalty trusts and the REITs can grow by acquiring new assets and/or companies. Some trusts have very little growth opportunities due to the fact that they are already a dominant player in a mature industry. Generally, we would expect that for trusts outside of the oil and gas royalty trusts and REITs, growth in distributions and resulting capital appreciation would be limited and most of the return to unitholders would come through distributions.

Q: Why is there such a large variability in yields among the trusts?

A: The spread in yields, from lows of 7% for power income funds and highs of 20% from some of the oil and gas royalty trusts, is primarily due to the relative risk between the funds. Of course, as an investor takes on more risk in an investment, they would necessarily require a higher expected rate of return. In this particular instance, the commodity risk, depleting asset base, and higher degree of leverage between a royalty trust and a power income fund would require a higher expected rate of return.

Additionally, other factors such as management quality, market capitalization, and growth prospects affect yields of trusts, even in the same sector.

Figure 15: Yield ranges for various classes of trusts

	Yield Range
Power income funds	7-9%
Pipeline income funds	8-11%
REITs	8-10%
Diversified business income trusts	8-15%
Oil & gas royalty trusts	12-20%

Source: Canaccord Capital

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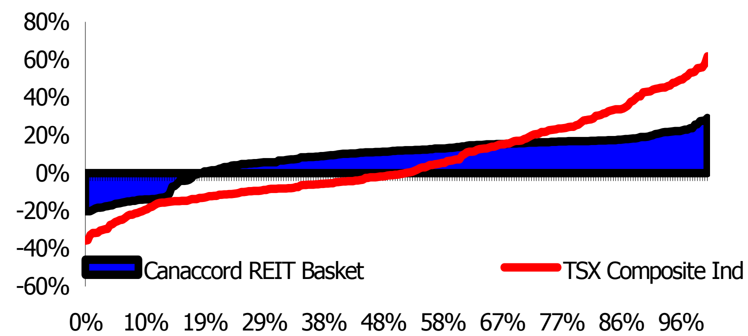
HISTORICAL RETURNS AND VOLATILITY

Our analysis has shown that over time, oil and gas royalty trusts, REITs, and income trusts have outperformed their TSX index counterparts on a risk/return basis. We have taken a one-year total return series for both the oil and gas royalty trust sector and the REIT sector and compared it to their index counterparts. The result shows that the distribution of returns is higher over the time period analyzed for both the REIT and royalty trust sectors.

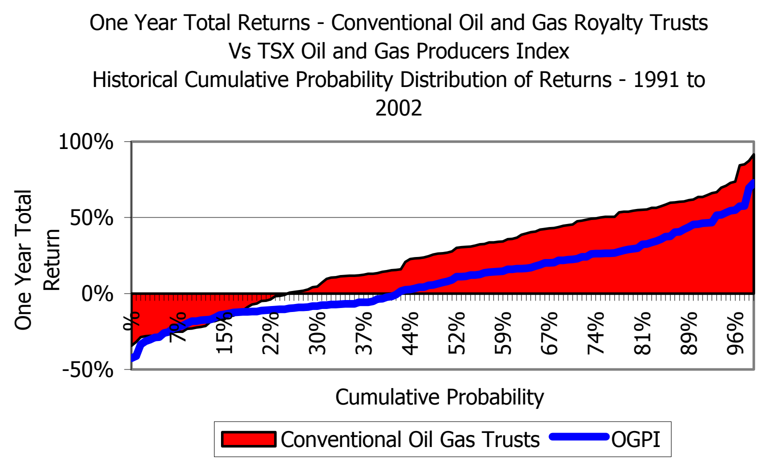
Figure 16: Cumulative 1-year RoR – REIT



Source: Canaccord Capital, Bloomberg

Year-over-year total returns for an average of ten REITs have been positive approximately 81% of the time for the past four years. These returns range from 1.4% to 22.9%. Approximately 75% of the time, REITs have outperformed the TSX Composite Index. Moreover, REITs have lower volatility. In 2002, there have been four new REITs added to the universe while we have seen one addition in 2003.

Figure 17: Cumulative returns for royalty trusts



Source: Canaccord Capital, Bloomberg

Over the observed time period for conventional oil and gas royalty trusts, only 25% of the observed trailing total returns were negative. This compares to an observation of approximately 40% for the TSX Oil & Gas Producers Index. Moreover, the royalty trusts outperformed the Oil & Gas Producers Index almost all throughout this period.

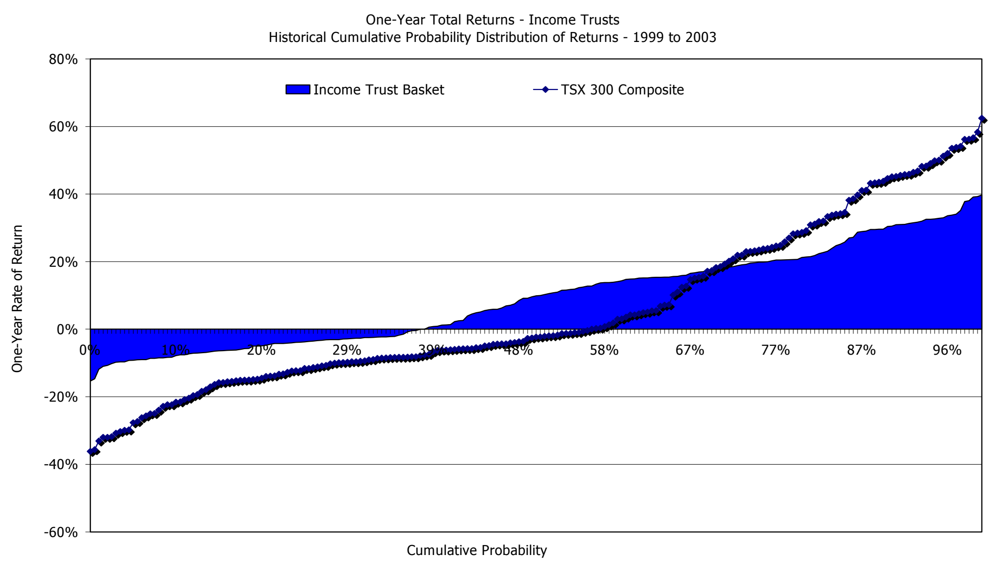
While both the Royalty Trust and REIT sectors have a long trading history (over ten years for several companies), many of the business trusts have been fairly recent IPOs. To get a proxy of how a basket of diversified business trusts would have performed, we examined weekly year-over-year total returns over the period 1998 to 2002, incorporating an equally weighted basket of 11 trusts as of October 3, 1997, and compared it to a similar investment in the TSX 300 index over the five-year period.

Our analysis has shown that returns are higher for the basket of trusts, and volatility has been lower than the broader market index.

The basket of trusts is an equal weighting of the following companies:

Atlas Cold Storage (through Associated Freezers), Gaz Metropolitan, Halterm Income Fund, IAT Air Cargo, Labrador Iron Ore, NorthWest Company, Superior Plus Income Fund, Taylor Gas Liquids, Timberwest, TransCanada Power, Westshore Terminals Income Fund.

Figure 18: Cumulative returns – Trust basket versus TSX Composite Index



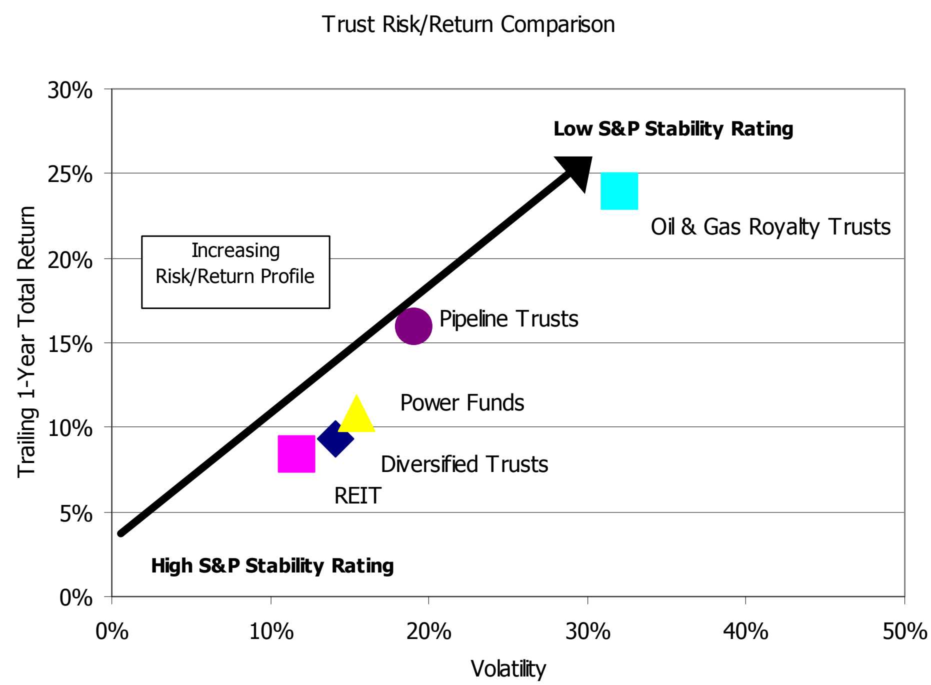
Source: Bloomberg, Canaccord Capital

While historical returns for income trusts, royalty trusts, and REITs have been exceptional, it has come during an environment of declining interest rates that saw 10 year Canada rates drop from over 7% to under 5% currently, and short-term rates drop to lows of 2.8% from 5.8% at the start of 1996. Going forward, we do not expect that the massive capital gains that characterized returns over the past five years will continue, and that most of the total return would comprise of distributions, with a reduced amount from capital gains.

Risk and return by sector

If we compare the risk/return relationships graphed above across the different sub-sectors, we can illustrate the relative risk and return across income trust sectors.

Figure 19: Historical Sharpe ratio by income trust sector



Source: Canaccord Capital

What is interesting to note is that the market is quite efficient in pricing the various sub-classes of income trusts (REIT, Power, Oil and Gas, etc.) according to their relative risk. As expected, we see that higher historical returns have accrued to the trusts with higher levels of volatility.

SUMMARY

The income trust market is maturing at an accelerated pace. Growth through IPOs and equity issues continues, and the rush to re-organize existing corporate entities into a royalty trust or income trust is picking up steam. We believe the issue of unlimited liability and index inclusion will be resolved over the course of the year, moving income trusts into a fully mainstream asset class.

APPENDIX 1 – INCOME TRUSTS AND THE S&P COMPOSITE INDEX

The table below outlines the S&P TSX Composite Index overlaid with the S&P Income Trust Index, and sorted by market capitalization. If trusts are included in the broader composite index, we would expect a significant re-organization, as several trusts are on the cusp of inclusion in the TSX 60 Index, and the 40 trusts could be included in the composite index.

We would note that there could be a dramatic impact on some of the TSX sub-indices such as the Oil & Gas Index, which consists of senior producers and junior exploration and production companies, with very few mid-sized companies. The oil and gas royalty trusts, through property and corporate acquisitions, are now of the size to effectively replace a significant number of the companies in that sub-index.

Figure 20: S&P Composite Index including S&P Income Trust Index – June 8, 2003

Number	Ticker	Name	Market cap. $M
1.	RY	ROYAL BANK OF CANADA	38,867
2.	BNS	BANK OF NOVA SCOTIA	30,188
3.	BCE	BCE INC	28,019
4.	TOC	THOMSON CORP	27,916
5.	ECA	ENCANA CORP	24,243
6	TD	TORONTO-DOMINION BANK	24,044
7.	BMO	BANK OF MONTREAL	20,001
8.	CM	CAN IMPERIAL BK OF COMMERCE	19,019
9.	MFC	MANULIFE FINANCIAL CORP	18,199
10.	SLF	SUN LIFE FINANCIAL SVSC CAN	17,686
11.	NT	NORTEL NETWORKS CORP	17,298
12.	IMO	IMPERIAL OIL LTD	17,214
13.	L	LOBLAW COMPANIES LTD	16,726
14.	PWF	POWER FINANCIAL CORP	15,730
15.	GWO	GREAT-WEST LIFECO INC	15,017
16.	PCA	PETRO-CANADA	14,369
17.	SHC	SHELL CANADA LTD	14,205
18.	AL	ALCAN INC	13,927
19.	WN	WESTON (GEORGE) LTD	13,746
20.	CNR	CANADIAN NATL RAILWAY CO	13,564
21.	ABX	BARRICK GOLD CORP	13,482
22.	TRP	TRANSCANADA CORP	11,879
23.	SU	SUNCOR ENERGY INC	11,541
24.	BVF	BIOVAIL CORPORATION	9,963
25.	MG/A	MAGNA INTERNATIONAL INC-CL A	8,794
26.	POW	POWER CORP OF CANADA	8,668
27.	ENB	ENBRIDGE INC	7,987
28.	TLM	TALISMAN ENERGY INC	7,930
29.	CNQ	CANADIAN NATURAL RESOURCES	7,440
30.	HSE	HUSKY ENERGY INC	7,398

Source: Bloomberg, Canaccord Capital, S&P

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Figure 21: S&P Composite Index including S&P Income Trust Index (Cont'd)

Number	Ticker	Name	Market cap. $M
31.	IGI	INVESTORS GROUP INC	7,346
32.	CL	CANADA LIFE FINANCIAL CORP	7,294
33.	PDG	PLACER DOME INC	6,354
34.	NA	NATIONAL BANK OF CANADA	6,126
35.	DUP/A	DUPONT CANADA INC-CL 'A'	6,033
36.	BNN/A	BRASCAN CORPORATION	5,866
37.	BBD/B	BOMBARDIER INC 'B'	5,694
38.	N	INCO LTD	5,101
39.	SC	SHOPPERS DRUG MART CORP	5,096
40.	CP	CANADIAN PACIFIC RAILWAY LTD	5,072
41.	BPO	BROOKFIELD PROPERTIES CORP	4,839
42.	T	TELUS CORP	4,418
43.	POT	POTASH CORP OF SASKATCHEWAN	4,278
44.	AIT	ALIANT INC	4,231
45.	A	ABITIBI-CONSOLIDATED INC	4,159
46.	CLS	CELESTICA INC	4,104
47.	NXY	NEXEN INC	4,084
48.	SJR/B	SHAW COMMUNICATIONS INC-B	3,924
49.	MOL/A	MOLSON INC-A SHS	3,895
50.	CSN	COGNOS INC	3,393
51.	DTC	DOMTAR INC	3,391
52.	TA	TRANSALTA CORP	3,362
53.	RCI/B	ROGERS COMMUNICATIONS -CL B	3,324
54.	FL	FALCONBRIDGE LTD	3,204
55.	NRD	NORANDA INC	3,011
56.	GIB/A	CGI GROUP INC	2,940
57.	MWI	MOORE WALLACE INC	2,938
58.	K	KINROSS GOLD CORP	2,925
59.	G	GOLDCORP INC	2,899
60.	PD	PRECISION DRILLING CORP	2,870
61.	SAP	SAPUTO INC	2,858
62.	COS-U	CANADIAN OIL SANDS TRUST	2,847
63.	CIX	C I FUND MANAGEMENT INC	2,735
64.	FFH	FAIRFAX FINANCIAL HLDGS LTD	2,723
65.	CTR/A	CANADIAN TIRE CORP -CL A	2,691
66.	MDS	MDS INC	2,687
67	ERF-U	ENERPLUS RESOURCES FUND	2,676
68.	FHR	FAIRMONT HOTELS & RESORTS	2,675
69.	ATY	ATI TECHNOLOGIES INC	2,669
70.	CCO	CAMECO CORP	2,409
71.	SBY	SOBEYS INC	2,404
72.	OCX	ONEX CORPORATION	2,400
73.	TER	TERASEN INC	2,396
74.	MBT	MANITOBA TELECOM SVCS INC	2,359
75.	NCX	NOVA CHEMICALS CORP	2,353
76.	PWT	PENN WEST PETROLEUM LTD	2,349
77.	REI-U	RIOCAN REAL ESTATE INVST TR	2,333
78.	RIM	RESEARCH IN MOTION	2,315
79.	BLD	BALLARD POWER SYSTEMS INC	2,211
80.	IQW	QUEBECOR WORLD INC	2,200

Source: Bloomberg, Canaccord Capital, S&P

Figure 22: S&P Composite Index including S&P Income Trust Index (Cont'd)

Number	Ticker	Name	Market cap. $M
81.	CU	CANADIAN UTILITIES LTD A	2,181
82.	DFS	DOFASCO INC	2,158
83.	FTT	FINNING INTERNATIONAL INC	2,097
84.	TEK/B	TECK COMINCO LTD-CL B	2,064
85.	TEU	CP SHIPS LTD	2,032
86.	SNC	SNC-LAVALIN GROUP INC	1,970
87.	GLG	GLAMIS GOLD LTD	1,959
88.	MX	METHANEX CORP	1,940
89.	MRU/A	METRO INC -A	1,931
90.	SCC	SEARS CANADA INC	1,922
91.	BCB	COTT CORPORATION	1,889
92.	AGU	AGRIUM INC	1,839
93.	EMA	EMERA INC	1,826
94.	PGF-U	PENGROWTH ENERGY TRUST	1,801
95.	TS/B	TORSTAR CORP - CL B	1,694
96.	FSH	FOUR SEASONS HOTELS INC	1,686
97.	AET-U	ARC ENERGY TRUST UNITS	1,679
98.	PJC/A	JEAN COUTU GROUP INC A	1,633
99.	ABZ	ABER DIAMOND CORP	1,574
100.	ANP	ANGIOTECH PHARMACEUTICALS IN	1,533
101.	MNG	MERIDIAN GOLD INC	1,528
102.	ESI	ENSIGN RESOURCE SERVICE GRP	1,515
103.	MHM	MASONITE INTERNATIONAL CORP	1,496
104.	IAG	INDUSTRIAL-ALLIANCE LIFE INS	1,475
105.	TPL-U	TRANSCANADA POWER L.P.	1,370
106.	AGE	AGNICO-EAGLE MINES	1,337
107.	AGF/B	AGF MANAGEMENT LTD-CL B	1,333
108.	TCL/A	TRANSCONTINENTAL INC-CL A	1,327
109.	QLT	QLT INC	1,327
110.	PKN	PETROKAZAKHSTAN INC-CL A	1,308
111.	WTO	WESTERN OIL SANDS INC CL/A	1,294
112.	WJA	WESTJET AIRLINES LTD	1,293
113.	ACM/A	ASTRAL MEDIA INC	1,281
114.	BNP	BONAVISTA PETROLEUM LTD	1,246
115.	UP	ULTRA PETROLEUM CORP	1,241
116.	ACO/X	ATCO LTD -CL 'I'	1,203
117.	PWI-U	PRIMEWEST ENERGY TRUST	1,190
118.	SPF-U	SUPERIOR PLUS INCOME FUND	1,170
119.	CAE	CAE INC	1,168
120.	NF	NEXFOR INC	1,167
121.	RCM/B	ROGERS WIRELESS COMMUN INC	1,131
122.	FDG-U	FORDING CANADIAN COAL TRUST	1,130
123.	PIF-U	PEMBINA PIPELINE INC-TR UTS	1,115
124.	HR-U	H&R REAL ESTATE INVSTMNT-UTS	1,096
125.	DII/B	DOREL INDUSTRIES-CL B	1,095
126.	CAS	CASCADES INC	1,030
127.	LIM	LIONORE MINING INTL LTD	1,006
128.	IMG	IAMGOLD CORPORATION	988
129.	FTS	FORTIS INC	968
130.	CJR/B	CORUS ENTERTAINMENT INC-B SH	960

Source: Bloomberg, Canaccord Capital, S&P

Figure 23: S&P Composite Index including S&P Income Trust Index (Cont'd)

Number	Ticker	Name	Market cap. $M
131.	MFI	MAPLE LEAF FOODS INC	958
132.	WFT	WEST FRASER TIMBER CO LTD	947
133.	ZL	ZARLINK SEMICONDUCTOR INC	947
134.	NKO	NIKO RESOURCES LTD	938
135.	MDA	MACDONALD DETTWILER & ASSOC	924
136.	GIL/A	GILDAN ACTIVEWEAR INC	904
137.	ROC	ROTHMANS INC	870
138.	OTC	OPEN TEXT CORP	869
139.	AXP	AXCAN PHARMA INC	866
140.	TWF-U	TIMBERWEST FOREST CRP- STP U	865
141.	ITW	INTRAWEST CORP	835
142.	SCL/A	SHAWCOR LTD	834
143.	KFS	KINGSWAY FINANCIAL SERVICES	832
144.	CRW	CINRAM INTERNATIONAL INC	820
145.	PTI	PATHEON INC	819
146.	EMP/A	EMPIRE CO LTD 'A'	809
147.	RRR-U	RETIREMENT RESIDENCES REIT	807
148.	SMU-U	SUMMIT REAL ESTATE INV TR-UT	806
149.	SIF-U	ENERGY SAVINGS INCOME FUND	795
150.	NCF-U	NCE PETROFUND-UNITS	790
151.	ATD/B	ALIMENTATION COUCHE-TARD -B	768
152.	IFM	BCE EMERGIS INC	752
153.	BEI	BOARDWALK EQUITIES INC	751
154.	AAC/B	ALLIANCE ATLANTIS COMM-B SHS	747
155.	TIH	TOROMONT INDUSTRIES LTD	743
156.	GLH-U	GREAT LAKES HYDRO INCOME FND	741
157.	SHN-U	SHININGBANK ENERGY INC FUND	738
158.	LMS	ASSANTE CORP	737
159.	PEY	PEYTO EXPLORATION & DEV CORP	721
160.	NS	NORSKE SKOG CANADA LIMITED	721
161.	REF-U	CAN REAL ESTATE INVEST TRUST	717
162.	IVN	IVANHOE MINES LTD	714
163.	VN	VINCOR INTERNATIONAL INC	712
164.	CMT	COMPTON PETROLEUM CORP	705
165.	RYG	ROYAL GROUP TECHNOLOGIES LTD	701
166.	HKY	HUSKY INJECTION MLDG SYS	700
167.	PVE-U	PROVIDENT ENERGY TRUST-UTS	695
168.	ATA	ATS AUTOMATION TOOLING SYS	693
169.	CLC	CML HEALTHCARE INC	691
170.	HBC	HUDSON'S BAY CO	691
171.	AE-U	ACCLAIM ENERGY TRUST	666
172.	FZR-U	ATLAS COLD STORAGE INCOME TR	656
173.	FCE-U	FORT CHICAGO ENERGY PARTNERS	655
174.	IPS	IPSCO INC	653
175.	QBR/B	QUEBECOR INC -CL B	649
176.	LNR	LINAMAR CORP	646
177.	BTE	BAYTEX ENERGY LTD	634
178.	CFP	CANFOR CORPORATION	625
179.	APF-U	ALGONQUIN POWER INC FUND-UTS	611
180.	CGS/S	CANWEST GLOBAL COMM CORP	609

Source: Bloomberg, Canaccord Capital, S&P

Figure 24: S&P Composite Index including S&P Income Trust Index (Cont'd)

Number	Ticker	Name	Market cap. $M
181.	LB	LAURENTIAN BANK OF CANADA	603
182.	IPL-U	INTER PIPELINE FUND	600
183.	FGL	FORZANI GROUP LTD-CL A	584
184.	VKR-U	VIKING ENERGY ROYALTY TRUST	580
185.	S	SHERRITT INTERNATIONAL CORP	579
186.	CRE	CREO INC	565
187.	POU	PARAMOUNT RESOURCES LTD	563
188.	CCL/B	CCL INDUSTRIES INC - CL B	544
189.	DHF-U	DAVIS + HENDERSON INCOME FND	536
190.	TVA/B	TVA GROUP INC- B SHRS	535
191.	SGB	STRATOS GLOBAL CORPORATION	530
192.	LNF	LEON'S FURNITURE LTD	524
193.	ST/A	ST LAWRENCE CEMENT GRP-CL A	513
194.	LGY-U	LEGACY HOTELS REAL ESTATE	509
195.	HUM	HUMMINGBIRD LTD	506
196.	MTL	MULLEN TRANSPORTATION INC	489
197.	PAA	PAN AMERICAN SILVER CORP	488
198.	TSM/A	TESMA INTERNATIONAL INC-CL A	482
199.	GAC	GEAC COMPUTER CORP LTD	480
200.	GND	GENNUM CORP	479
201.	IDB	ID BIOMEDICAL CORP	477
202.	FLY/A	CHC HELICOPTER CORP-CL A	471
203.	CCA	COGECO CABLE INC	471
204.	AVN-U	ADVANTAGE ENERGY INCOME FUND	469
205.	ELD	ELDORADO GOLD CORPORATION	463
206.	BGO	BEMA GOLD CORPORATION	459
207.	LIF-U	LABRADOR IRON ORE ROYALTY TR	455
208.	TEO	TESCO CORP	454
209.	MXA	MAAX INC	444
210.	NPI-U	NORTHLAND POWER INCOME TR UT	420
211.	MRE	MARTINREA INTERNATIONAL INC	417
212.	CAR-U	CAN APARTMENT PROP REAL ESTA	414
213.	CWB	CANADIAN WESTERN BANK	408
214.	DEC/A	DECOMA INTL INC-A SHRS	407
215.	WTE-U	WESTSHORE TERMINALS INC FD	391
216.	EEE	ESPRIT EXPLORATION LTD	390
217.	REE-U	RESIDENTIAL EQUITIES REIT-UT	385
218.	ALA	ALTAGAS SERVICES INC	382
219.	COB/A	COOLBRANDS INTERNATIONAL INC	376
220.	TCW	TRICAN WELL SERVICE LTD	372
221.	NWF-U	NORTH WEST COMPANY FUND	371
222.	VAS	VASOGEN INC	369
223.	UNS	UNI-SELECT INC	368
224.	DBC/A	DUNDEE BANCORP INC-CL A	363
225.	RCH	RICHELIEU HARDWARE LTD	362
226.	CFM	CFM CORP	361
227.	LSI	GSI LUMONICS INC	357
228.	SUF	SOUTHERNERA RESOURCES LTD	355
229.	NAE-U	NAL OIL & GAS TRUST-UTS	350
230.	CUF-U	COMINAR REAL ESTATE INV-TR U	347

Source: Bloomberg, Canaccord Capital, S&P

CANACCORD CAPITAL

Figure 25: S&P Composite Index including S&P Income Trust Index (Cont'd)

Number	Ticker	Name	Market cap. $M
231.	D	DUNDEE REALTY CORP	346
232.	AY-U	APF ENERGY TRUST UNITS	342
233.	HOT-U	CAN HOTEL INC PROP-TR UTS	337
234.	EFX	ENERFLEX SYSTEMS LTD	335
235.	STN	STANTEC INC	335
236.	TPW-U	TRANSALTA POWER L.P. TR UTS	333
237.	CDL/A	CORBY DISTILLERIES LTD -CL A	330
238.	AUR	AUR RESOURCES INC	327
239.	AEL	AETERNA LABORATORIES INC	308
240.	FSV	FIRSTSERVICE CORPORATION	302
241.	ZEN	ZENON ENVIRONMENTAL INC	297
242.	CAO/A	CARA OPERATIONS LTD CL 'A'	292
243.	AAH	AASTRA TECHNOLOGIES LTD	288
244.	AU	AGRICORE UNITED	287
245.	SFF	SLOCAN FOREST PRODUCTS LTD	270
246.	ITP	INTERTAPE POLYMER GROUP INC	264
247.	EXE/A	EXTENDICARE INC -CL A	248
248.	GBU	GABRIEL RESOURCES LIMITED	229
249.	VH	VAN HOUTTE INC	229
250.	ISA	ISOTECHNIKA INC	224
251.	WCS/A	WESCAST INDUSTRIES INC-CL A	204
252.	STE/A	STELCO INC-CL A	201
253.	IFP/A	INTL FOREST PRODUCTS CL A	184
254.	TUV	TROJAN TECHNOLOGIES INC	177
255.	DSG	DESCARTES SYSTEMS GRP (THE)	175
256.	AC	AIR CANADA	165
257.	LTV	LEITCH TECHNOLOGY CORP	146
258.	TRZ	TRANSAT A.T. INC	136
259.	NQL/A	NQL DRILLING TOOLS INC-CL A	91

Source: Bloomberg, Canaccord Capital, S&P

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