Income Trusts: Heads I Win, Tails You Lose

Retail Investors and Pension Funds Take Note of the Flawed Structure

Prepared by: Diane Urquhart, Independent Consulting Analyst
Date: October 12, 2006
Telephone: (905) 822-7618
Cellular Phone: (416) 505-4832
E-mail: urquhart@rogers.com

Table of Contents

Executive Summary **4**
Cash Yields are Inaccurate and Misleading **7**
Focus on Cash Yields is Inflating Valuations 7
Income Yields are Closer to 5.2% than the 8.3% Reported Cash Yields 8
Return of Capital Distributions Do Not Add to Fair Value 8
The Structural Defects of Business Income Trusts are Already Causing Losses 10
The Present Value of Future Cash Flows Demonstrates the Inaccuracy of Cash Yields 10
The Deception of Not Deducting Capital Asset Replacement Costs **12**
There is recent evidence that strategic buyers of an income trust are impacted by the need for extensive renovation and replacement of properties - in the sale of Retirement Residences REIT. The National Post article by CarrieTait, "Reality reit snubs Reichmann and takes lower bid," dated October 7, 2006 says: 15
Distributions Financed By Debt Are Like Ponzi Schemes **16**
Income Yield a Better Proxy for Prospective Investment Return **17**
S & P Stability Ratings Do Not Measure the Risk of Yield or Target Price **21**
Cash Yield Valuation Inflates Unit Prices and Lowers Return on Investment **23**
Income Trusts Not A Better Structure Than Corporations **25**
Tax Parity for Retail Taxable Accounts 25
The Pre Tax and After Tax Pricing Deception 26
Income Trusts Not Higher Fair Value than Corporations With Tax Parity 29
Company Acts Restrict Dividend Payouts That Diminish or Impair Capital 31
Pension Funds Should Prefer Corporations and Demand Higher Income Trust Yields 32
Income Trusts are Riskier than Equities **34**
Is Every One Except the New Buyer Getting Rewarded for Income Trust Conversions? **35**
Business Income Trusts in Significant Capital Loss Without a Recession **37**
Who are the Regulators and Self-regulators Breaching Seniors' Trust? **37**
The Deficiency of Remedies for Investors' Losses **38**
The Solutions **39**
Canadian Accounting Standards Board Solutions 39
Provincial Securities Commissions and the Canadian Securities Administrators Solutions 41
Canadian Association of Income Funds Solutions 42
Federal Government Solutions 43
APPENDIX I - Business Income Trust Initial Public Offerings Since January 1, 2001 In Capital Loss As Of October 12, 2006 ..... **46**
APPENDIX II - Business Income Trusts Sorted by Distribution to Income Ratio As of October 12, 2006 ..... **46**

List of Figures

Figure 1: Cash Yield Valuation Methodology is Inaccurate 9
Figure 2: Cash Yield Methodology Inflates Income Trust Valuation 12
Figure 3: Replacement of Capital Assets and the Value of Income Trust........................ 13
Figure 4: Terminal Value Impaired By Capital Assets Needing to Be Replaced............. 15
Figure 5: Terminal Value Reduced By Debt 17
Figure 6: Income Yield Versus Cash Yield Valuation 18
Figure 7: Valuation Using Cash Yield Versus Income Yield... 19
Figure 8: Future Value of Income Trust Investment at 145% Payout - Cash Yield Methodology 24
Figure 9: Future Value of Income Trust Investment at 100% Payout 24
Figure 10: Tax Parity for Retail Taxable Accounts.. 25
Figure 11: Calculating Pre Tax Equivalent P/Es, P/CFs and Yields 26
Figure 12: Pre-Tax Equivalent P/E's, P/CF's & Cash Yield% 28
Figure 13: Income Trusts Versus Corporations Valuation at Different Payout Ratios 29
Figure 14: Corporations Concede P/E Growth Multiple on Conversion into IncomeTrust 31
Figure 15: Pension Funds Versus Retail Fair Valuation... 34
Figure 16: Income Trust Falls More Than Corporation in Recession 35

Executive Summary

Business income trusts will likely suffer a 25% to 35% correction as an asset class. The accident can happen at any time and is most likely to occur when Canada enters recession. Income trusts are too risky for seniors and other conservative investors because the business model is flawed and rife with accounting problems.

Income trust conversions will continue to occur as long as their overvaluation exists, even if Canada moves to complete tax parity for non-taxable and foreign investors, as well as for taxable investors. The overvaluation is occurring because: (a) the majority of income trusts pay distributions in excess of income, without a public disclosure requirement to distinguish between income and return of capital distributions; and (b) market players are not doing pre tax equivalent adjustments on the valuation parameters used to compare income trusts with corporations.

63% of a sample of 135 business income trusts from the Reuters Trader Workstation currently pay distributions above income. The current average distribution to income ratio is 160%. Canadian company acts legally restrict dividend payouts above income for corporations when these diminish or impair capital. Corporations pay special dividends for the return of capital, and these are clearly understood not to be sourced from recurring income.

In Figure 13, the market capitalization weighted P / E of 135 business income trusts is 15.9 X compared to the pre tax equivalent P / E of 10.3 X for the public corporations in the TSX/S&P60 index and 10.4 X for a sample of 20 non-cyclical Canadian public corporations. If this P/E multiple premium dissipates, the capital loss for business income trusts would be about -35%.

The market capitalization weighted P / CF of the business income trusts is 11.0 X compared to the pre tax equivalent P / CF of 8.0 X for the public corporations in the TSX/S&P60 index and 7.8 X for a sample of 20 non-cyclical Canadian public corporations. If this P / CF multiple premium dissipates, the capital loss for business income trusts would be about -25%.

The structural flaws of income trusts are already causing losses for seniors and other conservative investors in income trusts. There are 54 business income trusts, or 44% of all the business income trust IPOs issued within the past five and three quarter years, that are in a capital loss relative to their initial public offering prices. The average percentage capital loss amongst these losing business income trust IPOs is 36%. Total capital losses are estimated to be $3.8 billion in these 54 IPO names, of which $3.0 billion is in the IPO public float. Total future business income trust capital losses may reach $18 to $25 billion.

The 135 business income trusts in our sample have an average cash yield calculation of 8.4% at October 12, 2006. This calculation includes an undisclosed return of capital. It is inaccurate to include the return of capital distributions in the cash yield calculation because a prudent cash flow analysis over a 10 year horizon

assumes that the return of capital to unitholders has an equal reduction of the unit's terminal value or long term sale price.

Accountability Research, Standard & Poor's, and the Canadian Securities Administrators have found income trusts are funding the return of capital primarily from funds saved by not replacing depreciating capital assets. Figure 3 shows that the income trust fair value is very sensitive to the assessed replacement life of depreciating capital assets. The cash yield methodology produces overvaluation of 45% when there is no deduction for replacing capital assets with a 10 year life. The overvaluation is 68% when the capital assets have to be replaced every 8 years and 32% for a 12 year replacement cycle. This wide variation in fair value is why there are accounting standards for the life of capital assets in various asset classes and for depreciation cost methods. Our capital markets cannot function effectively if every management, every portfolio manager and every unsophisticated retail investor is suppose to surmise the right replacement life of an income trust's capital assets.

This report concludes that income yields are a better proxy for fair value of income trusts than cash yields because there are consistent Cdn GAAP depreciation charges deducted from net income. Figure 7 shows that reported income yield understates fair value by about 10%, whereas cash yield (without any maintenance capex deductions) overstates fair value by 45% for the 10 year replacement life. Reported income is understated because depreciation charges are higher than the annual cash deposit required in a reserve fund for the replacement of depreciating capital assets at the end of their replacement life.

Figure 6 illustrates that the debt financing of return of capital distributions has the same impact on the fair value of an income trust as underspending on depreciating capital assets. The accumulating debt used to fund excess distributions must be repaid and depletes the future equity value of the business. There is evidence that business income trusts do use credit to fund return of capital distributions, such as the Teranet Income Fund $70 million credit facility to be used in part to normalize distributions.

Standard & Poor's Canadian Stability Ratings are not intended to measure the risk of the reported cash yield or the expected target price of income trust units. Yet, the income trusts and investment banks use S & P Stability Ratings in their marketing materials for this purpose. 84% % of the total income trust market is not rated by S & P Canadian Stability Ratings.

When there is tax parity, corporations should not be converting to income trusts. Figure 12 provides fair value P / E ratios for corporations at different payout ratios and different inherent growth rates and from the perspective of taxable accounts. When a very profitable growing corporation converts to an income trust with a high distribution to income payout ratio, it concedes growth and its growth P/E multiple. Also, the corporation can raise its own dividend payout ratio to offer the same after tax annual income to retail investors, without bearing the time and costs of an income trust conversion. Adjusted pre tax cash flow from operations does not

suddenly increase when corporations convert to income trusts, so valuations under tax parity should not mystically lift upon conversion either.

Figure 17 shows that pension funds should always prefer the corporation over income trust structure, where the corporation has a dividend payout ratio less than 75% of income. Pension funds should not be prepared to concede long term growth for the objective of a lower stable income. Current income trust yields do not compensate for the risk in these equity securities.

If pension funds are confronted with the choice between the income trust or corporation structure for a business planning to have a distribution to income payout of more than 75%, then the income trust is the best choice, because it has lower business taxes. But, pension funds should instead be pushing for the corporation structure with lower payout ratios to foster greater long term growth.

We need a transparent income trust marketplace, since a bifurcated market where sophisticated market players take advantage of unsophisticated retail investors is not acceptable. We cannot have unsophisticated retail investors being advised to buy income trusts on a cash yield measure, that is an inaccurate measure of the return on investment and has no meaning compared to other income trusts.

Provincial trust laws governing income trusts should restrict distributions to income. Income trusts wishing to pay return of capital should from time to time make special distributions.

The CAcSB should require income trusts to report both income distributions and return of capital distributions. Both of these terms should be defined in the Handbook and the Handbook should prohibit use of the term distributions as the sum of income distributions and return of capital distributions.

The provincial securities commissions need to set a new requirement for income trust prospectuses and other public disclosure documents and for investment bank marketing materials that estimated distributable cash and cash distributions show the breakdown between income and return of capital. The income yield for income trusts should be calculated and clearly provided.

The Federal Income Tax Act should add a prescribed condition for a mutual fund trust to report income distributions and the return of capital distributions, and not the combined distributions. Any income yield presented must be calculated and clearly provided.

Cash Yields are Inaccurate and Misleading

Focus on Cash Yields is Inflating Valuations

The income trusts, investment banks, income mutual funds, data vendors and business media focus on the distributions paid per unit and the cash yield of income trusts. The cash yield is calculated as the cash distributions per unit divided by the price of the unit. The ability to pay the cash distributions is typically assessed on the basis of the so-called payout ratio, defined as the cash distributions divided by the estimated distributable cash. Estimated distributable cash, cash distributions and cash yield are not terms defined in Handbook of the Canadian Institute of Canadian Accounts, which comprises what is referred to as Canadian Generally Accepted Accounting Principles (Cdn GAAP).

The marketplace focus on the cash yield of income trusts is causing income trusts to be overvalued by between 39% to 53%. Up until now, the income trust buyers have been primarily unsophisticated retail investors seeking income. The income trust mutual funds have been prominent buyers too, and retail investors are the buyers of these mutual funds for the same purpose. It is unclear whether even the sophisticated investors, like the income trust mutual funds and pension funds, are not mispricing income trusts, as well. There is faulty financial reporting by the income trusts and there are many misunderstandings about how to value their cash flows.

Pension funds are beginning to buy income trusts. Historically, pension fund involvement has been in the sale of income trusts, created from the conversion of private equity investments, such as the sale of Yellow Pages Income Fund, Fording Coal Income Fund and Osprey Media Pension Fund by the Ontario Teachers Pension Plan. Similarly, the Teranet Income Fund was created by the conversion of the Teranet private equity investment of the CIBC Pension Fund, Montreal Police Pension Fund, CBC Pension Fund, University of Guelph Pension Fund, McGill University Pension Fund, Caisse de Depot (Quebec Pension Plan), Alberta Treasury, Hydro One Pension Plan and the Hospitals of Ontario Pension Plan.

Income Yields are Much Less Than the 8.3% Reported Cash Yields

Financial reporting is not consistent between income trusts since the key financial measures that investors are directed to focus on are prepared by management. These measures do not need to follow accounting standards and are not subject to auditing. The more serious problem, however, is that about 63% of a sample of 135 business income trusts from the Reuters Trader Workstation currently pay distributions above income. APPENDIX II - Business Income Trusts Sorted by Distribution to Income Ratio As of October 12, 2006 provides a list of the 135 business income trusts in my analysis.

The current market cap weighted average distribution to income ratio is 160%. (The Accountability Research Corporation report dated November 16, 2005 found 75% of the top 50 business income trusts paid distributions above income, with an average distribution to income ratio of 158%).

The sample of 135 business income trusts from the Reuters Trader Workstation has an average reported cash distribution yield of 8.4% on October 12, 2006. Investors wanting to know the income yield of an income trust have to examine the trust's income statement and recalculate the widely publicized cash yield. Prospectuses and equity research focus buyers on the cash distribution yield, often comparing it to the much lower 10 year government bond yield of 4.2%. The average 160% distribution to income ratio noted above suggests that income yields of business income trusts are closer to an average of 5.3%.

The Canadian Accounting Standards Board Decision Summaries, May 3, 2006 has called the non-GAAP financial measures used by the equity research and investment bank divisions inaccurate and potentially misleading:

"However, the AcSB is concerned that the failure to distinguish clearly between returns on capital and returns of capital is inaccurate and potentially misleading, particularly when terms such as ‼ yield¶ are used to describe the amount distributed.¶

Paul Cherry, Chairman of the Canadian Accounting Standards Board, sums up how retail investors have been duped by the income trust investment banking industry in the National Post article "The Sum of the Yield Question" dated June 29, 2006.

"How the marketing people ever persuaded investors that the notion of income should be any different for a trust than it is for anything else that they might invest, just baffles me," said Paul Cherry, chair of the ASB, which according to its Web site is "committed to serve the public interest." "The income trust sector has somehow convinced people that the cheque they get is a measure of economic performance. That's just drivel," Cherry said, adding "the notion of yield has been distorted from a marketing point of view. It's never been part of financial statements."

Return of Capital Distributions Do Not Add to Fair Value

The distributions paid above income are a return of capital. In Accounting 101, when distributions are paid above what the business earns, there is a reduction of equity capital on the balance sheet. In most cases, the reduction of equity

capital on the balance sheet does impact the long term market price of equity securities. It is inaccurate to include the return of capital distributions in the simplified cash yield calculation because a prudent cash flow analysis over a 10 year horizon makes an equal reduction in the unit's terminal value or long term sale price.

Figure 1 is an illustration of the inaccurate cash yield calculation.

Figure 1: Cash Yield Valuation Methodology is Inaccurate

Distribution =		Income	+	Return of Capital
Cash Yield Valuation				
$0.85 / 8.5%	=	$0.59 / 8.5%	+	~~$0.26/ 8.5%~~
~~$10.00~~	=	$6.92	+	~~$3.08~~

The cash yield valuation is too high because it implicitly assumes that the income trust has the ability to pay the return of capital forever. It is a rare business whose capital may be continuously depleted without serious negative consequences for its sales and solvency in the long-term.

This report demonstrates that a reasonable and prudent cash flow analysis over 10 years provides a fair valuation that is much closer to the income yield calculation. The cash yield calculation is inaccurate and misleading.

Investment bank IPO marketing Green Sheets and equity research say investors should use the inaccurate cash yield calculation, shown in Figure 1, to determine the price of income trusts. These marketing materials say the income trust's fair price is the cash distribution divided by its expected cash yield. The expected cash yield is derived from the calculated cash yields of a list of income trusts in similar businesses and with similar quality. But all the benchmark cash yields include varying and undisclosed amounts of return of capital, so you have the problem of garbage in garbage out analysis.

Return of capital distributions are being funded from various sources, including not providing for capital replacement, credit lines and the use of cash reserves established from prior credit and equity issuances or retained earnings. All these sources, have a negative contribution to the future value of the units. Ponzi schemes, perceived to be perpetrated by fraudsters, are based on the premise of promoting high cash yields that are funded by new investors. Excess cash distributions funded by credit lines and cash reserves from prior year financings

are also Ponzi schemes, this time perpetuated by the Canadian banks and otherwise reputable business executives.

The Structural Defects of Business Income Trusts are Already Causing Losses

Business income trusts are a recent made-in-Canada phenomena. The current pension fund, income mutual fund and retail owners have no experience with this asset class over a long period of time and through a recession. The strong five year performance record of Canadian income trusts has been fuelled by the dramatic inflow of unsophisticated retail funds into income trusts, that has been artificially stimulated by the high cash yield, that is an inaccurate and misleading financial measure. The structural flaws and improper execution of income trusts are already causing losses for seniors and other conservative investors in income trusts. There are 54 business income trusts, or 44% of all the business income trust IPOs issued within the past five and three quarter years, that are in capital loss relative to their initial public offering prices. The average percentage capital loss amongst these losing business income trust IPOs is 36%. Total capital losses are estimated to be $3.8 billion in these 54 IPO names, of which $3.0 billion is in the IPO public float.

The Present Value of Future Cash Flows Demonstrates the Inaccuracy of Cash Yields

In Figure 2, we illustrate how much the inaccurate cash yield calculation inflates income trusts prices as the distribution to income ratio increases above 100%. This figure is based on my cash flow valuation model, where fair value is the present value of the cash flows over 10 years and its estimated terminal value at the end of the 10 year period. In this report, for the purpose of simple illustration, I start with assets of $1000, of which $650 are depreciating capital assets. Examples of depreciating capital assets are machinery & equipment, vehicles, computers, software and buildings. Land is a prime example of a non-depreciating assets. My model assumes the depreciating capital assets have an average replacement life cycle of 10 years. I calculate an annual cash amount that must be set aside each year, that is sufficient with interest, to fund replacement of the depreciating capital assets (inflating at a rate of 2% per year) at the end of the 10 year period.

I assume a return on capital of 12%. For simplicity to explain why the cash yield methodology is inaccurate, I have no initial debt. The growth rate is estimated to be (1- distribution/income) X the return on capital X (1-business tax rate). Again for simplicity to explain why cash yield methodology is inaccurate, I do not assume any growth rate above what is generated by the retention of income. In Figure 13 of this report, I examine the impact of both corporations and income trusts having inherent growth rates of 1% to 3% that are unrelated to the capital deployed.

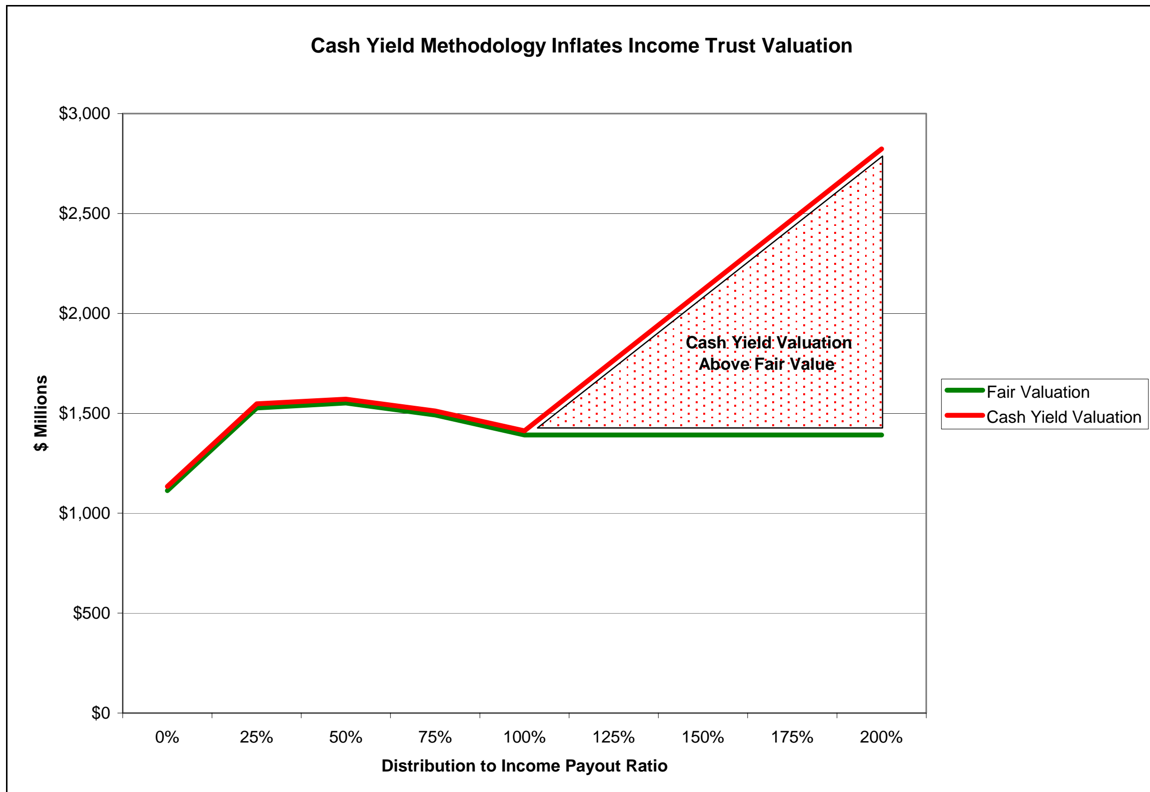
For retail taxable investors, my cash flow valuation model gives credit for the bird in the hand being worth twice as much as the one in the bush. For retail taxable

investors, I use a discount rate of 8.5% for cash distributions and twice that amount or 17.0% for retained earnings of both income trusts and corporations. Figure 2 shows that the cash flow valuation of an income trust rises as the payout ratio increases from 0 to 50% and then falls thereafter to the 100% payout ratio. The parabola shape of valuation for payouts between zero and 100% is the blend of three offsetting factors: (1) the declining P/E caused by the falling business growth rate as payout ratios are increased; (2) the rising after tax income as the distribution to income ratio rises and income trusts pay no business taxes on the distributed portion, while paying the top 46% personal tax rate on the retained amount; and, (3) the rising P/E retail taxable investors are prepared to pay as they get a higher proportion of the business income in cash distributions. The optimal payout rate for high return on capital and growing businesses would almost always be less than 100%, since the damage to valuation from lower growth is too high.

At the 100% payout ratio, the fair value of an income trust operating on the assumed conditions is $1,412 for every $1000 of book value. There should be no increase in the fair value of an income trust simply by paying distributions above the income of the underlying business, as shown by the stable fair value for the over 100% distribution to income payout ratios. The reason for this is that the terminal value of the income trust in the 10th year is reduced by the amount of capital that has been removed from the company and paid to the unitholders.

The $1,412 fair value can be simply calculated by the $120 income / 8.5% discount rate. If the distribution is 145% of income, the cash yield valuation methodology would produce a valuation of $2,040, equal to $173 cash distribution / 8.5% discount rate. This is inflated by 45% above fair value.

Figure 2: Cash Yield Methodology Inflates Income Trust Valuation



The Deception of Not Deducting Capital Asset Replacement Costs

Depreciating Capital Assets are a Cost of Doing Business

Accountability Research Corporation, Standard & Poor's and the Canadian Securities Administrators have all found that income trusts are not deducting any or adequate maintenance capital spending estimates from estimated distributable cash. The S & P Part II report dated March 9, 2006 found 57% of its sample of 40 income funds reported no maintenance capex deductions. S & P found that estimated distributable cash was overstated by 14% due to the inadequate deductions for maintenance capex. The Accountability Research report found 7 of the top 50 business income trusts had no maintenance capex deductions and that the underspending on maintenance capex contributed to distributable cash being 43% above income on average.

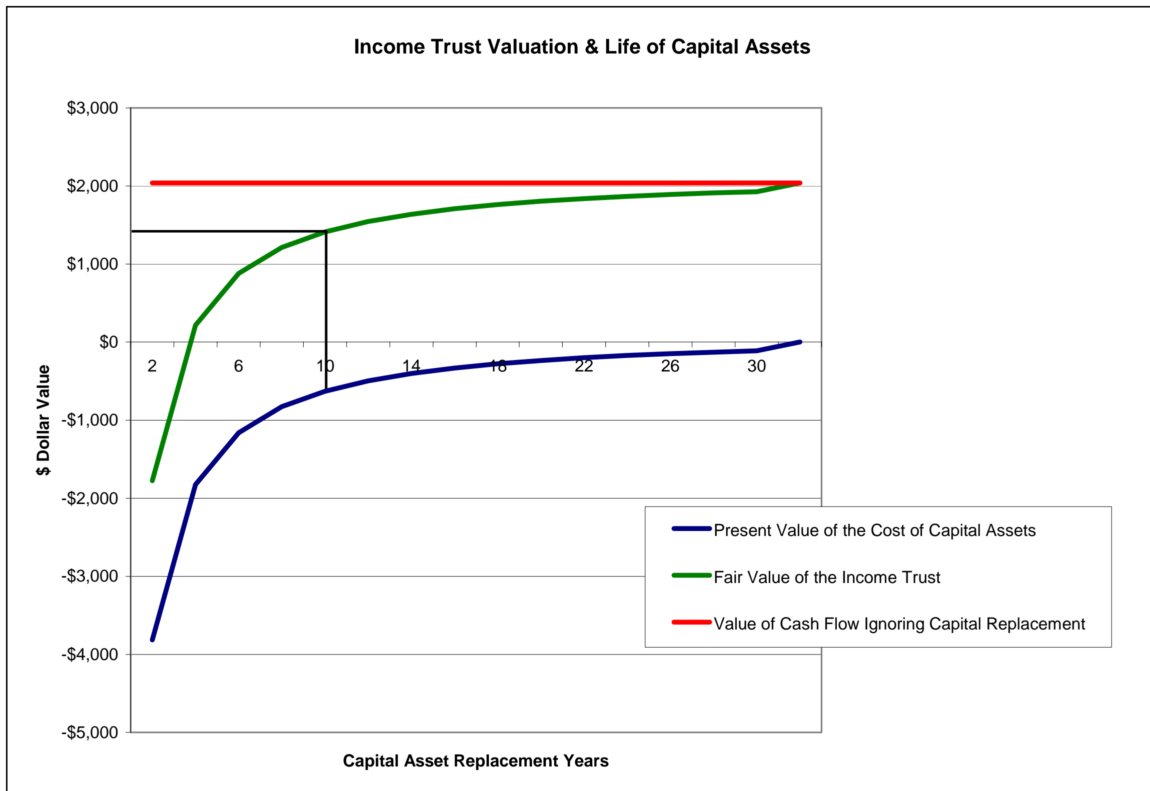
Figure 3 illustrates how the fair value of an income trust is affected when there is no deduction for maintenance capex. Vendors of income trusts do not deduct maintenance capex from estimated distributable cash hoping that buyers erroneously capitalize the distributions, without deducting any cost for the replacement of the depreciating capital assets. This can be the only motive for

focusing buyers on estimated distributable cash and using cash yields to value the units.

In Figure 3, the cash flow from operations is $173, so the value of cash flow ignoring capital replacement is $2,040 = $173 / 8.5%. Investors need to deduct a cost for the replacement of depreciating capital assets, even if management does not make any maintenance capex deductions. The appropriate cost to deduct depends upon the dollar amount of depreciating capital assets needed to run the business and the expected replacement life of these capital assets. In the case where depreciating capital assets have a 10 year replacement life, the income is $120 and the depreciation is $53. My cash flow valuation model defines depreciation as the annual cash amount that must be set aside each year, that is sufficient with interest, to fund replacement of the depreciating capital assets (inflating at a rate of 2% per year) at the end of the 10 year period. I discuss later, how my model expense for replacing depreciating capital assets is less than the depreciation in Cdn GAAP, which does not take into account the time value of money.

If the $650 depreciating capital assets have a 10 year life, the present value cost of replacing this capital every 10 years is calculated to be $628. The fair value of the income trust is therefore $1,412 = $2040 - $628.

Figure 3: Replacement of Capital Assets and the Value of Income Trust



The cash yield methodology produces overvaluation of 45% when the omitted capital assets have a 10 year replacement cycle. Figure 3 shows that the fair value of the income trust is very sensitive to the assessed replacement life of the assets. The overvaluation is 68% when the capital assets need to be replaced every 8 years and 32% for a 12 year replacement cycle. So, clearly there needs to be standards for deduction of adequate provisions for the replacement of capital assets and standardized determination of the life of capital assets in various asset classes. Our capital markets cannot function effectively if every management, every portfolio manager and every unsophisticated retail investor is suppose to surmise the right replacement life of capital assets and how much should be deducted from the estimated distributable cash for determining a fair valuation.

The proper treatment of depreciating capital assets is the most important reason why accrual accounting exists. Income statements for business set out how the revenues and expenses are to be matched over time. Cdn GAAP, as do GAAP standards throughout the world, provide for capital asset classes and replacement life, and the methodologies for calculating depreciation expenses.

The existence of depreciation expenses in income is what makes income the better financial measure to capitalize with an expected yield than the cash distribution measure being used presently. The present value of cash flow that takes into account the use of future cash to replace the depreciating capital assets once every replacement cycle, produces a present value that is the same as the income / expected yield.

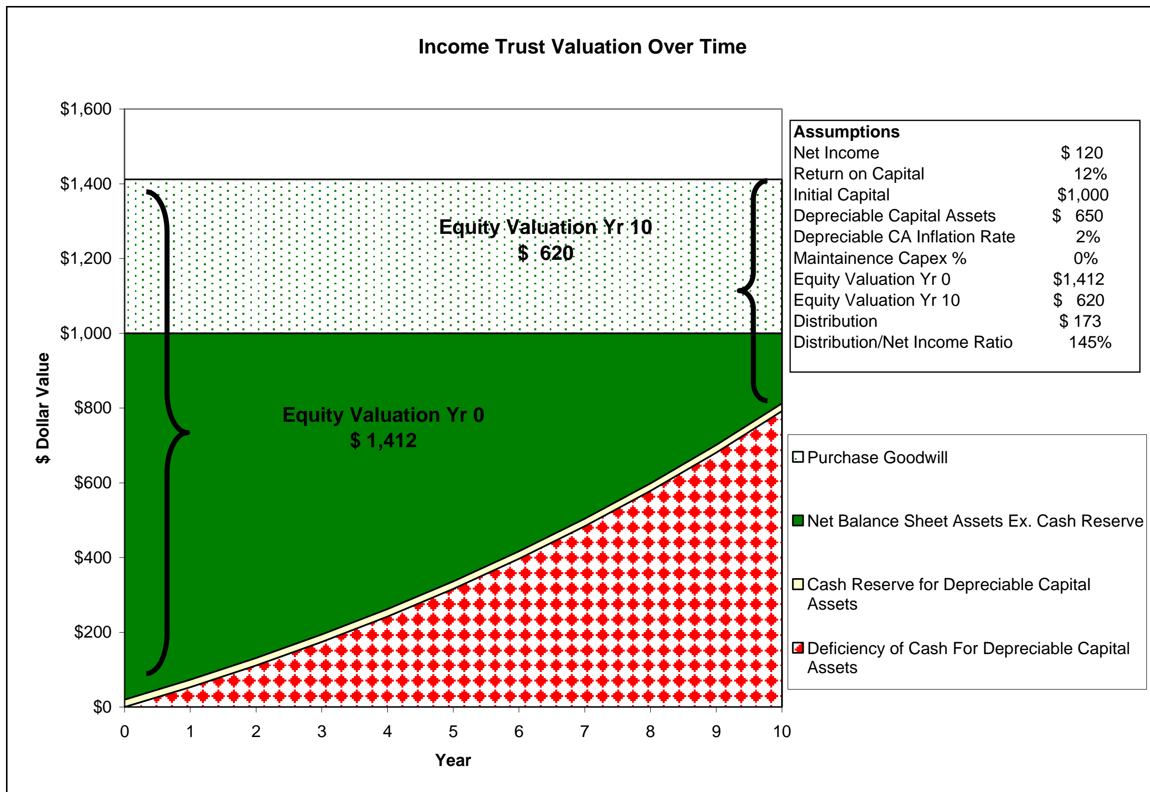
Estimated distributable cash has anywhere from no deduction for maintenance capex to some deduction well below the amount Cdn GAAP says is needed for capital asset replacement from a detailed schedule of capital asset classes. It makes fundamental sense to hold Canadian income trusts to Cdn GAAP for defining the cost of depreciating capital assets, rather than setting up another set of rules. If managements disagree with the capital asset replacement life in Cdn GAAP, then they should lobby for changes in Cdn GAAP replacement lives rather than throw out the whole Cdn GAAP rulebook.

Terminal value is impaired by capital assets needing replacement

Figure 4 looks at the present value of cash flows as it is changing over the 10 year replacement cycle. This Figure takes the case of an income trust that is not spending any money on replacement of capital assets in the first 10 years, nor establishing a cash reserve for the replacement of the depreciating capital assets at the end of 10 years. The distributions are $173. This level of distributions is 145% of the income that would be calculated by making an annual deduction of $53, where $53 is the amount that must be set aside each year and accumulated with interest to fund the replacement of the original $650 of depreciating capital assets. The 10 year replacement cost is $792 due to inflation at 2% per year.

With zero growth assumed for simple illustration, the aggregate value of the income trust remains $1,412 throughout the 10 year period, less the cost of needing to replace the depreciating capital assets. In year 0, the equity value of the business is $1,412, but it drops to $620 in year 10, because strategic buyers would not be prepared to pay the $1,412 full value because they need to make a further $792 cash investment to buy new capital assets to replace the worn out ones ($650 depreciating capital assets X (1 + 2% inflation) ^ 10 years). This investment would be deducted from the income trust's acquisition price. Also, even without a strategic sale, future management would inevitably recognize the need to replace the depreciating capital assets to remain competitive. Future management would raise debt or conduct new unit offerings to fund this project. New unit offerings have the same mitigating impact on the future equity value due to the increase in the number of units and the dilution impact on the future value per unit.

Figure 4: Terminal Value Impaired By Capital Assets Needing to Be Replaced



There is recent evidence that strategic buyers of an income trust are impacted by the need for extensive renovation and replacement of properties - in the sale of Retirement Residences REIT. The National Post article by CarrieTait, "Reality reit snubs Reichmann and takes lower bid," dated October 7, 2006 says:

"One of the problems dogging Retirement Residences and likely limiting takeover interest is the condition of its facilities. The REIT said it needed to spend about $75-million to renovate its properties, many of which were constructed in the 1960s and 1970s, Mr. McIntyre said. Some speculation has put these costs above $200-million."

The Retirement Residence REIT IPO occurred on March 30, 2001 at $10.00 and the current takeover offer from the Public Sector Pension Board is $8.35. Retirement Residence cut its monthly distributions twice in its six year history, from $0.10 to $0.07 in November 2004 and further to $0.04 in July 2006.

Distributions Financed By Debt Are Like Ponzi Schemes

It is disconcerting to find many cases where income trusts have raised debt to fund distributions exceeding income. There can be no question that return of capital distributions financed by debt are inflating the price of the units above fair value.

The Teranet Income Fund Final Prospectus, Initial Public Offering Dated June 8, 2006 publicly discloses there is a bank revolving credit facility in place to finance normalizing distributions to the unitholders of the Fund as noted below. It says on page 24-25:

New Credit Facilities to be made available to Teranet will consist of a $70 million Revolving Facility, a $30 million LC Facility, a $315 million Bridge Loan Facility, a $150 million Term Loan Facility and a $100 million Capex Facility, subject to the satisfaction of certain customary conditions, including the completion of the Offering. The Revolving Facility will be used to finance Teranet's working capital requirements and for other general corporate purposes, including normalizing distributions to Unitholders of the Fund.

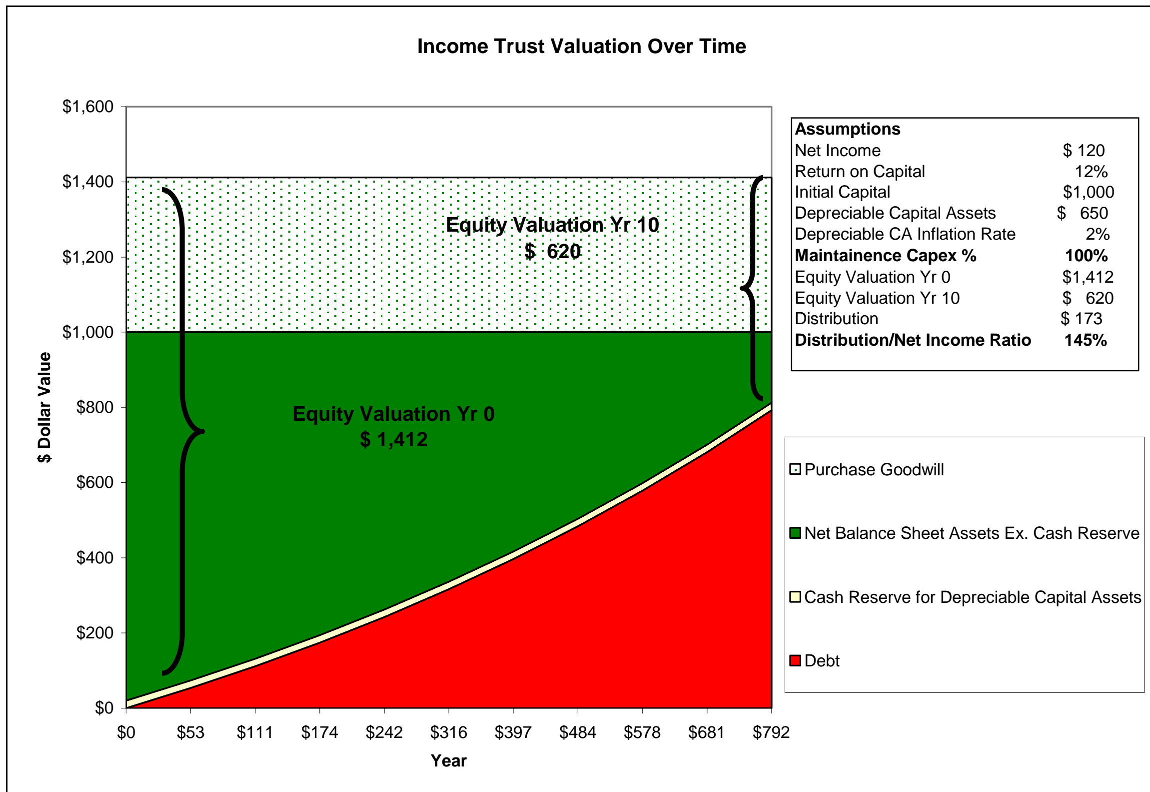
The Canadian Securities Administrators ("CSA") Staff Notice 51309 Report dated August 4, 2006 found at least six cases where income trusts have not provided public disclosure on debt terms, breach of covenants and waivers affecting the payment of distributions. This report says on page 8:

"In three instances, a trust's operating entity breached financial covenants under its credit facilities. As a result, in each instance, the trust issuer either suspended or significantly reduced distributions to its unitholders. Although, the filing of the press release announcing the change in distributions had a significant effect on the market price of the trust's units, the issuers argued that these events do not meet the definition of a material change."

"We identified three income trust issuers that obtained waivers for financial covenants and made amendments to their credit facilities, but did not file the amended credit agreements on SEDAR."

Figure 5 illustrates that the debt financing of return of capital distributions has the same impact on the fair value of income trust units as the under spending on depreciating capital assets. The accumulating debt used to fund excess distributions must be repaid and it therefore directly depletes the equity value of the business, without any questions to be asked about capital asset replacement life or the cash generating ability of depreciated capital assets.

Figure 5: Terminal Value Reduced By Debt



Income Yield a Better Proxy for Prospective Investment Return

It is often said cash flow from operations is a better measure of the economics of the business than income, which is distorted by non-cash accounting items, but depreciation is probably the single biggest difference between income and cash flow from operations. Cash flow from operations under Cdn GAAP does not have a deduction for the cost of replacing capital assets and so this measure on its own does not convey the proper economics of the business. This is why many income trusts deduct maintenance capex from their estimated distributable cash, that starts with the cash flow from operations figure. But, since there is so much omission and understatement on the amount of maintenance capex going on, the income yield is a better proxy for determining fair value of an income trust than the cash yield. Income has the uniform Cdn GAAP methods for calculating the cost of replacing depreciating capital assets.

Figure 6 illustrates that the reported income yield methodology modestly understates the fair value of the business obtained using the present value of cash flows and terminal value because depreciation under Cdn GAAP does not

take into account the time value of money. A mitigating factor is that Cdn GAAP does not require depreciating capital assets to be written up to current replacement value after inflation. Figure 7 shows that the reported income yield probably understates fair value by 10%, whereas the cash yield (without any maintenance capex deductions) overstates fair value by 45%.

Figure 6: Income Yield Versus Cash Yield Valuation

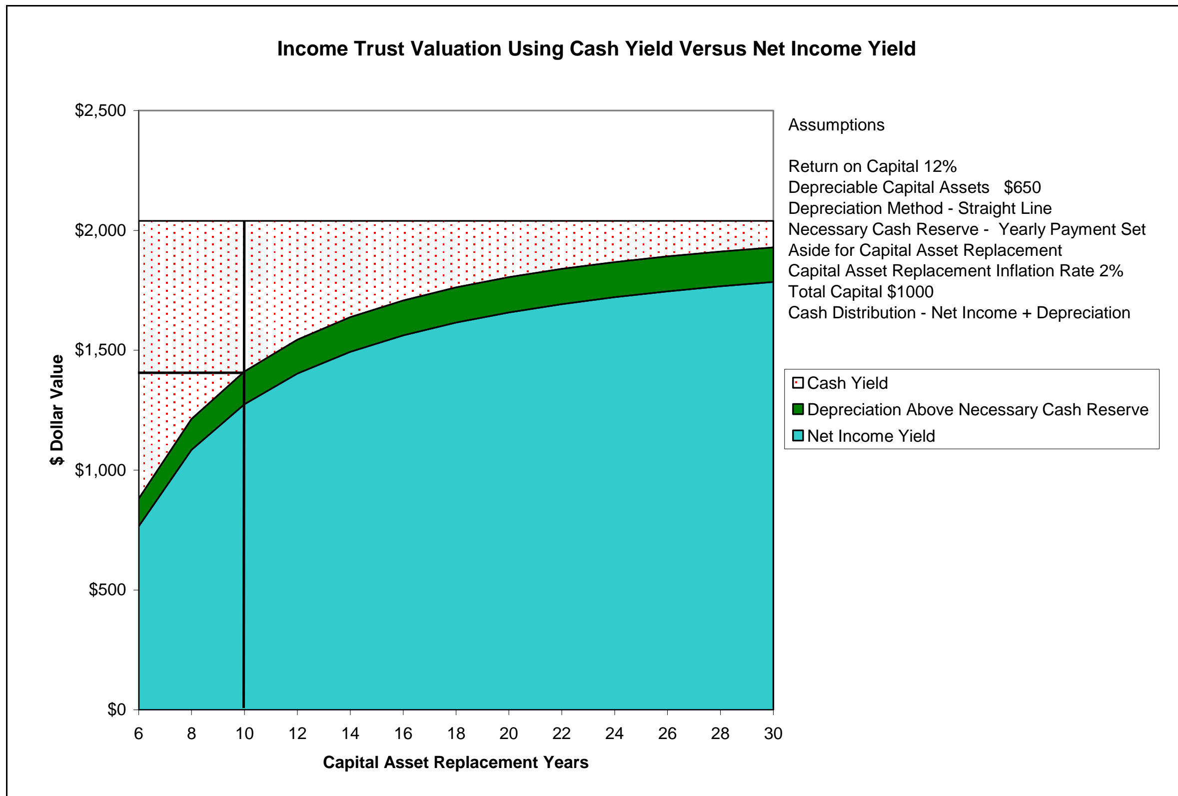
	Valuation	
Cash Flow Before Cost of Capital Assets	$173 / 8.5% = $2,040	+45%
Income With Contribution to Cash Reserve Value	($173 -$53) / 8.5% = $1,412	Fair
Income With Straight Line Depreciation	($173 -$65) / 8.5% = $1,275	-10%

The income yield valuation methodology is a better proxy for fair value regardless of the average replacement life for capital assets on the balance sheet. Figure 7 provides the fair value of an income trust, at different capital asset replacement years. The income yield valuation is consistently about 10% less than the fair value at every situation for average replacement life of the capital assets. On the other hand, the cash yield valuation methodology is always inflated relative to fair value.

The degree of inflation in the cash yield methodology decreases as the average capital asset replacement life increases. The Accountability Research report "Worst is Yet to Come", dated November 16, 2006, found that the average replacement life for depreciating capital assets in the top 50 business income trusts was 8 years, so there is a considerable 65% capacity to inflate income trust unit prices by making inadequate deductions for maintenance and replacement of depreciating capital assets from the estimated distributable cash estimate.

The key conclusion is that the classifications, replacement life, and depreciation methods for depreciating capital assets, which are set by accounting standards, have to be accepted by all in the marketplace, otherwise there is chaos in the financial reporting and valuation process.

Figure 7: Valuation Using Cash Yield Versus Income Yield



There are other accounting items that make net income a better proxy for determining the fair value using a yield calculation. Net income per unit would deduct the profit sharing that must be paid to minority interests who own a percentage of subsidiary businesses. These minority interests are not deducted from the cash flow from operations. Minority interests are clearly legitimate subtractions from the equity value of the business that is owned by the untiholders.

Purchase goodwill is an intangible asset that is put on the balance sheet when businesses are acquired at above the written up replacement value of assets. The purchase goodwill may be defined as customer goodwill, which is an estimate of what it would cost in marketing expenses to assemble the same customers one at a time in the future. Or, there is general unassigned purchase goodwill.

Income trusts make no deduction in estimated distributable cash for the amortization of purchase goodwill. Purchase goodwill is probably the most gray area for valuing income trusts. Purchase goodwill relating to customer contracts and relationships and non-competition agreements should be deducted because the customers acquired are providing revenues and the original purchase associated with customers' goodwill is a true expense that needs to be reflected

in the fair value of future cash flows. A company that acquires a specified number of customers is not worth more than one who built the same size customer base with high customer acquisition marketing expenses. Yellow Pages Income Fund is able to inflate its unit price since its distributions per unit of $1.04 ignores the substantial purchase goodwill expense of $0.54 per unit under Cdn GAAP.

Both the Accountability Research and Standard & Poor's research reports found that income trusts were inflating their estimated distributable cash with changes in the non-cash working capital. Reductions in account receivables, increases in accounts payable or designating short term debt to be long term raise working capital cash in the short-term, but they cannot be relied upon to fund distributions above the cash flow generated from sales over the long term. The S & P research found that changes in non-cash working capital inflated estimated distributable cash in the 40 income trusts it studied by 12%. Accountability Research found the top 50 business income trusts used the same source to inflate their estimated distributable cash by 9%.

Investors must pay much closer attention to the income of income trusts, just as they would focus on the income and P/Es of a corporation. One must however, conduct careful study of the income, as well. Many business income trusts are in economically sensitive businesses, and are earning cyclically high income. The P/Es should be low and the income yields high for these cyclical businesses at the peak of the cycle. Income trusts seem to be sold on one benchmark yield standard without regard for the cyclical nature of the underlying business.

The income trust business model provides an enormous incentive for the least honest owners and managers to prop up their sales with aggressive accounting on the timing of revenues, with sales channel stuffing in the quarters just prior to their IPOs or with simple fraudulent sales. The subsequent decline in sales, income and distribution are after the IPO and unsophisticated retail investors have limited recourse for redress for their losses. The Canadian class action lawyers and their forensic accountants and investigators have to have some prima facea evidence to initiate expensive class action proceedings. The FMF Capital Income Fund is the first class action against an income fund, where the unit price dropped from $10 to $0.50 within 6 months, with allegations similar to channel stuffing involving high risk mortgages sold to institutional investors.

The Omission Or Reduced Prevalence Of Income In Public Disclosures And Research

There is evidence of a conspiracy of silence in the investment banking industry amongst investment bankers and research analysts. My study of thousands of pages of prospectuses, investment bank marketing Green Sheets and equity research concludes that there is a concerted effort to focus income trust buyers on cash yields, despite their inaccuracy and misleading nature. References to income, income yield and the accurate measure of payout = distributions / income are either absent or in micro print in the footnotes of charts showing

sales, EBITDA, cash flow from operations, or cash yields versus bond yields. How can it be that there are completely different displays of market statistics between public companies and income trusts? Income trust market statistics routinely display the inaccurate cash yield calculations without segmentation of the income and return of capital components. There are rarely EPS and P/E ratios given in market statistics tables for income trusts, while these are standard for public corporations.

How can it be that investment banks claim adequate due diligence and research analysts claim professional conduct, when the basic financial measures they use to value income trusts are inaccurate and misleading? If the Chairman of the Canadian Accounting Standards Board and I know it, how come the investment bankers and equity research analysts do not know it too!

How can the financial advisors, with limited corporate finance training and time be expected to know that the financial measures they are relying upon for the sale of income trust are inaccurate, especially when they are taught to use these inaccurate financial measures for the marketing of income trusts. These financial advisors have a duty of care to select suitable investments for their retail clients relative to their investment knowledge and investment objectives. In RRSPs and RRIFs, there is arguably a fiduciary duty to place investments in these accounts that are not improperly structured or sold using inaccurate financial measures that are known to inflate prices relative to their fair value.

S & P Stability Ratings Do Not Measure the Risk of Yield or Target Price

Standard & Poor's Canada publishes Canadian Stability Ratings that are often used by financial advisors to market income trusts to individuals. These Stability Ratings are not intended, however, to measure the risk of the reported cash yield or the expected target price of income trust units. Also, the Standard & Poor's Canada provides Stability Ratings on only 41 Canadian income trusts as of September 18, 2006. 84% % of the total income trust market is not rated by S & P Stability Ratings.

Standard & Poor's Canadian Stability Ratings Criteria Update, June 2005 specifically says the following about the use of its Stability Ratings:

"It is important to reiterate that stability rating levels reflect the relative risks to distributable cash flow generation, but not the target unit price, yield, or net asset value of an income fund. In addition, stability ratings are not a recommendation to buy, sell, or hold a particular income fund, nor do they comment on the suitability of any investment for a given investor." (Page 2)

The S & P Stability Rating is an assessment of the sustainability of the S & P's own estimate of adjusted funds from operations (AFFO). The S & P estimated AFFO may be different from the management's estimated distributable cash and may be above or below the distributions being paid. So, the Stability Rating is not measuring the sustainability of distributions per se. The S & P AFFO begins with the cash flow from operations in the GAAP financial statements, then adds or

subtracts S & P determined adjustments. These adjustments include estimated sustaining capital expenditures, expected cash contributions to restore unfunded pension fund liabilities, cash payments to minority interests and adjustments for changes in working capital.

The S & P adjustments are helpful information for retail investors, but it is important to note that these adjustments use principles that are likely different from the accrued revenue and expense methodologies of Cdn GAAP. The S & P Canada Stability Rating reports rarely publish the net income of the income trust, which is an audited financial measure. S & P Canada has not published any statistics to show how its AFFO estimates compare to the reported net incomes of the rated income trusts.

As noted earlier in this report, the deduction of cash needed to fund the future replacement of depreciating capital assets has a huge impact on the fair value of an income trust. The S & P researchers formulate an opinion on the capital assets necessary to sustain the business, the current replacement cost of these capital assets, the future useful life and the required cash that must be set aside to fund these capital assets at a defined future year of replacement. But S & P Canada researchers are not the Canadian Accounting Standards Board, who have the duty to set published accounting standards for all capital market players. There is no detailed public disclosure of the S & P assumptions on these critical matters and no literature to demonstrate that the consequent estimate of AFFO is indeed more useful for valuation purposes than the net income obtained under Cdn GAAP procedures.

The S & P estimated AFFO for income trusts should be comparable to the estimated pre tax AFFO for the same business in a corporation structure. So, the fact that the estimated AFFO is higher than net income should not be a reason for income trusts to have much higher valuations for the same business than the corporation structure.

Standard & Poor's Canadian Stability Ratings Criteria Update, June 2005 provides the following statements that make it unclear how capital assets needing replacement beyond the time horizon have an impact on its estimated AFFO:

"In general, the stability rating analysis considers a time horizon of 15 years or more, with greatest emphasis on the business and financial prospects for the next five years. Within this horizon, Standard & Poor's seeks to understand the impacts of reasonably foreseeable eventualities on the income fund. Detailed financial projections and related sensitivities covering the five-year time-horizon are considered as part of the ratings process." (Page 5)

"If some event (assuming reasonable likelihood, known impact, and mitigated as it may be) is likely to occur within five years, the current rating is set to incorporate the eventuality's expected impact on the income fund. If the expected time frame for the eventuality is 10 years in the future, or 15 years or beyond, the weighting would be diminished accordingly, particularly if the likelihood and nature of the impact is unclear. Events that are only likely to occur well outside a 15-year horizon are typically noted in the analysis, rather than factored into the stability rating specifically. As the possible occurrence of a particular event draws nearer, and as its impact and likelihood become more evident, the eventuality receives increasingly specific emphasis within the stability rating analysis." (Page 6)

"The distribution profile assessment indicates Standard & Poor's opinion on the income fund's distribution policy in context of its distributable cash flow generation, with implications for the likelihood that an income fund will maintain its current distribution pattern over a one to three year time horizon." (Page 11)

Cash Yield Valuation Inflates Unit Prices and Lowers Return on Investment

The 145% distribution to income payout ratios of Figures 4 and 5 and the 10 year replacement life scenario of Figure 7 are shown from the unitholder's perspective in Figures 9 and 10. The investment banks have generally priced the income trust IPO units at the cash distribution per unit divided by the expected yield. The number of income trust units is set so that the IPO price per unit is $10. In Figure 9, the year 0 price is the $10 per unit ($2040 / 204 units), which is $0.85 distributions per unit / 8.5%. The fair value per unit calculated from the present value of cash flows and terminal value is $6.92 per unit, which is also the $0.59 income per unit / 8.5% ($1,412 / 204 units). The income I use is 10% above the likely reported income, because the reported income under Cdn GAAP straight line depreciation is 10% or so understated due to depreciation not taking into account the time value of money.

Figure 9 illustrates how the future value of the income trust investment performs over the next 10 years. The investment value is the sum of the accumulated income distributions per unit owned, return of capital distributions per unit owned and the future value of the unit. The future value of the unit is the sum of the equity book value and anticipated purchase goodwill as shown in Figures 4 and 5.

The conclusion from Figure 9 is that the expected investment return from the income trust units bought at the overpriced $10 per unit is only 4.6%. This investment return is much less than what was implied by the expected cash yield of 8.5%. The initial income yield calculation of 5.9% = $0.59 income per unit / $10 price per unit is also higher than the likely investment return. But at least the income yield is closer to the ultimate 4.6% investment return than the so-called expected cash yield.

Figure 10 shows where retail taxable accounts pay the fair value of $6.92 per unit, based on the present value of cash flows and future terminal value. At the fair price, unitholders get the 8.5% expected investment return over the next 10 year period. Note that Figures 9 and 10 assume that income trust owners can reinvest their income distributions and return of capital distributions at a pre tax return of 8.5%.

Figure 8: Future Value of Income Trust Investment at 145% Payout - Cash Yield Methodology

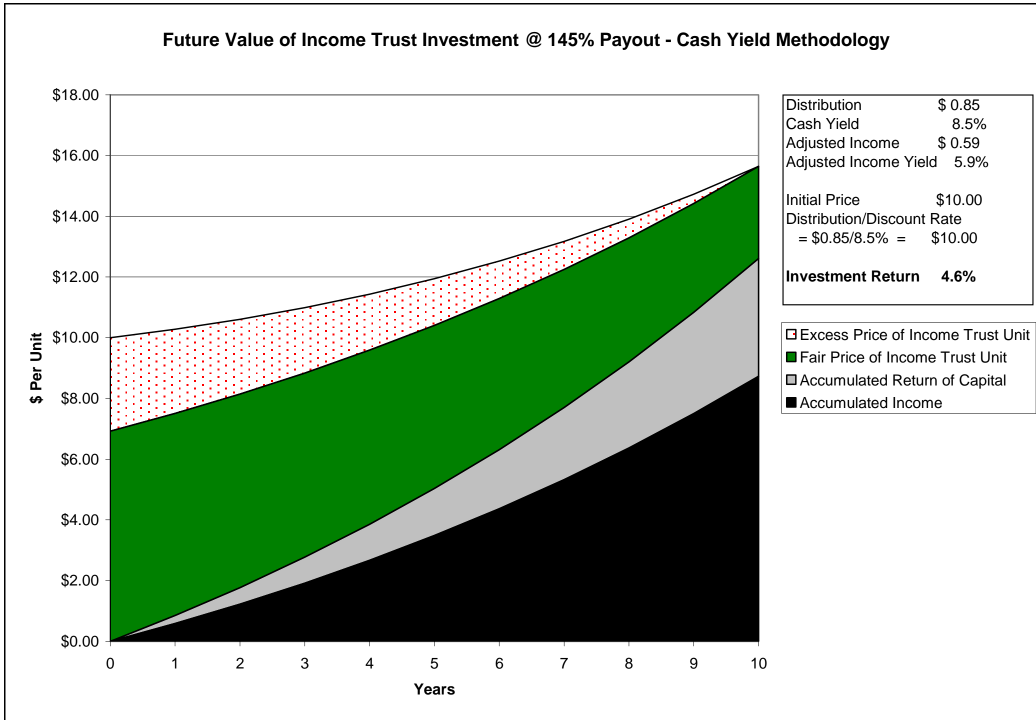
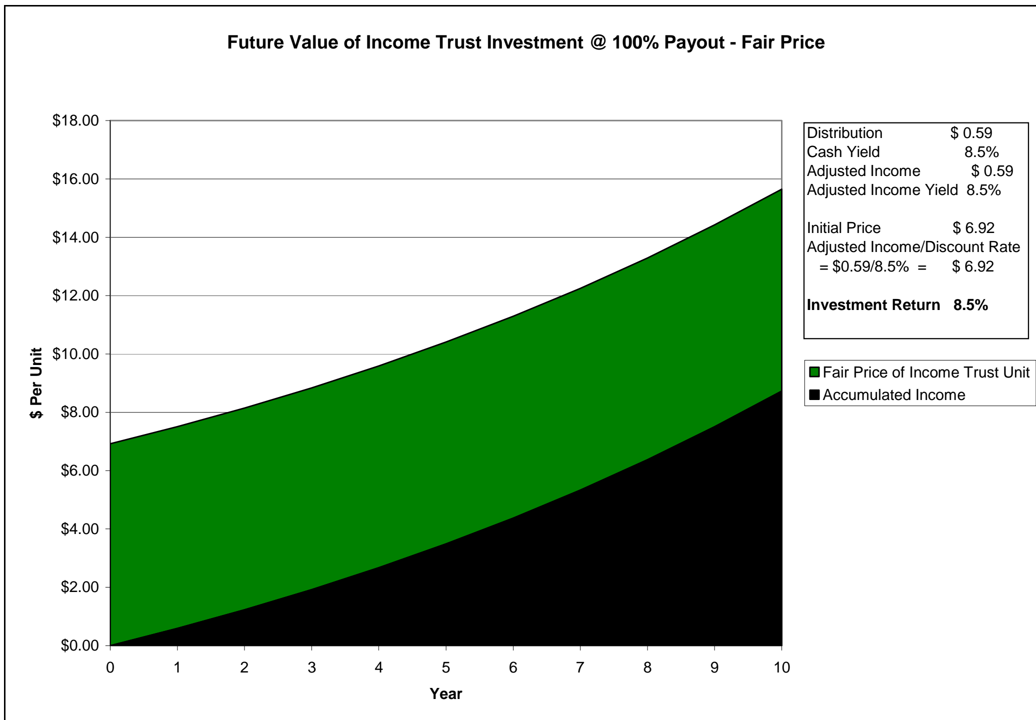


Figure 9: Future Value of Income Trust Investment at 100% Payout



Income Trusts Not A Better Structure Than Corporations

Tax Parity for Retail Taxable Accounts

Income trusts are not better structures than corporations when there is tax parity. Figure 1 is an illustration similar to the one used by the Federal Department of Finance to show what tax parity means. In a nutshell, tax parity means that the total amount of business and personal taxes paid is the same between the two business structures.

Figure 10: Tax Parity for Retail Taxable Accounts

	Income Trust	No Double Tax Large Business	
		100% Payout	50% Payout
Profit Before Tax	100.00	100.00	100.00
Business Taxes	0.00	32.00	32.00
Profit After Business Taxes	100.00	68.00	68.00
Retained Profits	0.00	0.00	34.00
Distribution	100.00	68.00	34.00
Personal Taxes			
Income	46.00		
Dividends		14.00	7.00
Capital Gains		0.00	7.82
Total Taxes	46.00	46.00	46.82
Profit After Total Taxes	54.00	54.00	53.18

The Pre Tax and After Tax Pricing Deception

When comparing the valuation of income trusts to public corporations, it is necessary to use pre tax equivalent adjustments similar to what we have become accustomed to when calculating a pre tax equivalent interest yield to the calculated dividend yield. The pre tax equivalent interest yield equals the dividend yield * (1 - dividend tax rate) / (1- personal tax rate). I show the pre tax equivalent calculations for P/Es and P/CF's of corporations in Figure 12, so that these may be compared to income trust P/Es and P/CFs, where there are no business taxes being paid, but the owners pay the same personal taxes as the combined business and personal taxes of corporations.

Figure 11: Calculating Pre Tax Equivalent P/Es, P/CFs and Yields

	Income Trust	Corporation
Profit Before Tax	100.00	100.00
Business Taxes	0.00	32.00
Profit After Business Taxes	100.00	68.00
Depreciation	54.0	54.0
Cash Flow From Operations	154.00	122.00
Distribution Before Personal Taxes	100.00	68.00
Distribution After Personal Taxes	54.00	54.00
Fair Value = Dist'n PTE / 8.5%	1176	1176
Distribution Pre Tax Equivalent	100	100
P/E		
Pre Tax Equivalent	11.8	11.8
After Tax	11.8	17.3
P/CF		
Pre Tax Equivalent	7.6	7.6
After Tax	7.6	9.6
Distribution Yield		
Pre Tax Equivalent	8.5%	8.5%
Calculated Yield	8.5%	5.8%

PTE = Pre Tax Equivalent
Dividend PTE = Dividend / (1 - Business Tax Rate)
Corporation P/E PTE = Corporation P/E * (1- Business Tax Rate)
Corporation P/CFO PTE = 1 / (CF / P + Pre Tax Equivalent E / P * Business Tax Rate)

Figure 13 shows that business income trusts are trading in the market at substantial premiums to public companies in the TSX/S&P60 and the Dow Jones Industrial indices and to a sample of 20 large non-cyclical Canadian public corporations. These premiums are despite the fact business income trusts have lower growth rates as a group relative to the noted groups of large high quality public corporations.

The market capitalization weighted P / E of 135 business income trust is 15.8 X compared to the pre tax equivalent P / E of 10.3 X for the public corporations in the TSX/S&P60 index and 10.4 X for the sample of 20 non-cyclical Canadian public corporations. So, on income, the 135 business income trusts are trading at a 53% premium to the large Canadian public corporations. If this P/E multiple premium were to dissipate, the capital loss on the 135 business income trusts as a group would be about -35%.

The market capitalization weighted P / CF of 110 business income trusts in the Reuters Trader Workstation with P / CF data is 11.0 X compared to the pre tax equivalent P / CF of 8.0 X for the public corporations in the TSX/S&P60 index and 7.8 X for the sample of 20 non-cyclical Canadian public corporations. So, on the cash flow from operations, 110 business income trusts are trading at a 39% premium to the large Canadian public corporations. If this P / CF multiple premium were to dissipate, the capital loss on the 110 business income trusts as a group would be about -25%.

The P / E and P / CF of the cash flow valuation model in this report is in the bottom section of Figure 13. The pre tax equivalent P / E and P / CF for the corporation model provides results for valuation that are similar to the current trading multiples of the public companies in the TSX/S&P60 index, the Dow Jones Industrial index and the sample of 20 non-cyclical Canadian public corporations. This supports the logistics of the cash flow model in this report and there is no reason to suggest that the dynamics for valuing the cash flow of income trusts is any different than for corporations.

Figure 12: Pre-Tax Equivalent P/E's, P/CF's & Cash Yield%

12-Oct-06	P/E (1)		Income Yield = E/P		P/CF (2)		CF Yield = CF/P		Cash Yield
	Unadj.	PTE (4)	Unadj.	PTE	Unadj.	PTE (5)	Unadj.	PTE	Unadj. (3)
Corporate Tax Rate		36%							
Sample Canadian Business Income Trusts	15.8	15.8	6.3%	6.3%	11.0	11.0	9.1%	9.1%	8.4%
(Number in Sample)	135				110				110
TSX/S&P 60 Index	16.0	10.3	6.2%	9.7%	11.1	8.0	9.0%	12.5%	
Sample 20 Non-Cyclical Canadian Corporations	16.2	10.4	6.2%	9.6%	10.6	7.8	9.4%	12.9%	
Dow Jones Industrial Index	17.8	11.4	5.6%	8.8%	12.2	8.8	8.2%	11.3%	
Corporate Tax Rate		32%							
Model Income Trust (ROC 12%, DR 8.5%, POR 100%)	11.8	11.8	8.5%	8.5%	7.6	7.6	13.1%	13.1%	
Model Corporation (ROC 12%, DR 8.5%, POR 100%)	17.3	11.8	5.8%	8.5%	9.6	7.6	10.4%	13.1%	

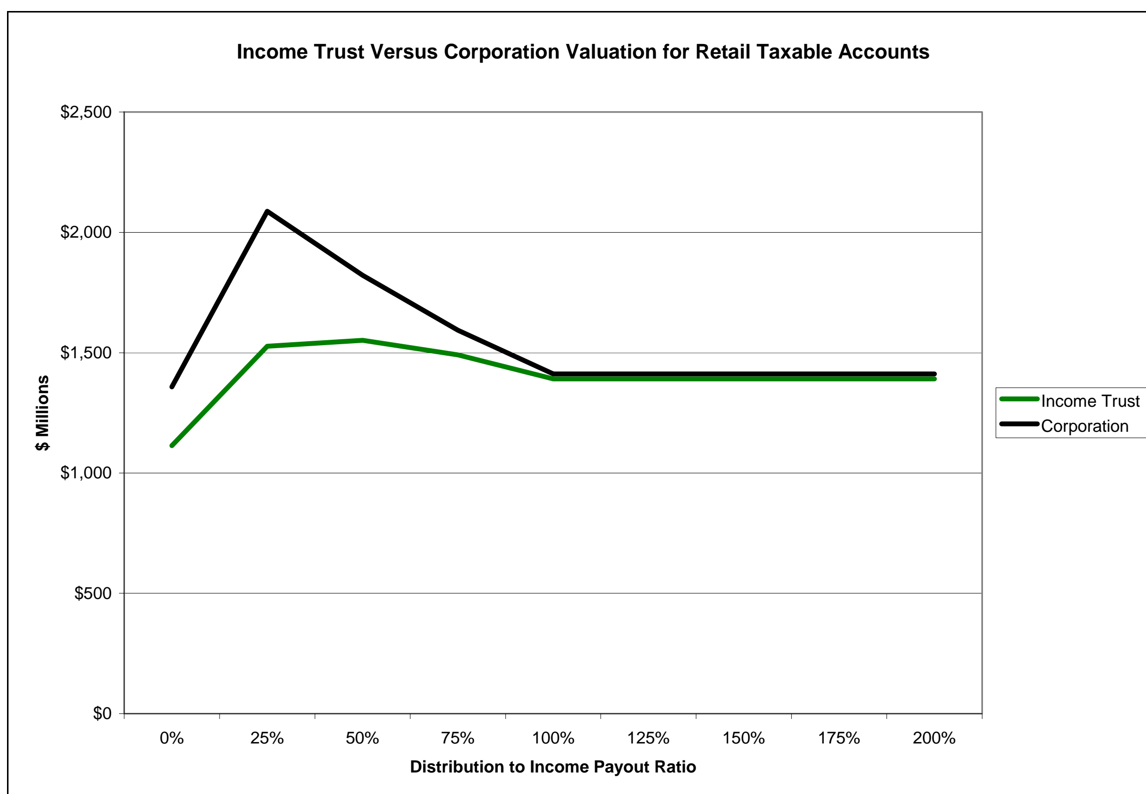
(1) P = price 12-Oct-06
E = latest 12 months income per unit/share
(2) P = price 12-Oct-06
CF = latest 12 months cash flow from operations per unit/share, where maintenance capex is not deducted
(3) Distribution Yield = Distributions per unit/price per unit, where distributions = income + return of capital
& maintenance capex is deducted in many cases
(4) E Pre Tax Equivalent = E / (1 - business tax rate), P/E PTE = P/E * (1- business tax rate)
(5) P/CF Pre Tax Equivalent = 1 / (1 / (P / CF) + 1 / (P / E PTE) * business tax rate)
Source - Reuters Trader Workstation

Income Trusts Not Higher Fair Value than Corporations With Tax Parity

Figure 14 shows when there is tax parity, the present value of cash flow analysis for an income trust and corporation structure produces the same fair value at payout ratios of 100% and higher (payout ratio = dividend or distribution / income). For payout ratios of less than 100%, corporations have more value than income trusts because the business tax for retained income in income trusts is at the top personal rate of 46%. This is higher than the top corporate tax rate of 36% today, moving to 32% over the next four years.

Both corporations and income trusts are worth more at lower payout ratios than 100%, since the retained income adds to capital and growth. The market pays premium P/Es as growth rates rise, since the present value of growing cash flows support this. As noted previously, as long as taxable retail investors pay a premium multiple on cash distributions from income relative to retained earnings, the optimal payout ratio is 50% rather than zero payout where growth rates would be maximized.   It is interesting that Canada's banks, telcos and utilities are paying close to this optimal 50% payout ratio today.

Figure 13: Income Trusts Versus Corporations Valuation at Different Payout Ratios



When there is tax parity, corporations should not have an incentive to convert to income trusts. Figure 15 provides fair value P/E ratios for corporations at different payout ratios and different inherent growth rates and from the perspective of taxable accounts. When a very profitable growing corporation converts to income trusts with a high distribution to income payout ratio, it concedes growth and its growth P/E multiple. Also, the corporation can raise its own dividend payout ratio to offer the same after tax annual income to retail investors, without bearing the time and costs of an income trust conversion.

Under tax parity, the only remaining reason for income trust conversions would be to pay distributions above income, in the hope that retail investors will capitalize these distributions using the cash yield methodology. Then the inflated income trust P/E multiple becomes higher than what the growth P/E would be for the business in the corporation structure.

Income trust conversions will continue to occur as long as their overvaluation exists, even if Canada moves to complete tax parity for non-taxable and foreign investors, as well as for taxable investors. The overvaluation is occurring because: (a) the majority of income trusts pay distributions in excess of income, without any legal restriction on doing so, nor any public disclosure requirement to distinguish between income and return of capital distributions; and (b) market players are not doing pre tax equivalent adjustments on the valuation parameters used to compare income trusts with corporations.

No laws or regulatory authorities are stopping income trusts from paying distributions well in excess of their income. More importantly, the CAcSB and the provincial securities commissions are not stopping the prominent publishing of estimated distributable cash and cash yields and use of the improper cash yield methodology.

Figure 14: Corporations Concede P/E Growth Multiple on Conversion into IncomeTrust

P/Es on Pre Tax Equivalent Basis	Growth Rate Regardless of Capital Retention			
Corporation Distribution/Income	0.0%	1.0%	2.0%	3.0%
0%	11.3	12.3	13.4	14.7
10%	18.0	31.0	50.0	50.0
20%	17.8	23.6	41.5	50.0
30%	17.0	20.8	28.1	47.7
40%	16.1	18.9	23.4	31.5
50%	15.2	17.5	20.7	25.6
60%	14.4	16.2	18.7	22.2
70%	13.6	15.2	17.2	19.8
80%	12.9	14.3	16.0	18.1
90%	12.3	13.5	14.9	16.7
100%	11.8	12.8	14.0	15.5
Income Trust Distribution/Income				
160%	18.8	20.5	22.4	24.8
Increase from Corporation @ 50% Distribution/Income	24%	17%	8%	-3%
Assumptions:				
Return on Capital	12.0%			
Discount Rate - Cash	8.5%			
Discount Rate - Retained Earnings	17.0%			
Growth Rate = (1-Payout Rate) X Return on Capital				
Growth Rate Regardless of Capital Retention is Incremental to Above				

Company Acts Restrict Dividend Payouts That Diminish or Impair Capital

The CAcSB has argued that there should be no new accounting standards or definitions for income trusts distributions, since there are no such standards for dividends being in excess of income. But, dividends are rarely above income, while distributions are generally so. When dividends exceed income, it is only on a temporary basis. The board of directors explains how and when it expects income to recover sufficiently so that the dividend is not diminishing capital. Income investors are then sufficiently informed about whether they should sell the stock. When a corporation finds no better use for its substantial cash reserves, it announces a Special Dividend, which clearly signals it to be a return of capital. Special Dividends are not mistaken to be recurring income that should be capitalized.

Canadian company acts legally restrict dividend payouts that diminish or impair capital. Here are the Sections of the Canada Corporations Act and Ontario Corporations Act that define this restriction. Income trusts that are paying out returns of capital comprising cash otherwise needed to replace depreciating capital assets, would certainly be diminishing the capital of the company, as

defined in the Ontario Company Act. Arguably, it would also be impairing the capital of the company as defined in the Canada Corporations Act, since the depreciating capital assets constitute the deployment of capital that is necessary to the company's business. Cdn GAAP standards define the replacement life of depreciating capital assets and of the capital for public corporations. Public corporations must follow Cdn GAAP as set out in the company acts.

Canada Corporations Act, Section 85:

No dividends when company insolvent
(2) No dividend shall be declared when the company is insolvent or that renders the company insolvent or, subject to subsection (4), that will impair the capital of the company, and in determining the solvency of the company for the purposes of this subsection, no account shall be taken of any increase in the surplus or reserves of the company resulting merely from the writing up of the values of the assets of the company, unless such writing up was made more than five years before the date of the declaration of the dividend.

Payment of dividends by company whose assets are of wasting character
(4) Nothing in this Act prevents a company of which at least seventy-five per cent in value of the assets are of a wasting character, or any mining company, from declaring or paying dividends out of its funds derived from the operations of the company notwithstanding that the paid-up capital of the company may be thereby reduced or impaired, if such payment does not reduce the value of its remaining assets so that they will be insufficient to meet all the liabilities of the company then existing exclusive of its paid-up capital.

Ontario Corporations Act, Section 62:

When dividend not to be declared
(3) The directors shall not declare and the company shall not pay any dividend or bonus when the company is insolvent, or any dividend or bonus the payment of which renders the company insolvent or that diminishes its capital, and, if any dividend or bonus is declared and paid contrary to this subsection, the directors are jointly and severally liable to the company for the amount of the dividend so declared and paid or such part thereof as renders the company insolvent or diminishes its capital.

Companies with wasting assets
(5) Nothing in this section prevents a mining company or a company whose assets are of a wasting character, or a company incorporated for the object of acquiring and administering the assets or a substantial part of the assets of another corporation, either from such corporation or from the assign of such corporation, for the purpose of converting such assets into money and distributing the money among the shareholders of the company, from declaring and paying dividends out of funds derived from the operations of the company.

Extent of impairment of capital
(6) The powers conferred by subsection (5) may be exercised despite the fact that the value of the net assets of the company may be thereby reduced to less than the issued capital of the company if the payment of the dividends does not reduce the value of its remaining assets to an amount insufficient to meet all the liabilities of the company exclusive of its issued capital.

Provincial trust laws governing income trusts should restrict distributions to income. Income trusts wishing to pay return of capital should from time to time make special distributions.

Pension Funds Should Prefer Corporations and Demand Higher Income Trust Yields

Pension funds are reported by some experts to have a preference for income trusts over the corporation structure because they are non-taxable. But, income trusts that pay no business taxes are only those whose distribution to income ratio is 100% or more. For income trust distribution payout ratios less than 100%, income trusts must pay the top personal tax rate of 46% on the portion of income that is retained. In Figure 16, I compare the fair valuation of a corporation and an

income trust from the tax deferred pension fund perspective assuming different distribution to payout ratios.

There are three key differences in the methodology between pension funds and taxable retail investors. First, pension funds are assumed to be indifferent between receiving cash distributions and retained earnings, so their discount rate is 8.5% for dividends/distributions and the same for retained earnings. The retail taxable investors has an assumed discount rate of 17% for the retained earnings. Second, pension funds have the benefit of long term tax deferral, so they are willing to pay more than taxable retail investors for the same financial attributes.

Pension funds seeking the same pre-tax equivalent return as retail taxable investors would pay a premium for income trusts that ranges from nothing if the income trust retains all of its income to a 31% premium if the income trust has a 100% distribution payout ratio. Pension funds would pay only 9% more for corporations due to the 32% corporate tax rate being a high amount relative to the top 46% personal tax rate. Thirdly, pension funds would not be thinking that income trusts are like fixed income and that the cash yield is an income yield comparable to bond yields. Pension funds would recognize that income trusts with the 100% distribution payout ratios have income yields closer to 5%, which would not be enough to compensate them for taking the risk and sacrificing the growth rates for corporations that retain earnings and grow much faster.

The main conclusion from Figure 16 is that pension funds should always prefer corporations over income trusts, where the corporations have dividend payout ratios less than 75% of income, since these have better long term growth prospects, with better P/E valuations. Pension funds should not be prepared to concede long term growth for the objective of a lower stable income. Current income trust yields do not compensate for the risk in these equity securities.

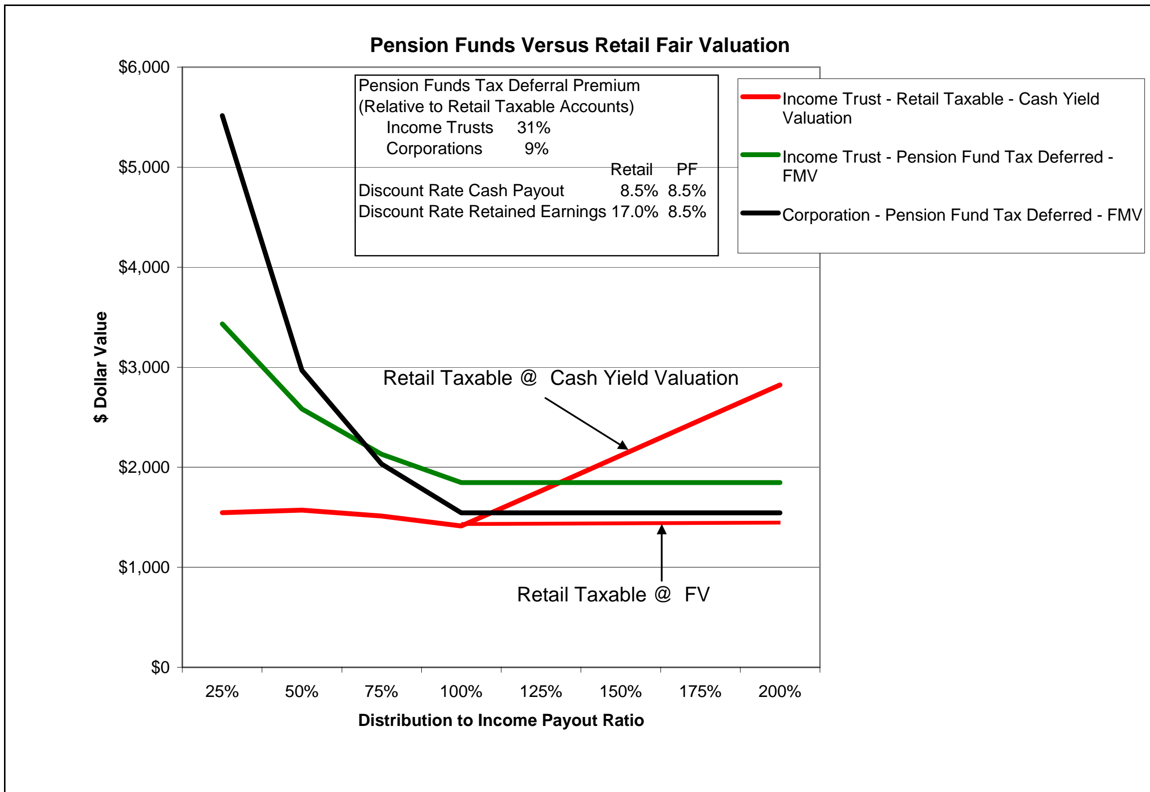
If pension funds are confronted with the choice between the income trust or corporation structure for a business planning to have a distribution to income payout of more than 75%, then the income trust is the best choice, because it has lower business taxes. But, pension funds should instead be pushing for lower payout ratios to foster greater long term growth and appreciation of the same business in the corporate structure.

Pension funds should not be willing to pay a higher price for income trust units converted from public corporation shares where the current dividend payout ratios are under 75%. There should be a lift in price upon income trust conversion only in the cases where corporations are already paying between 75% to 100%, of which there are very few in the Canadian economy.

If Canadian pension funds do decide to develop significant presence in the income trust class despite the growth concessions this decision represents, they must conscientiously price these income trusts so that their income yields are

closer to 8.5%, less the anticipated inherent low growth rate associated with high payout businesses.   The cash distribution yields are as inaccurate for pension funds as they are for unsophisticated retail investors. The asset class performance will surely breakdown, when the distributions are cut or new offering dilution occurs in the future to finance replacement of the depreciating capital assets and the accumulating debt.

Figure 15: Pension Funds Versus Retail Fair Valuation



Income Trusts are Riskier than Equities

Income trusts tend to be riskier than public corporations in the same business because, for most of them, prices are propped up by their distributions being above income. The theory is that the underlying businesses are mature and stable and therefore the distributions are not economically sensitive. When economically sensitive businesses are in the income trust structure, however, the consequences of adverse experience or recession will be catastrophic. Figure 17 shows that a 30% decline in the cash from operations of an income trust with a distribution to income ratio of 145% can lead to a price decline of close to 60%. This is double the comparable decline for a common share in a public corporation of similar dynamics with a distribution to income ratio of 50%.

Figure 16: Income Trust Falls More Than Corporation in Recession

	Income Trust		Corporation	
	Current	Recession	Current	Recession
Book Value	$4.90	$4.90	$4.90	$4.90
Fair Value (Discounted Earnings)	$6.92	$2.84	$8.93	$3.85
Price (Discounted Distributions)	$10.00	$4.10	$8.93	$6.27
Percentage Unit/Share Decline		-59%		-30%
Income	$0.59	$0.33	$0.40	$0.20
Cash From Operations	$0.85	$0.60	$0.66	$0.46
Distributions	$0.85	$0.48	$0.20	$0.20
Distributions/Income	145%	145%	50%	99%
Cash From Operations/Book Value	17.34%	12.14%	13.50%	9.45%
Return of Capital After Deprec.	12.00%	6.80%	8.16%	4.11%
Discount Rate	8.50%	11.75%	8.50%	11.75%
Premium to Government Bond	4.25%	8.00%	4.25%	8.00%
10 Year Government Bond Yield	4.25%	3.75%	4.25%	3.75%
Long Term Growth Rate	0.00%	0.00%	4.08%	4.08%
Recession ROC Decline		-30%		-30%
Dividend Yield			2.24%	3.19%
Dividend Yield to Gov't Bond			52.7%	85.0%

Is Every One Except the New Buyer Getting Rewarded for Income Trust Conversions?

Investment professionals will say income trusts are much better structures than corporations because income trust managements have to hustle to generate cash distributions and have to fully justify all their capital projects to new capital suppliers. But, there are enormous transaction costs in the conversion of corporations into income trusts and another 7% each time secondary offerings are required to fund capital projects. Return of capital distributions are paid to unitholders, only to be raised again from new capital suppliers in the future, even just to fund the replacement of current depreciating capital assets. The 4.6% investment return in Figure 9 assumes no transaction costs. The investment return in the model is reduced by at least another 0.20% for new secondary offerings to fund depreciating capital asset replacement every 10 years.

The high sales of income trusts to seniors and other conservative investors using flawed accounting and inaccurate cash yield has been greased by the enormous bonuses and fees paid to management, investment banks, banks, auditors and lawyers involved in selling them. The trustees for the income trusts and the financial advisors at the front end of the retail sales process appear not to be exercising their duties of care on behalf of the seniors and other conservative investors buying income trusts. If they were, the income trusts would not be placed in the public markets on such flawed accounting and financial reporting, which make most income trusts unable to produce adequate investment returns for seniors and other conservative investors.

Here is the list of everyone making money on income trust conversions:

(a) *Income trust vendors are walking with hundreds of millions cash upfront. For example, in the Spinrite Income Fund, Sentinel Capital made an upfront cash profit of $107 million on its $31 million investment, while the Spinrite Income Fund buyers have lost $186 million within eighteen months of its IPO.*

(b) *Management takes exorbitant restructuring bonuses upfront. For example, 15 Teranet Income Fund management was paid $156 million upfront, of which close to half was paid to the CEO, who did not create the Ontario Land Registry business. Similarly, 6 Spinrite Income Fund management is being paid $15 million over three years, despite the collapse of sales and profits at the company after its IPO.*

(c) *Investment bankers receive average income trust equity offering fees of 5.4% compared to 4% for public corporations. The financial advisors for the investment banks get close to half of these underwriting fees for placing the income trust IPOs and secondary offerings into their clients' accounts.*

(d) *Lawyers receive another 1.4% fees for income trust conversions and IPOs.*

(e) *Creditors add debt and appear to unnecessarily restructure current credit facilities with high fees. For example, there was $54 million of break fees for existing debt repayment and new credit fees in the restructuring of the Teranet Income Fund on a public offering size of $700 million (another 7.7% of fees on top of the 6.8% of underwriting and legal fees).*

You can add to the list of people getting rewarded handsomely for income trusts, the income trust mutual fund vendors. Over the past five and half years, the main growth driver of the mutual fund industry has been income trusts. There has been $27 billion of net buying of dividend and income funds, compared to $16 billion of net selling of equity mutual funds in Canada. The average MER for Canadian mutual funds exceeds 2.5%, which means seniors and other conservative investors are sharing over 50% of the income yield on income trust mutual funds with their mutual fund management companies.

There is much at stake in Canada for the financial industry to keep the income trust merry-go-round going round and round. But all the fees in the system are not letting seniors make the returns they need for adequate retirements.

Business Income Trusts in Significant Capital Loss Without a Recession

There are 54 business income trusts, or 44% of all the business income trust IPOs issued within the past five and three quarter years, that are in a capital loss relative to their initial public offering prices. The average percentage capital loss amongst these losing business income trust IPOs is 36%. Total capital losses are estimated to be $3.8 billion in these 54 IPO names, of which $3.0 billion is in the IPO public float. Close to three dozen business income trusts have lost more than 20% of their capital value since their IPOs. These catastrophic capital losses from business income trusts, that were sold as mature stable businesses, are occurring in prosperous economic conditions.

The names, nature of the business, IPO details, % capital loss and dollar value of the capital loss since the IPO are shown in Appendix I " Business Income Trust IPO Offerings Since January 1, 2001 In Capital Loss As Of October 12, 2006".

The 135 business income trusts in Figure 13 have total market capitalization of close to $70 billion. If the prospective capital losses determined by the pre tax equivalent comparison to public corporations comes to fruition, the 25% to 35% capital losses would be in the range of $18 billion to $25 billion.

Who are the Regulators and Self-regulators Breaching Seniors' Trust?

The regulatory and self-regulatory leaders in Canada with mandates to protect the public interest are listed below. All of these officials have received evidence of the serious financial reporting problems in income trusts from numerous experts and most have publicly acknowledged the problems. Yet, there have been no actions to stop the use of inaccurate and misleading non-GAAP financial measures on income trusts by the income trusts, investment banks and income mutual funds. There are longer disclaimers in prospectuses and marketing materials and more warnings on regulators' websites, but nothing concrete ever gets done to stop the inaccurate and misleading information. These regulators and self-regulators are breaching seniors' trust by allowing them to receive inaccurate and misleading distributions and cash yield data and expecting them to find pertinent information buried in long legal documents or the fine print of marketing materials.

Canadian Accounting Standards Board:
Chairman - Paul Cherry, Director Accounting Standards - Peter Martin

Canadian Accounting Standards Oversight Board:
Chairman - Doug Hyndman

CAcSB Emerging Issues Committee:

Chairman - Mark Walsh

Canadian Institute of Chartered Accountants:
Chairman - David Hope, President & CEO - Kevin Dancy

Ontario Securities Commission:
Chairman David Wilson, Ontario Government Services Minister Gerry Phillips

Alberta Securities Commission:
Chairman William Rice, Alberta Minister of Finance Shirley McClellan

Quebec Securities Commission:
Chairman Jean St-Gelais, Quebec Minister of Finance Michel Audet

British Columbia Securities Commission:
Chairman Doug Hyndman, B.C. Attorney General Wally Oppal

Canadian Securities Administrators:
Chairman - Jean St-Gelais

Federal Government:
Minister of Finance James Flaherty

Investment Dealers Association:
President Joe Oliver

The Deficiency of Remedies for Investors' Losses

The financial industry does not have gatekeepers within it to protect the interests of seniors and other investors in income trusts. It will sell structurally impaired investment products using inaccurate and misleading financial measures, if it is not restricted from doing so. In addition to buyer beware being inadequate where public disclosure is inaccurate, misleading or omitted, there is also a problem getting cost effective and timely remedies for the damages from misconduct after the fact.

Derivative actions and shareowner oppression actions are not available, since income trusts are not covered by federal and provincial company acts that provide these investor remedies for losses imposed on all shareowners by management acting in its own interest or on one class of shareowner versus other classes.

Prospectus and continuous public disclosure civil liability do apply to income trusts, since these are defined to be securities covered by the provincial securities acts. These are cost effective class actionable matters. However, the prospectus is heavily lawyered and has extensive disclaimers making most adverse contingencies almost impossible to prove as an omission or a misrepresentation of material facts in the prospectus. There is a very short 180 day limitation period from the time an omission or misrepresentation of material facts become known to investors and when the class action has to be filed.

It is difficult to prove that investment bankers were negligent in the thoroughness of their prospectus due diligence when the standard of care is set by the industry who all follow the same lenient procedures.

Investors with income trust losses have the right to civil remedy from financial advisors due their duty to make suitable investments relative to their investment profile and objectives. There are additional fiduciary duties governing investments in retirement RRSPs and RRIFs. But, civil litigation is very expensive and accessible to individuals whose losses are very high and who often have insufficient remaining financial assets to pursue the perpetrators in court.

The Solutions

We need a transparent income trust marketplace, since a bifurcated market where sophisticated market players take advantage of unsophisticated retail investors is not acceptable. We cannot have unsophisticated retail investors being advised to buy income trusts on a cash yield measure, that is an inaccurate measure of the return on investment and has no meaning compared to other income trusts.

Canadian Accounting Standards Board Solutions

The CAcSB should add to the Handbook of the Canadian Institute of Chartered Accountants a requirement that income trusts report both income distributions and return of capital distributions. Both of these terms should be defined in the Handbook and the Handbook should contain a prohibition on the use of the term distributions in the financial statements, where distributions are the sum of income distributions and return of capital distributions.

This recommendation for clear definitions of income and return of capital distributions by the CAcSB is easy for the CAcSB to implement, and has virtually no cost to income trusts for the preparation and auditing of the new financial statement terminology. I strongly believe that the acknowledged financial reporting abuses are much more difficult to execute, if the CAcSB requires both income distributions and return of capital distributions to appear in the income statement, statement of unitholders' equity and statement of cash flows. This is especially the case, when the Handbook contains a prohibition on the use of the term distributions in the financial statements, where distributions are the sum of income distributions and return of capital distributions. Prospectuses and equity research that continues to focus financial advisors and unsophisticated investors onto cash distributions and cash yields would be less successful, since there is a hook or reference point in the financial statements that clearly distinguishes the income distributions from the return of capital distributions.

The CAcSB arguments against adopting the two defined terms of income distributions and return of capital distributions are not strong ones. Firstly, the

CAcSB staff recommendation that the users of income trust financial statements can look up the definition of distributions in the dictionary is not helpful. This shirks the responsibility of the CAcSB to set an accounting standard for distributions. I know of no dictionary that does a good job of explaining that a distribution comprises two components, income and return or capital. I do not know that the income trust and the users of the income trust financial statements would be using the same dictionary. A Handbook or Canadian GAAP definition of income distributions and return of capital distributions would be clear to everyone.

Secondly, the CASB Decision Summaries for May 3, 2006 says:

"The determination of distributable cash is a business decision based on judgment and contractual requirements, similar to a decision by the directors of a business corporation about the amount available for distribution as a dividend."

It is simply not a strong argument to say there is no accounting standard for dividends being in excess of income, so there should be no accounting standard for distributions being in excess of income. Dividends rarely are above income and they are not permitted to exceed income in the long term due to the constraint of not reducing or impairing capital in the Federal and Provincial company acts.

The CAcSB should revise the CAcSB Emerging Issues Committee EIC-107 and EIC-145 decisions permitting the assets in subsidiary corporations to be marked up to current replacement value and permit a future income tax liability for future taxes payable on the possible future sale of the marked up assets.

The recommendation to revise CAcSB Emerging Issues Committee EIC-107 and EIC-145, is due to a large number of income trusts reporting substantial income tax credits in their income statements, which cause income after tax to be substantially higher than income pre tax. This phenomena is inflating valuations for income trusts since the tax liability is a one time future event which become payable if the assets of the corporate subsidiary are sold. The amortized tax credits appear to be at the discretion of management and not subject to any defined smoothing formula. It is a rare situation for a taxable corporation owning a subsidiary corporation to report a net tax credit in the income statement. Mark Walsh says this is the case because taxable corporations have the amortized tax credit associated with written up assets deducted against taxes that are otherwise payable. So, it is primarily the income trusts that exhibit this unusual phenomena of income after tax being higher than income pre tax.

The CAcSB staff say EIC-107 and EIC-145 have not been revised for income trusts, since the CAcSB wants to treat all subsidiary corporations the same, whether these are subsidiary corporations of an income trust or a corporation. There should be no different treatment according to the structure of the parent entity. Peter Martin argued that while the subsidiary corporation of the income

trust does manage its affairs to not pay any tax, it is nonetheless a taxable corporation under the Income Tax Act. The income trust may decide in the future to sell the assets in the subsidiary corporation and thereby trigger the income tax liability therein.

In the interest of contributing to a solution for the income trust losses fiasco, the CAcSB should (a) either deny the use of EIC-107 and EIC-145 for the subsidiary corporations of income trusts; or (b) permit the income tax liability in the subsidiary corporation of income trusts, but deny the amortization of this income tax liability as an income tax credit in the income statement of the parent income trusts. To support (b), this is not the only time where adjustments can be permitted in the balance sheet of a business that do not flow through the income, i.e. unrealized foreign currency translation gains(losses) are not run through the income statement since they are very volatile and therefore distort recurring income. The rationale for not putting amortized tax credits through the income statement of income trusts is also for the purpose of not distorting the recurring income of the income trust.

Provincial Securities Commissions and the Canadian Securities Administrators Solutions

The provincial securities commissions need to set a new requirement for income trust prospectuses and other public disclosure documents and for investment bank marketing materials that estimated distributable cash and cash distributions show the breakdown between income and return of capital. The income yield for income trusts should be calculated and clearly provided. (The U.S. Securities & Exchange Commission has established a prescribed yield calculation for income mutual funds due to many U.S. REITS paying distributions, that are a return of capital.)

The income trusts should not be permitted to show a yield calculation that includes a return of capital because the term yield by international convention is known to investors and consumers to mean return on investment. The definition of income yield cannot be the subject of disagreement on what the term means because return of capital distributions are implicitly defined by the Cdn GAAP in place today to be the reduction in unitholders equity caused by distributions exceeding income. If the CAcSB defined explicitly income distributions and return of capital distributions in the Handbook, then income distributions would be separately specified on the financial statements.

The provincial securities regulators are said to be trying to remedy the income trust financial reporting problem. Let’s not be complacent to think that this is a sincere initiative. Firstly, the income trust financial reporting problems of income trusts have been acknowledged by David Wilson, Chairman of the Ontario Securities Commission, who said the following at a Toronto securities conference on February 23, 2006, according to Paul Waldie of the Globe and Mail “Regulators decide no specific rules for hedge funds”:

“Regulators are also working on new rules governing how income trusts calculate and report their cash distributions, he said yesterday. By design, income trusts are supposed to spin off cash to unitholders. But there are no rules governing how that cash flow is calculated. Mr. Wilson said the CSA is hoping to come up with a "definition that provides consistency for investors.”…"So when an income trust says 'this is what our distributable cash flow is,' it's calculated in essentially the same way for every income trust," Mr. Wilson said.”

It has been my observation that hot issues requiring resolution by the OSC are sent to the Canadian Securities Administrators to be diffused by the need for further study and for consensus amongst the thirteen provincial and territorial securities commissions. Policy initiatives sent to the CSA rarely get resolved quickly, and when they do, the solution is at the lowest common denominator that thirteen provinces and territories could agree on. We see the same pattern in the case of the CSA's response to the call for tighter income trusts regulation.

On August 4, 2006, the CSA released a Second Review of Income Trusts that found financial reporting deficiencies by 85% of 45 business income trusts examined. Yet, the CSA does not name any names to permit investors to conduct more careful study; does not impose any sanctions and does not introduce any new financial reporting rules, nor does it give any sense that it proposes to do so.

Provincial trust laws governing income trusts should restrict distributions to income. Income trusts wishing to pay return of capital should from time to time make special distributions.

This would be far better than the public disclosure approach, since income trusts would be forced to behave the same as corporations where dividends are less than income and return of capital to shareowners is accomplished by Special Dividends.

Canadian Association of Income Funds Solutions

The Canadian Securities Administrators and the Canadian Association of Income Funds (CAIF) are thought to be setting guidelines for a definition of estimated distributable cash. I can imagine that this will be the creation of some standardized form, where the income trust’s management reconciles its estimate of distributable cash to cash flow from operations, which is a Cdn GAAP defined term appearing on the financial statements. This reconciliation form would have standardized items for additions and subtractions from the Cdn GAAP items. It is my opinion that this private sector and CSA effort to create a definition for estimated distributable cash to resolve the problem of income trusts financial reporting is unacceptable, and it will in fact institutionalize the deception that cash distributions and cash yield are in some way income, where the cash yield is directly comparable to bond and GIC yields.

The efforts to create a definition for estimated distributable cash is in essence an effort to replace Cdn GAAP for the income trust business structure. The President & C.E.O of Yellow Pages Income Fund has in fact said this is the objective, when he said he supported the CAIF initiative to develop guidelines for the financial reporting of income trusts that did not need to be Cdn GAAP rules.

Should Canadians and the Federal Government accept that the income trust structure has its own financial reporting rules that are not Cdn GAAP and as such are not audited measures? Why should the Federal Government rely upon new rules defining estimated distributable cash that do not have even the degree of oversight that the CAcSB provides, especially when the corporate governance of trusts is acknowledged to be so much less than corporations, and especially if there is going to be less Federal Government revenues collected from the income trusts owned by tax deferred entities, such as RRSPs and pension plans, and foreign investors.

Federal Government Solutions

(i) Finance

The Federal Income Tax Act should add a prescribed condition for a mutual fund trust to report in both its financial statements and other financial reporting documents income distributions and the return of capital distributions, and not the combined distributions. Any income yield presented must be calculated and clearly provided. The income trusts should not be permitted to show a yield calculation, that includes a return of capital.

The proposed prescribed condition for income distributions and return of capital distributions in the Federal Income Tax Act would supersede the CAcSB accounting standard of not requiring these specified components of distributions to be made in the financial statements. This requirement would have the authority of federal law, whereas the CAcSB is a self-regulated standard. The income trust needs to make these calculations once a year for the income trust owners to make their income tax filings, so this new prescribed condition says such reporting must be made in every public disclosure.

The Federal Government must always take responsibility for attainment of the benefits expected from making federal tax concessions for income trusts. Income trusts are receiving federal tax concessions relative to corporations, despite the current steps taken towards tax parity. The pursuit of benefits from no business taxes on income trusts should not have the significant side effects upon seniors and other income seeking investors that are financially harmed by the improper execution of these flow through business structures, i.e., deceptive cash distributions and cash yield that cause their mispricing in the market. The Federal Government cannot rely upon the CAcSB or the provincial and territorial jurisdictions to resolve the investor protection issues on its behalf. So, far the

CAcSB and the provincial securities commissions have failed to protect investors in income trusts.

Income trusts are receiving tax concessions compared to corporations despite the Federal Government pronouncement of steps taken towards tax parity between these two business structures. Firstly, the Federal Government initiative to date aims for tax parity between income trusts and only large public corporations. Secondly, tax parity is not achieved by the Federal Government alone, because only four provinces have cut their share of taxes on dividends. Thirdly, even the expected Federal plus Provincial tax parity will take four years, since this is the phase in period for the decline in the corporate tax rate from 36% to 32%. Fourthly, the non-taxable RRSP accounts and pension funds continue to have an advantage from the income trust structure, since income trusts do not pay business taxes while corporations do, and entities that are not taxable will not have the beneficiaries of these funds paying the related personal income taxes for many years in the future. Fifthly, we know that foreigners own an estimated 24% of Canadian-based income trusts, so there may be income trust demand from this source, where there is clear tax leakage from Canadian Governments.

The Federal Government has already adopted definitions for income distributions and return of capital distributions for the purpose of collecting personal income taxes from owners of income trusts and this proposed change crystallizes the use of these terms by income trusts, so there can be no misunderstandings or implied meanings other than the truthful ones given to Canadian taxpayers. The Federal Government must ensure that individual taxpayers do not misunderstand the nature of any income or return of capital that they receive from an investment, so that these taxpayers are not making erroneous tax filings.

The investment bank literature almost always misrepresents the return of capital component of distributions to be tax deferred rather than tax exempt. The return of capital is tax exempt because tax authorities cannot tax income already taxed a second time. The return of capital distribution is a deduction from the cost base of the income trust unit so that the double taxation of original income does not occur. If taxpayers were not receiving this inaccurate information on the taxation of return of capital distributions, they would likely be more attentive to the matter of return of capital distributions having a reducing affect on the value of an income trust rather than a beneficial one.

.

Would the Federal Government need to implement this proposed change in the Federal Income Tax Act, if the CAcSB made the recommended accounting standard change for specification of income distributions and return of capital distributions and if the provincial and territorial governments made the parallel changes for estimated distributable cash, cash distributions and cash yield in public disclosures, other than the financial statements? The answer is yes: (1) The Federal Government needs to execute its own responsibility to achieve the

benefits of income trust tax concessions; and, (2) the Federal Government needs to help individual taxpayers not making erroneous tax filings; and (3) the Federal Government has constitutional jurisdiction for securities regulation according to the work of the Federal Wise Persons Committee, and so it should exercise its own jurisdiction to make sure the income trusts' financial reporting problem is fixed.

In my opinion, the breach of trust exhibited by the Provincial and Territorial legislators and securities commission executives concerning income trusts should be the final straw for Canadians to demand the creation of a national securities commission.

(ii) Industry

Section 70 and 71 of the CBCA Regulations should be changed so that "Canadian GAAP" means generally accepted accounting principles established by the Canadian Accounting Standards Board, defined as independent and representative of all stakeholders including public investors; and, authorized within the Canada Business Corporations Act ("CBCA").

It is time to address the root cause of CAcSB resistance to adopt accounting standards that provide better transparency for investors and deter abuses by income trusts and corporations, their owners and their corporate advisors. Sections 70 and 71 of the CBCA Regulations today says that "Canadian GAAP" means generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants. Federally registered corporations would need to follow accounting standards set by the newly restructured Canadian Accounting Standards Board.

If there is a requirement for a new Federal Government body setting accounting standards for Federal corporations, it is very likely that the accounting industry and issuers would capitulate to the creation of one new CAcSB for both Federally and Provincially registered corporations and for Provincially registered income trusts. This CBCA legislative change would then be the catalyst for a newly restructured CAcSB that can be required to address the specific income trust changes of income distributions and return of capital distributions, where these income trusts are not federally incorporated.

The newly restructured CAcSB would reduce the prospects for corporate calamities caused by lax accounting principles that allow executives of both income trusts and corporations to act in their own interests, rather than creating long term investment returns for investors.

The new CAcSB needs a clear majority of fully independent Board members. The accounting principles of the Board need to be authorized in the CBCA and the Board should report to Industry Canada, who administers the Canada

Business Corporations Act. The new Board should not report in any manner to the Canadian Institute of Chartered Accountants and cannot be a self-regulator of the accounting industry.

The CBCA revisions would also define the CAcSB's purpose to be the setting of accounting principles for financial statements that are intended to be utilized in individual investor decision-making. These CBCA changes would supersede the precedent set to the contrary in the Hercules Management v. Ernst & Young Supreme Court of Canada decision in 1997. Since the Federal Government very likely has constitutional jurisdiction to enter the regulation of accounting standards and since the Provincial Governments have not historically been involved in the regulation of accounting standard s, it is not clear to me why it would be necessary to move forward on a joint Federal and Provincial responsibility basis to restructure the CAcSB, so as to make it accountable to the public through its democratic representation in the Federal Parliament.

APPENDIX I - Business Income Trust Initial Public Offerings Since January 1, 2001 In Capital Loss As Of October 12, 2006

APPENDIX II - Business Income Trusts Sorted by Distribution to Income Ratio As of October 12, 2006

APPENDIX I

BUSINESS INCOME TRUST INITIAL PUBLIC OFFERINGS SINCE JANUARY 1, 2001 IN CAPITAL LOSS AS OF OCTOBER 12, 2006

Name	Date	Price	No. of Units Millions	Size of Offering $ Millions	Investment Banking Fee %	Investment Banking Fee $ Millions	Reuters Symbol	Last Sale	% Change	Loss $ Millions
HEATING OIL PARTNERS	5/9/2002	$10.00	13.500	$135.0	5.75%	$7.8	ca;HOP.UN	$0.00	-100%	-$135.0
SPECIALTY FOODS	3/13/2003	$10.00	20.130	$201.3	5.75%	$11.6	ca;HAM.UN	$0.11	-99%	-$199.1
FMF CAPITAL-IPS	3/24/2005	$10.00	19.750	$197.5	5.75%	$11.4	ca;FMF.UN	$0.33	-97%	-$191.0
ASSOCIATED BRANDS	11/15/2002	$10.00	11.763	$117.6	6.00%	$7.1	ca;ABF.UN	$0.93	-91%	-$106.7
SPINRITE INCOME	2/8/2005	$10.00	20.291	$202.9	5.75%	$11.7	ca;SNF.UN	$1.09	-89%	-$180.8
BOYD GROUP INCOME	2/28/2003	$8.60	1.050	$9.0	7.00%	$0.6	ca;BYD.UN	$1.39	-84%	-$7.6
ENTERTAINMENT ONE	11/4/2003	$10.00	14.140	$141.4	6.00%	$8.5	ca;EOF.UN	$2.10	-79%	-$111.7
MADACY ENTERTAINMENT	4/20/2005	$10.00	7.540	$75.4	6.00%	$4.5	ca;MEG.UN	$2.47	-75%	-$56.8
ART IN MOTION INCOME	8/3/2004	$10.00	8.030	$80.3	6.00%	$4.8	ca;AIM.UN	$2.49	-75%	-$60.3
HOT HOUSE GROWER	12/23/2003	$10.00	6.603	$66.0	6.00%	$4.0	ca;VEG.UN	$2.65	-74%	-$48.5
SOMERSET ENTERTAINMENT	3/18/2005	$10.00	9.600	$96.0	6.00%	$5.8	ca;SOM.UN	$2.90	-71%	-$68.2
ADV FIBER TECHNOLOGIES	3/28/2002	$10.00	13.083	$130.8	6.00%	$7.8	ca;AFT.UN	$3.00	-70%	-$91.6
GIENOW WINDOWS & DOORS	10/19/2004	$10.00	16.500	$165.0	5.75%	$9.5	ca;GIF.UN	$3.75	-63%	-$103.1
SFK PULP FUND	8/1/2002	$10.00	44.440	$444.4	5.50%	$24.4	ca;SFK.UN	$4.36	-56%	-$250.6
ARRISCRAFT INTERNATIONAL	12/14/2004	$10.00	6.675	$66.8	6.00%	$4.0	ca;AIN.UN	$4.61	-54%	-$36.0
HARDWOODS DISTRISTRIBUTORS	3/23/2004	$10.00	14.410	$144.1	6.00%	$8.6	ca;HWD.UN	$5.00	-50%	-$72.1
CANWEL BUILDING	5/13/2004	$8.50	5.118	$43.5	5.75%	$2.5	ca;CWX.UN	$4.27	-50%	-$21.6
GRANBY INDUSTRIES	12/16/2004	$10.00	7.376	$73.8	6.00%	$4.4	ca;GBY.UN	$5.25	-48%	-$35.0
CLEARWATER SEAFOODS	7/31/2002	$10.00	23.290	$232.9	5.75%	$13.4	ca;CLR.UN	$5.30	-47%	-$109.5
CRESTSTREET POWER	11/1/2005	$8.75	6.564	$57.4	6.00%	$3.4	ca;CRS.UN	$5.00	-43%	-$24.6
STEPHENSON'S RENTALS	7/28/2005	$10.00	7.011	$70.1	6.00%	$4.2	ca;RNT.UN	$6.00	-40%	-$28.0
CLEAN POWER INC	11/14/2001	$10.00	21.200	$212.0	5.25%	$11.1	ca;CLE.UN	$6.22	-38%	-$80.1
GENERAL DONLEE I	5/3/2002	$10.00	8.950	$89.5	6.00%	$5.4	ca;GDI.UN	$6.23	-38%	-$33.7
OSPREY MEDIA INC	4/15/2004	$10.00	20.400	$204.0	5.75%	$11.7	ca;OSP.UN	$6.30	-37%	-$75.5
MENU FOODS	5/22/2002	$10.00	12.900	$129.0	6.00%	$7.7	ca;MEW.UN	$6.75	-33%	-$41.9
NEWPORT PARTNERS	8/8/2005	$10.00	22.650	$226.5	5.75%	$13.0	ca;NPF.UN	$6.76	-32%	-$73.4
NORCAST INCOME	6/22/2005	$10.00	7.703	$77.0	6.00%	$4.6	ca;NCF.UN	$7.15	-29%	-$22.0
SUN GRO HORTICUTURE	2/27/2002	$10.00	22.023	$220.2	5.75%	$12.7	ca;GRO.UN	$7.20	-28%	-$61.7
COAST WHOLESALE	6/23/2005	$10.00	6.525	$65.3	6.00%	$3.9	ca;CWA.UN	$7.30	-27%	-$17.6
CANWEST MEDIAWORKS	10/13/2005	$10.00	55.000	$550.0	5.00%	$27.5	ca;CWM.UN	$7.38	-26%	-$144.1
CUSTOM DIRECT INCOME	5/29/2003	$10.00	12.650	$126.5	6.00%	$7.6	ca;CDI.UN	$7.49	-25%	-$31.8
MOVIE DISTRIBUTIBUTORS	10/15/2003	$10.00	17.900	$179.0	5.75%	$10.3	ca;FLM.UN	$7.50	-25%	-$44.8
PANTERA DRILLING	3/21/2006	$10.00	2.500	$25.0	6.00%	$1.5	ca;RIG.UN	$7.50	-25%	-$6.3
CANEXUS INCOME	8/18/2005	$10.00	31.750	$317.5	5.25%	$16.7	ca;CUS.UN	$7.53	-25%	-$78.4
KEYSTONE NORTH AMERICA	2/8/2005	$10.00	18.770	$187.7	5.75%	$10.8	ca;KNA.UN	$8.10	-19%	-$35.7
RESOLVE BUSINESS	3/22/2006	$10.00	22.500	$225.0	5.50%	$12.4	ca;RBO.UN	$8.15	-19%	-$41.6
RICHARDS PACKAGING	4/7/2004	$10.00	8.570	$85.7	6.00%	$5.1	ca;RPI.UN	$8.40	-16%	-$13.7
NEW FLYER INDUSTRIES	8/19/2005	$10.00	23.000	$230.0	5.50%	$12.7	ca;NFI.UN	$8.52	-15%	-$34.0
TREE ISLAND WIRE	11/12/2002	$10.00	16.439	$164.4	5.75%	$9.5	ca;TIL.UN	$8.56	-14%	-$23.7
PRIME RESTAURANT	7/22/2002	$10.00	6.110	$61.1	6.00%	$3.7	ca;EAT.UN	$8.69	-13%	-$8.0
ED SMITH INCOME	6/3/2005	$10.00	12.710	$127.1	6.00%	$7.6	ca;JAM.UN	$8.71	-13%	-$16.4
CARGOJET INCOME	6/9/2005	$10.00	5.955	$59.6	6.00%	$3.6	ca;CJT.UN	$8.86	-11%	-$6.8
MEDICAL FACILITIES	3/29/2004	$10.00	22.173	$221.7	5.75%	$12.7	ca;DR.UN	$8.88	-11%	-$24.8
CANADIAN HELICOPTERS	9/9/2005	$10.00	10.078	$100.8	6.00%	$6.0	ca;CHL.UN	$8.96	-10%	-$10.5
JAZZ AIR INCOME FUND	1/25/2006	$10.00	23.500	$235.0	5.50%	$12.9	ca;JAZ.UN	$9.10	-9%	-$21.2
TERRAVEST INCOME	7/9/2004	$8.15	3.450	$28.1	6.00%	$1.7	ca;TI.UN	$7.44	-9%	-$2.4
ACADIAN TIMBER	1/23/2006	$10.00	8.451	$84.5	6.00%	$5.1	ca;ADN.UN	$9.15	-9%	-$7.2
KCP INCOME FUND	8/23/2002	$10.00	25.880	$258.8	5.75%	$14.9	ca;KCP.UN	$9.16	-8%	-$21.7
ACS MEDIA INCOME	5/8/2003	$10.00	17.500	$175.0	5.75%	$10.1	ca;AYP.UN	$9.34	-7%	-$11.6
BRICK GROUP INCOME	7/20/2004	$10.00	28.000	$280.0	5.25%	$14.7	ca;BRK.UN	$9.40	-6%	-$16.8
OFI INCOME FUND	9/1/2005	$10.00	12.960	$129.6	6.00%	$7.8	ca;OFB.UN	$9.50	-5%	-$6.5
HIGH ARCTIC ENER	7/21/2005	$10.00	8.400	$84.0	6.00%	$5.0	ca;HWO.UN	$9.57	-4%	-$3.6
PIZZA PIZZA ROYA	7/6/2005	$10.00	17.950	$179.5	5.75%	$10.3	ca;PZA.UN	$9.60	-4%	-$7.2
SUPREMEX INCOME FUND	3/17/2006	$10.00	17.500	$175.0	5.50%	$9.6	ca;SXP.UN	$9.90	-1%	-$1.8

$ Millions	Number	% of Total	% Loss	Offerings	Market Cap
All IPO's in Capital Loss	54	44%	-36%	-$2,964	-$3,812
All IPO's in Capital Loss > - 20%	34	28%	-51%	-$2,649	-$3,424
All IPO's	123				

APPENDIX ii

Business Income Trusts Sorted by the Distribution to Income Ratio

12-Oct-06	Name	Price	Distribution/Price	Income Per Unit	Distribution Per Unit	Distribution/Income Ratio
ca;BCI.UN	Benvest New Look Income Fund	6.02	9.1%	-0.04	0.55	16.70
ca;CRS.UN	Creststreet Power & Income Fund LP	4.94	13.2%	0.05	0.65	13.01
ca;TPW.UN	TransAlta Power LP	8.03	9.9%	-0.07	0.79	12.36
ca;DCI.UN	DirectCash Income Fund	17.30	8.0%	0.16	1.38	8.63
ca;HCI.UN	Hartco Income Fund	3.25	18.5%	-0.08	0.60	8.50
ca;MSI.UN	Morneau Sobeco Income Fund	12.75	6.5%	0.10	0.82	8.49
ca;TBL.UN	Taiga Building Products Ltd	7.45	13.4%	0.14	1.00	7.15
ca;CLE.UN	Clean Power Income Fund	6.20	11.3%	-0.15	0.70	5.70
ca;CJT.UN	Cargojet Income Fund	8.87	12.8%	0.20	1.13	5.67
ca;MPT.UN	Macquire Power & Infrastructure Incme Fd	11.54	8.9%	0.19	1.03	5.31
ca;STB.UN	Student Transportation of America Ltd	12.21	9.0%	-0.29	1.10	4.78
ca;ATP.UN	Atlantic Power Corp	10.50	10.1%	0.26	1.06	4.03
ca;FZR.UN	Atlas Cold Storage Income Trust	7.36	4.9%	0.09	0.36	4.00
ca;BFC.UN	BFI Canada Income Fund	29.70	6.1%	0.48	1.82	3.79
ca;DR.UN	Medical Facilities Corp	8.85	12.4%	-0.46	1.10	3.41
ca;CHE.UN	Chemtrade Logistics Income Fd	10.90	13.2%	0.43	1.44	3.35
ca;GRO.UN	Sun Gro Horticulture Income Fund	7.01	12.8%	0.27	0.90	3.33
ca;MEG.UN	Madacy Entertainment Income Fund	2.47	45.6%	0.35	1.13	3.20
ca;SPF.UN	Superior Plus Income Fund	12.84	12.2%	-0.84	1.56	2.86
ca;TWF.UN	TimberWest Forest Corp	14.03	7.7%	0.38	1.08	2.84
ca;HEQ.UN	Home Equity Income Trust	14.08	7.7%	0.42	1.08	2.55
ca;TMA.UN	Trimac Income Fund	10.23	9.0%	0.37	0.92	2.48
ca;CLB.UN	Colabor Income Fund	12.34	8.7%	0.44	1.08	2.45
ca;MHG.UN	Medisys Health Group Inc	11.70	8.1%	0.39	0.95	2.42
ca;ICE.UN	Versacold Income Fund	9.76	10.3%	0.46	1.00	2.18
ca;ACF.UN	IAT Air Cargo Facilities Income Fund Tr	7.96	10.2%	-0.71	0.81	2.15
ca;FLM.UN	Movie Distribution Income Fund	7.50	15.3%	0.59	1.15	1.95
ca;GLC.UN	Great Lakes Carbon Income Fund	10.00	12.8%	0.66	1.28	1.94
ca;SIF.UN	Energy Savings Income Fund	16.74	5.5%	0.48	0.92	1.91
ca;IEF.UN	Innergex Power Income Fund	13.88	7.0%	0.51	0.96	1.89
ca;OSP.UN	Osprey Media Income Fund	6.30	12.2%	-0.89	0.77	1.86
ca;AIN.UN	Arriscraft International Income Fund	4.61	9.1%	-0.51	0.42	1.82
ca;GLH.UN	Great Lakes Hydro Income Fund Trust	19.05	6.6%	0.69	1.25	1.81
ca;BRK.UN	The Brick Group Income Fund	9.40	12.8%	0.67	1.20	1.79
ca;PIF.UN	Pembina Pipeline Income Fund	17.35	6.9%	0.68	1.20	1.77
ca;NCF.UN	Norcast Income Fund	7.05	17.0%	0.68	1.20	1.76
ca;OFB.UN	OFI Income Fund	9.50	13.2%	0.73	1.25	1.72
ca;KCP.UN	KCP Income Fund	9.19	11.4%	0.61	1.05	1.72
ca;QSR.UN	Priszm Canadian Income Fund	12.65	10.0%	0.76	1.26	1.67
ca;BPT.UN	Boralex Power Income Fund	10.60	8.5%	0.55	0.90	1.64
ca;VOX.UN	Voxcom Income Fund	10.56	10.4%	0.68	1.10	1.63
ca;AMT.UN	Amtelecom Income Fund	12.67	9.5%	0.74	1.20	1.62
ca;IPL.UN	Inter Pipeline Fund	10.19	8.2%	0.52	0.84	1.62
ca;APF.UN	Algonquin Power Income Fund	10.29	8.9%	0.57	0.92	1.61
ca;TI.UN	TerraVest Income Fund	7.40	18.7%	0.87	1.38	1.59
ca;RSI.UN	Rogers Sugar Income Fund	4.40	9.6%	-0.72	0.42	1.58
ca;CF.UN	Calpine Power Income Fund	9.95	9.9%	0.62	0.98	1.58
ca;LIV.UN	Livingston International Income Fund	23.00	7.4%	1.08	1.70	1.58
ca;PBI.UN	Premium Brands Income Fund	11.28	10.4%	0.75	1.18	1.57
ca;CWX.UN	CanWel Building Materials Income Fund	4.26	16.4%	0.46	0.70	1.52
ca;FCE.UN	Fort Chicago Energy Partners L.P.	11.73	7.9%	0.63	0.93	1.48
ca;TIL.UN	Tree Island Wire Income Fund	8.55	17.5%	1.03	1.50	1.46
ca;KBL.UN	K-Bro Linen Income Fund	15.00	7.3%	0.77	1.10	1.43
ca;YLO.UN	Yellow Pages Income Fund	14.22	7.2%	0.73	1.03	1.41
ca;GBY.UN	Granby Industries Income Fund	5.25	17.1%	-2.21	0.90	1.41
ca;CWI.UN	The Consumers' Waterheater Income Fund	16.10	7.6%	0.89	1.23	1.38
ca;AG.UN	Arctic Glacier Income Fund	13.66	8.1%	0.80	1.10	1.38
ca;CBF.UN	Connors Bros. Income Fund	10.82	12.5%	0.98	1.35	1.37
ca;LIQ.UN	Liquor Stores Income Fund	22.02	6.4%	1.08	1.40	1.30
ca;OAX.UN	Oceanex Income Fd	14.06	8.0%	0.89	1.12	1.26
ca;RNK.UN	Rainmaker Entertainment Group Ltd	3.41	14.1%	0.39	0.48	1.23
ca;KEY.UN	Keyera Facilities Income Fund	20.50	7.0%	1.19	1.43	1.20
ca;RPI.UN	Richards Packaging Income Fund	8.40	13.4%	0.94	1.12	1.20
ca;MEW.UN	Menu Foods Income Fund	6.65	9.0%	-3.15	0.60	1.19
ca;NIF.UN	Noranda Income Fund	11.43	8.9%	0.87	1.02	1.17
ca;PRT.UN	PRT Forest Regeneration Income Fd	10.03	9.0%	0.77	0.90	1.17
ca;CLR.UN	Clearwater Seafoods Income Fund	5.30	11.3%	0.52	0.60	1.15
ca;EIS.UN	Eveready Income Fund	6.45	9.3%	0.52	0.60	1.15
ca;DGI.UN	The Data Group Income Fund	10.17	11.4%	1.02	1.16	1.14

APPENDIX ii

Business Income Trusts Sorted by the Distribution to Income Ratio

12-Oct-06	Name	Price	Distribution/Price	Income Per Unit	Distribution Per Unit	Distribution/Income Ratio
ca;NPI.UN	Northland Power Income Fund	15.09	7.2%	0.96	1.08	1.13
ca;ABF.UN	Associated Brands Income Fund	0.93	71.0%	-5.17	0.66	1.13
ca;TDG.UN	Trinidad Energy Services Income Trust	13.23	10.4%	1.23	1.38	1.12
ca;TAY.UN	Taylor NGL Ltd	9.50	7.3%	0.62	0.70	1.12
ca;FP.UN	FP Newspapers Income Fund	10.60	12.2%	1.17	1.29	1.10
ca;CFN.UN	Carfinco Income Fund	4.18	7.8%	0.29	0.32	1.10
ca;ALA.UN	AltaGas Income Trust	27.45	7.4%	1.86	2.04	1.10
ca;CDI.UN	Custom Direct Income Fund	7.50	18.0%	1.25	1.35	1.08
ca;CSS.UN	Contrans Corp	14.40	8.7%	1.18	1.25	1.06
ca;IBG.UN	IBI Income Fund	13.10	9.6%	1.20	1.26	1.05
ca;EP.UN	EPCOR Power LP	33.32	7.6%	2.40	2.52	1.05
ca;NAL.UN	Newalta Income Fund	32.63	6.8%	2.12	2.22	1.05
ca;GDI.UN	General Donlee Income Fund	6.23	13.5%	0.80	0.84	1.04
ca;ATS.UN	ATS Andlauer Income Fund	12.65	8.9%	1.08	1.13	1.04
ca;BNQ.UN	Bell Nordiq Income Fund	18.50	6.2%	1.10	1.14	1.04
ca;SCU.UN	Second Cup Royalty Income Fund	10.80	9.6%	1.01	1.04	1.03
ca;AW.UN	A & W Revenue Royalties Income Fund	17.50	6.7%	1.14	1.16	1.02
ca;ARF.UN	Armtec Infastructure Income Fund	19.40	8.0%	1.54	1.56	1.01
ca;PHX.UN	Phoenix Technology Income Fund	6.80	11.5%	0.77	0.78	1.01
ca;GCI.UN	Gateway Casinos Income Fund	17.66	8.1%	1.43	1.43	1.00
ca;SFK.UN	SFK Pulp Fund	4.37	0.0%	-0.25	0.00	1.00
ca;EOF.UN	Entertainment One Income Fund	2.20	0.0%	-2.89	0.00	1.00
ca;BYD.UN	Boyd Group Income Fund	1.35	0.0%	-0.14	0.00	1.00
ca;HAM.UN	Specialty Foods Group Incm Fd	0.11	0.0%	-11.00	0.00	1.00
ca;PZA.UN	The Pizza Pizza Royalty Income Fund	9.73	8.8%	0.86	0.85	0.99
ca;PDM.UN	PDM Royalties Income Fund	10.16	14.2%	1.45	1.44	0.99
ca;GZM.UN	Gaz Metro Ltd Partnership	18.29	6.8%	1.25	1.24	0.99
ca;KEG.UN	The Keg Royalties Income Fund	13.09	8.8%	1.16	1.15	0.99
ca;SRV.UN	SIR Royalty Income Fund	10.17	12.4%	1.29	1.26	0.98
ca;BR.UN	Big Rock Brewery Income Trust	19.50	6.8%	1.35	1.32	0.97
ca;FC.UN	Firm Cap Mortgage Investment Trust	10.16	9.0%	0.94	0.91	0.97
ca;AFN.UN	Ag Growth Income	15.01	11.2%	1.73	1.68	0.97
ca;PBL.UN	Pollard Banknote Income Fund	10.90	8.7%	0.98	0.95	0.97
ca;EAT.UN	Prime Restaurants Royalty Income Fund	8.80	12.8%	1.17	1.13	0.96
ca;UWH.UN	UE Waterheater Income Fund	14.85	6.5%	1.00	0.96	0.96
ca;WJX.UN	Wajax Income Fund	33.50	10.8%	3.83	3.60	0.94
ca;BPF.UN	Boston Pizza Royalties Income Fund	19.92	5.9%	1.26	1.18	0.94
ca;ENF.UN	Enbridge Income Fund	14.20	6.5%	0.98	0.92	0.94
ca;AVF.UN	Avenir Diversified Trust	9.05	14.1%	1.36	1.27	0.94
ca;CLC.UN	CML Healthcare Income Fund	15.81	6.3%	1.08	1.00	0.93
ca;PES.UN	Peak Energy Services Trust	8.36	12.9%	1.17	1.08	0.92
ca;HAL.UN	Halterm Income Fund	13.00	7.4%	1.04	0.96	0.92
ca;HWD.UN	Hardwoods Distribution Income Fund	5.00	16.3%	0.89	0.82	0.92
ca;BAD.UN	Badger Income fund	16.65	7.6%	1.38	1.26	0.91
ca;NWF.UN	North West Co Fund	16.75	5.3%	0.98	0.88	0.90
ca;EIF.UN	Exchange Industrial Income Fund	12.24	10.8%	1.48	1.32	0.89
ca;DHF.UN	Davis Henderson Income Fund	19.20	7.8%	1.69	1.50	0.89
ca;VIC.UN	Vicwest Income Fund	16.96	9.2%	1.76	1.56	0.89
ca;BET.UN	Builders Energy Services Trust	14.50	11.6%	1.93	1.68	0.87
ca;CET.UN	Cathedral Energy Services Ltd	8.33	10.1%	0.97	0.84	0.87
ca;SWS.UN	Swiss Water Decaffeinated Coffee Inc Fd	10.40	8.2%	1.01	0.85	0.84
ca;SOM.UN	Somerset Entertainment Income Fund	2.90	20.7%	0.73	0.60	0.82
ca;SMN.UN	SCI Income Trust	16.11	6.7%	1.32	1.08	0.81
ca;FMO.UN	Foremost Income Fund	17.75	9.0%	2.03	1.60	0.79
ca;MTL.UN	Mullen Group Income Fund	20.15	8.9%	2.36	1.80	0.76
ca;Z.UN	Sleep Country Canada Income Fund	23.50	5.7%	1.81	1.35	0.75
ca;AER.UN	Aeroplan Income Fund	15.40	4.5%	0.99	0.70	0.71
ca;PKI.UN	Parkland Industries Inc	30.24	7.9%	3.59	2.40	0.67
ca;WTE.UN	Westshore Terminal Income Fund	10.55	11.0%	1.76	1.16	0.66
ca;TIF.UN	TransForce Income Fund	17.35	7.5%	2.06	1.30	0.63
ca;CCR.UN	CCS Income Trust	34.62	4.2%	2.38	1.46	0.61
ca;GIF.UN	Gienow Windows and Doors Income Fund	3.70	16.2%	1.12	0.60	0.53
ca;FDG.UN	Fording Canadian Coal Trust	28.41	11.3%	6.47	3.20	0.49
ca;TCT.UN	Top 10 Canadian Financial Trust	15.05	7.8%	2.46	1.17	0.48
ca;LIF.UN	Labrador Iron Ore Royalty Income Fund	26.00	5.4%	2.96	1.40	0.47
ca;VEG.UN	Hot House Growers Income Fund	2.65	0.0%	0.08	0.00	0.00

Income = Last 12 months net income per unit

Distribution = Last month distribution X 12

Source: Reuters Trader Workstation