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PROSPECTUS
CONTINUOUS OFFERING

December 19, 2012



www.bestfunds.ca

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

CLASS A SHARES

B.E.S.T. Total Return Fund Inc. (the “Fund”) is registered as a labour sponsored investment fund corporation (“LSIF Corporation”) under the *Community Small Business Investment Funds Act* (Ontario), as amended (the “Ontario Act”), and a labour-sponsored venture capital corporation (“Federal LSVCC”) under the *Income Tax Act* (Canada), as amended (the “Federal Act”). The Class A Shares of the Fund (the “Class A Shares”) are offered for sale at a price equal to the Net Asset Value Per Share (as defined herein) for the Class A Shares. See “Plan of Distribution”.

Continuous Offering Price – Net Asset Value Per Share Minimum Initial and Subsequent Subscriptions – \$1,200 initially and \$50 subsequently
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Investment Objective: The Fund’s investment objective is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. See “Investment Objectives”.

Investment Strategy: In order to achieve its objective, the Fund will invest in two broad industry sectors: (a) Traditional Businesses; and (b) Technology Related Businesses. The primary focus of the traditional business sector is opportunities which would be classified as traditional businesses in the areas of, but not limited to, automotive, manufacturing, service, consumer products, industrial machinery, distribution and retail. The primary focus of the technology related business sector is technology related companies with high growth potential. See “Investment Strategies”.

Tax Benefits: Pursuant to the Federal Act and subject to the limitations described below, individuals resident in Canada who are the purchasers of newly issued Class A Shares are eligible for a federal tax credit (the “Federal Tax Credit”) equal to 15% of the net cost to the individual (or to a Qualifying Trust (as defined herein) for the individual) of the Class A Shares and certain other qualifying shares purchased during the relevant period to a maximum credit of \$750 per year (based on an investment of \$5,000). The availability of the Federal Tax Credit is subject to specific exceptions and requirements described under “Canadian Federal Income Tax Considerations”. Investors who purchase Class A Shares after December 31, 2012, but on or before March 1, 2013 may elect to have their Federal Tax Credit apply in respect of the 2012 taxation year instead of the 2013 taxation year. The maximum Federal Tax Credits apply in respect of an investor’s aggregate purchases of class A shares issued by Federal LSVCCs and LSIF Corporations and certain similar entities registered under the laws of a province of Canada. The Ontario provincial tax credit was phased out as of March 1, 2012. See “Purchases of Securities – Tax Incentives – Federal” and “Canadian Federal Income Tax Considerations”.

Manager: B.E.S.T. Investment Counsel Limited (the “Manager”) is the manager of the Fund pursuant to an amended and restated management agreement made as of September 15, 2008. The Manager is responsible for the Fund’s daily administrative operations and engaging and supervising service providers to the Fund. See “Organization and Management Details of the Fund – Manager of the Fund”.

Investment Advisor: B.E.S.T. Investment Counsel Limited (the “Investment Advisor”) is the investment advisor of the Fund pursuant to an amended and restated investment advisor agreement made as of September 15, 2008. The Investment Advisor is responsible for the development and refinement of the investment strategy and criteria of the Fund and providing investment advisory services to the Fund. See “Organization and Management Details of the Fund – Investment Advisor”.

Sponsors: The sponsors of the Fund are: the Christian Labour Association of Canada (“CLAC”), The International Federation of Professional and Technical Engineers – Local 160 (also known as and hereinafter referred to as “The Society of Energy Professionals”) and The International Federation of Professional and Technical Engineers – Local 164 (“IFPTE Local 164”) (CLAC, The Society of Energy Professionals and IFPTE Local 164, collectively, the “Sponsors”). CLAC owns the one issued and outstanding Class B Share of the Fund. See “Organization and Management Details of the Fund – Sponsors”.

RRSPs, RRIFs and TFSAs: In the opinion of McMillan LLP, subject to the qualifications discussed under the heading “Eligibility for Investment”, so long as the Fund is a LSIF Corporation or a Federal LSVCC, Class A Shares are qualified investments for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”) and tax-free savings accounts (“TFSAs”). RRIFs are not permitted to subscribe directly for Class A Shares and may generally only acquire such shares from certain RRSPs, other RRIFs or individuals in certain circumstances. A RRSP or TFSA may purchase Class A Shares directly from the Fund and is not subject to the restrictions that are applicable to RRIFs. Subject to the qualifications contained in this prospectus, an individual may generally claim the Federal Tax Credit for investments in Class A Shares made by his or her RRSP or TFSA and an individual or his or her Spouse (as defined herein) may generally claim the Federal Tax Credit for investments in Class A Shares made by a spousal RRSP. See “Eligibility for Investment”.

Risk Factors: **The Class A Shares are highly speculative in nature. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or long term. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. The Fund will require a greater commitment to initial analysis and to monitoring and support of ongoing developmental activities, relative to the amount of capital invested, than is required by most mutual funds. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles. The elimination of the Ontario Tax Credit (as defined herein) is likely to materially reduce future sales of Class A Shares of the Fund. As a result, the availability of funds for investment by the Fund could be reduced, and the liquidity of the Fund may be adversely affected, potentially resulting in a reduction of the value of Class A Shares. In certain circumstances the Fund may suspend redemptions for substantial periods of time. Furthermore, in any given year the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year. Requests to redeem Class A Shares typically increase as the proportion of outstanding Class A Shares held for more than eight years increases and the first eight year period during which Class A Shares could not generally be redeemed without withholding expired during the 2012 RRSP sales season. Many of the rules normally applicable to mutual funds operating in Canada are not applicable to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply to the Fund. There is no assurance that changes will not be introduced to federal or provincial legislation that, if unfavourable, could impair the Fund’s investment performance and its ability to attract future investment capital. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares. See “Risk Factors”.**

Investors may be required to pay share certificate fees in certain circumstances. See “Fees and Expenses – Fees and Expenses Payable Directly by an Investor”.

Mutual funds generally value their investments at the closing market price at which they can be bought and sold. A published market will not exist for many of the investments made by the Fund. The Fund has adopted a method of valuing both those investments for which a published market exists and those for which a published market does not exist. Convexus Managed Services Inc. (the “Registrar and Transfer Agent”) will calculate the Net Asset Value Per Share attributable to the Class A Shares on each Business Day (as defined herein) using values for the shares determined in accordance with the

Fund's valuation methodology. Under applicable Securities Legislation (as defined herein), the Fund is required to provide fair value information regarding its investment portfolio by providing (i) the individual fair value for each investment in its statement of investment portfolio, or (ii) an independent valuation report that will be filed with the Ontario Securities Commission. It is the Fund's intention to satisfy this requirement by engaging PricewaterhouseCoopers LLP, the Fund's independent auditor, to perform certain procedures on the valuation of the Fund's venture investment portfolio as at August 31, 2012 as part of its audit to ensure the fair value is reasonable, in all material respects, within the financial statements taken as a whole. The daily, weekly, semi-annual and annual valuations of the Fund's investments may not reflect the prices at which the investments can actually be sold, particularly after taking into account associated selling costs such as sales commissions and legal fees. The existence of a daily valuation of the Class A Shares is designed to establish the issue price for the continuous offering of the Class A Shares, and the daily and weekly valuations of the Fund are designed to allow investors to follow the performance of the Fund. See "Calculation of Net Asset Value" and "Risk Factors".

In most cases, investors must repay an amount equal to any tax credit received as a result of their investment if their Class A Shares are redeemed within eight years of purchase and the Fund is required to withhold such amount from any proceeds payable to the investor upon redemption in such cases. Pursuant to proposed amendments to the Federal Act, no amount is required to be withheld if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed. Once Class A Shares have been held for eight years, investors will normally be able to request that the Fund redeem their Class A Shares at any time at the Net Asset Value Per Share attributable to the Class A Shares as at the close of business on the Business Day on which the redemption request is received. There is no formal market such as a stock exchange through which Class A Shares may be sold and there are restrictions on the transfer of Class A Shares. Accordingly, investors will generally not be able to dispose of their Class A Shares other than by way of redemption. See "Canadian Federal Income Tax Considerations" and "Attributes of the Securities Distributed".

The Fund offers its Class A Shares for sale at the Net Asset Value Per Share, as calculated on a daily basis by the Registrar and Transfer Agent. Subscriptions will be received subject to rejection or allotment in whole or in part. The Class A Shares are sold through dealers licensed to sell shares of LSVCCs and LSIF Corporations. See "Purchases of Securities".

Additional information about the Fund is available in the following documents:

- the most recently filed annual financial statements;
- any interim financial statements filed after those annual financial statements;
- the most recently filed annual management report of fund performance; and
- any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this prospectus which means that they legally form part of this prospectus. Please see the "Documents Incorporated by Reference" section for further details. Investors should read this prospectus and review the financial statements carefully before making an investment decision. Careful consideration should be given to the risk factors associated with making an investment in the Fund. See "Risk Factors". Investors should also consult with their professional advisors prior to making an investment in the Fund.

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ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan LLP, counsel to the Fund, a Class A Share will generally be a qualified investment for a trust governed by a registered retirement savings plan (“RRSP”), a registered retirement income fund (“RRIF”), or a tax-free savings account (“TFSA”) provided that at the time the Class A Share is acquired by the trust, (i) the Fund is registered as a LSIF Corporation under the Ontario Act or a Federal LSVCC under the Federal Act, and (ii) the Class A Share is not a “prohibited investment” for the trust.

A Class A Share will not be a “prohibited investment” for a RRSP, a RRIF or a TFSA provided that at the time the Class A Share is acquired by the RRSP, RRIF or TFSA, the “controlling individual” (the holder of a TFSA or the annuitant of an RRSP or RRIF) does not hold a “significant interest” in the Fund and the Fund deals at arm’s length for purposes of the Federal Act with the controlling individual and with any corporation, partnership or trust in which the controlling individual has a significant interest. A controlling individual will generally hold a significant interest in a corporation (including the Fund) if he or she owns, directly or indirectly, 10% or more of the issued shares of any class or series of the corporation or of any corporation related to the corporation. For these purposes, a person is deemed to own shares owned by any other persons with whom he or she does not deal at arm’s length (for purposes of the Federal Act) plus his or her proportionate share of shares owned by a partnership of which he or she is a member, and all or part of the shares owned by a trust of which he or she is a beneficiary, depending on the terms of the trust. A controlling individual will generally hold a significant interest in a partnership or trust if he or she, either alone or together with one or more persons with whom he or she does not deal at arm’s length, holds interests representing 10% or more of the fair market value of all interests in the partnership or trust.

Although Class A Shares will generally be qualified investments for RRIFs, a RRIF is not permitted to subscribe directly for Class A Shares. Certain transfers of Class A Shares to RRIFs are permitted including by certain RRSPs. See “Canadian Federal Income Tax Considerations – Federal Tax Credit Available to First Purchasers –Transfer of Class A Shares to and Holding Class A Shares through RRSPs, RRIFs and TFSAs”.

The Federal Act contains certain punitive rules to address the use of RRSPs, RRIFs or TFSAs in certain tax planning arrangements. Potential investors who propose to hold their Class A Shares in a RRSP, RRIF or TFSA should consult their own tax advisors regarding their particular situation.

See “Canadian Federal Income Tax Considerations – Taxation of Registered Plans”.

SELECTED DEFINITIONS

“Applicable Legislation” means the Federal Act, the Nova Scotia Act (applicable only as described herein under “Investment Restrictions – Statutory Investment Restrictions – Nova Scotia Act”) and the Ontario Act;

“Audit Committee” means the audit committee of the Fund;

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

“Business Day” means a day other than a Saturday, a Sunday, a day observed as a holiday under the laws of the Province of Ontario or a day on which either the Toronto Stock Exchange or the Registrar and Transfer Agent’s principal office in Toronto is closed for business;

“CLAC” means the Christian Labour Association of Canada;

“Class A Shares” means the Class A shares in the capital of the Fund;

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

“Class B Shares” means the Class B shares in the capital of the Fund;

“Class B Shareholders” means the holders of Class B Shares;

“Class C Shares” means the Class C shares in the capital of the Fund;

“Class C Shareholders” means the holders of Class C Shares;

“CSBIF” means a community small business investment fund corporation registered under the Ontario Act;

“Custodian” means CIBC Mellon Global Securities Services Company (and certain of its affiliates), in its capacity as custodian of the Investment Portfolio and Reserve Portfolio;

“Cut-Off Date” means the last day for obtaining a Federal Tax Credit for the preceding taxation year, being the day that is 60 days after the end of the preceding year or such other date as may be announced by the relevant authorities, and the “2013 Cut-Off Date” means March 1, 2013 or such other date as may be announced by the relevant authorities as the last day for obtaining a Federal Tax Credit for the 2012 taxation year;

“Disposition Date” means the date the Fund receives the proceeds, whether in cash, securities or other property, from the disposition of an eligible investment;

“eligible business” means an eligible business as prescribed by the Ontario Act, which is also an “eligible business entity” as defined in Part X.3 of the Federal Act, as the case may be, some of the more salient requirements of which are described under “Investment Restrictions”;

“eligible investment” has the meaning ascribed thereto under “Investment Restrictions – Statutory Investment Restrictions – Ontario Act”;

“Eligible Investor” means an individual or a trust which is a Qualifying Trust for the individual;

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

“Federal LSVCC” means a registered labour-sponsored venture capital corporation under the Federal Act;

“Federal Tax Credit” means the 15% tax credit available under the Federal Act subject to the conditions prescribed therein, to original purchasers of class A shares of Federal LSVCCs and prescribed labour sponsored venture capital corporations as prescribed by the Tax Regulations;

“IFPTE Local 164” means The International Federation of Professional and Technical Engineers – Local 164;

“Individual Eligible Investor” means an individual who is an Eligible Investor and the original purchaser of Class A Shares directly or through a Qualifying Trust where the annuitant or holder under the Qualifying Trust, as applicable, is the individual or, in the case of a Qualifying Trust that is a RRSP, his or her Spouse;

“Information Return” means an information return referred to in paragraph 204.81(6)(c) of the Federal Act;

“Investment Advisor” means B.E.S.T. Investment Counsel Limited;

“Investment Advisor Agreement” means the amended and restated investment advisor agreement between the Fund and B.E.S.T. Investment Counsel Limited made as of September 15, 2008;

“Investment Portfolio” means, at any point in time, the eligible investments of the Fund other than investments in Reserves;

“IRC” means the Independent Review Committee of the Manager which has been established and to which conflict of interest matters will be referred for review or approval in accordance with National Instrument 81-107 – *Independent Review Committee for Investment Funds*;

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

“Manager” means B.E.S.T. Investment Counsel Limited;

“Management Agreement” means the amended and restated management agreement between the Fund and B.E.S.T. Investment Counsel Limited made as of September 15, 2008;

“Net Asset Value of the Fund” means the aggregate value of the Fund’s assets, less the aggregate value of the Fund’s liabilities (including any accrued performance fees);

“Net Asset Value Per Share” when used with reference to Class A Shares or Class C Shares is determined by subtracting the value of the liabilities of the Fund (including any accrued performance fees) and the stated capital of the Class B Shares, from the value of the assets of the Fund and dividing the resulting amount by the total number of outstanding Class A Shares and Class C Shares at the date such value is determined;

“Nova Scotia Act” means the *Equity Tax Credit Act* (Nova Scotia), as amended;

“Nova Scotia LSVCC” means a labour-sponsored venture-capital corporation registered under the Nova Scotia Act;

“Nova Scotia Tax Credit Certificate” means the certificate issued to an Individual Eligible Investor resident in Nova Scotia who has purchased a class A share in the capital of a Nova Scotia LSVCC;

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

“Ontario Tax Act” means the *Taxation Act, 2007* (Ontario), as amended;

“Ontario Tax Credit” means the tax credit previously available under the Ontario Tax Act and the Ontario Act, subject to the conditions and limits prescribed therein, to original purchasers of class A shares of LSIF Corporations;

“Performance Bonus” means the bonus that the Manager and the Investment Advisor are entitled to share in as soon as practicable after the Disposition Date of an eligible investment based on the gains and income earned from each eligible investment;

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

“Qualifying Trust” for an individual in respect of a share means a trust that is governed by (a) a RRSP where (i) the individual is the annuitant and the plan is not a Spousal Plan in relation to another individual; or (ii) the plan is a Spousal Plan in relation to the individual or his or her Spouse under which the individual or his or her Spouse is the annuitant; and (b) a TFSA in respect of which the individual is the holder;

“Registrar and Transfer Agent” means Convexus Managed Services Inc. in its capacity as registrar and transfer agent for the Class A Shares;

“Reserves” has the meaning ascribed by subsection 204.8(1) of the Federal Act and includes money in cash or on deposit with qualified financial institutions, debt instruments of or guaranteed by the Canadian federal government, debt obligations of provincial and municipal governments, Crown corporations and corporations listed on designated Canadian stock exchanges, guaranteed investment certificates issued by Canadian trust companies and qualified investment contracts;

“Reserve Portfolio” means an investment by the Fund in a form of assets which qualifies as a Reserve;

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

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

“Securities Legislation” means the *Securities Act* (Ontario) and corresponding legislation in any other province in which Class A Shares are or will be distributed as now enacted or as the same may from time to time be amended, re-enacted or replaced, and all regulations thereto which are applicable to the Fund and the requirements and policies of the applicable securities regulatory authority which are applicable to the Fund;

“Sponsor Agreement” means the sponsor agreement between each of the Sponsors and the Fund dated as of December 22, 2003 as amended on August 24, 2004 and November 30, 2004;

“Sponsors” means CLAC, The Society of Energy Professionals and IFPTE Local 164;

“Spousal Plan” means a spousal or common-law partner plan as defined in subsection 146(1) of the Federal Act;

“Spouse” includes a common-law partner as defined in the Federal Act;

“Tax Proposals” means all specific proposals to amend the Federal Act and the Tax Regulations under the Federal Act publicly announced by the Minister of Finance (Canada) prior to the date hereof;

“Tax Regulations” means the regulations made pursuant to the Federal Act;

“TFSA” means tax-free savings accounts, as defined in subsection 248(1) of the Federal Act;

“The Society of Energy Professionals” means The International Federation of Professional and Technical Engineers – Local 160; and

“Trustee” means a Canadian chartered bank with which the Fund has an arrangement with respect to RRSPs established to hold Class A Shares, in its capacity as trustee for such RRSPs.

PROSPECTUS SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus or incorporated by reference in the prospectus. Terms not otherwise defined herein shall have the meaning ascribed thereto under "Selected Definitions".

THE FUND

The Fund was incorporated under the *Canada Business Corporations Act* by articles of incorporation dated October 31, 2003, as amended on November 30, 2004 and December 20, 2005. The Fund is registered as a LSIF Corporation under the Ontario Act and a Federal LSVCC under the Federal Act.

The primary objective of the Fund is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. In order to achieve this objective, the Fund's strategy is to invest in two broad industry sectors: Traditional Businesses and Technology Related Businesses. Such investments are intended to assist the development of eligible businesses and create, maintain and protect employment. The Fund invests in securities such as convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of eligible businesses that, in the Fund's opinion, have the greatest potential to achieve the Fund's objectives. The Fund intends to maintain a focus in both geographic and sector diversification by investing in all Canadian provinces in businesses that have the ability to generate sustainable positive cash flow and have attractive growth prospects, and by considering investments in traditional industries such as service, distribution and manufacturing, as well as in technology sectors and special situations such as turnarounds. The investment horizon for each investment, from investment to exit, is expected to be five to seven years, subject to the characteristics of each individual investment. See "Investment Objectives" and "Investment Strategies".

The Fund's investment process includes a review of industry trends, market share, competitive dynamics, management track record and suitability, product or service value proposition, downside protection availability, and growth and exit potential. The Fund is subject to certain investment restrictions under the Applicable Legislation. Capital not invested in eligible businesses is invested in liquid investments and used for the general corporate purposes of the Fund. See "Investment Strategies".

INVESTMENT HIGHLIGHTS

An investment in the Fund is designed to provide investors with the following benefits:

Experienced Investment Advisor. The Investment Advisor has been managing private equity and venture capital since 1998. Key members of the investment team include John M.A. Richardson, Thomas W.R. Lunan and Alan V. Chettiar.

Active Investors. The Investment Advisor will add value to the Investment Portfolio through active observer or director status on the boards of Portfolio Companies. In addition, where necessary, the Investment Advisor, on behalf of the Fund, may provide general business advice, recommend key management enhancements, assist in arranging corporate finance advisors, help identify new markets or partners, as well as arrange legal and other professional advice to Portfolio Companies.

Geographic and Sector Diversification. The Fund is well positioned to access both the private equity and venture capital sectors on a national basis.

Tax Benefits. Investors are eligible for a federal tax credit equal to 15% of the investor's cost of the Class A Shares, up to a maximum credit of \$750 based on an investment of \$5,000. See "Canadian Federal Income Tax Considerations".

THE OFFERING

Class A Shares: Class A Shares are offered for sale on a continuous basis to Eligible Investors. See “Purchases of Securities” and “Canadian Federal Income Tax Considerations”.

The continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue.

Issue Price/Minimum Purchase: Class A Shares will be issued at the Net Asset Value Per Share as of the close of business on the date on which the subscription is received. The minimum investment is \$1,200 and all subsequent subscriptions must be in increments of \$50. See “Purchases of Securities”.

Redemption Price/Redemption: Subject to redemption restrictions and the withholding of any amount required to be withheld, the Class A Shares will be redeemed at the Net Asset Value Per Share as at the close of business on the day on which the Fund receives the request for redemption if received by the Fund by 4:00 p.m. (Toronto time) on a Business Day. Otherwise, such requests will be priced at the Net Asset Value Per Share for the following Business Day.

A Class A Shareholder may require the Fund to redeem Class A Shares without having to repay an amount in respect of the tax credits received on issue if the redemption occurs more than eight years after the date of issue of such shares. See “Attributes of the Securities Distributed”.

If Class A Shares are redeemed prior to eight years from the date of issue, an amount equal to the lesser of: (i) 15% of the issue price of the Class A Share; and (ii) the redemption price must generally be withheld from the redemption proceeds and paid to the Receiver General for Canada.

Generally, a Class A Shareholder may only require the Fund to redeem his or her Class A Shares without such withholding in certain very limited circumstances (generally as a result of death or disability resulting in the Class A Shareholder being permanently unfit to work).

Under proposed amendments to the Federal Act, no amount is required to be withheld and paid in respect of the Federal Tax Credit if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed.

See “Purchases of Securities – Tax Incentives” and “Redemption of Securities”.

The Fund may suspend redemptions for substantial periods of time in certain circumstances and, in any financial year, the Fund is not required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding financial year. There is no formal market, such as a stock exchange, through which Class A Shares may be sold and there are restrictions on the transfer of Class A Shares. Accordingly, investors will generally not be able to dispose of their Class A Shares other than by way of redemption.

Transfer: The transfer of Class A Shares is restricted. Transfers will generally not be permitted except between an Individual Eligible Investor, an Individual Eligible Investor’s Spouse and a trust governed by a TFSA, RRSP or a RRIF of which the Individual Eligible Investor or his or her Spouse is the annuitant. Otherwise, transfers of Class A Shares may only occur in very limited circumstances such as death or disability resulting in the Class A Shareholder being permanently unfit to work. Any such transfers are permitted only if the conditions imposed by the Applicable Legislation are satisfied. See “Attributes of the Securities Distributed – Class A Shares – Transfer”.

Dividend and Voting Rights:

Class A Shareholders are entitled to receive dividends at the discretion of the Board of Directors. The Board of Directors has not declared any cash dividends. The Fund intends to increase the stated capital of the outstanding Class A Shares and Class C Shares periodically in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and, if available to it, on net investment income. See “Distribution Policy”.

Each Class A Share entitles the Class A Shareholder to one vote at meetings of the Class A Shareholders. Class A Shareholders are entitled to elect two of the directors of the Fund (currently two of five directors), or such other number that results in the Class B Shareholder electing the majority of directors to the Board of Directors. CLAC, as the sole Class B Shareholder, is entitled to elect the remaining directors. CLAC will nominate one director and has agreed to nominate and vote its Class B Shares in favour of the election, as directors of the Fund, of two members or designates of the Manager. Under the *Canada Business Corporations Act*, the Fund may be dissolved by special resolution of the shareholders. See “Attributes of the Securities Distributed” and “Organization and Management Details of the Fund – Sponsors”.

Valuation:

Valuations of the Fund’s assets will be carried out and the Net Asset Value Per Share will be updated daily by the Registrar and Transfer Agent. The Investment Advisor will convey valuation adjustments to the Registrar and Transfer Agent. The Board of Directors will review the valuation at the end of each financial quarter. Under applicable Securities Legislation, the Fund is required to provide fair value information regarding its investment portfolio by providing (i) the individual fair value for each investment in its statement of investment portfolio, or (ii) an independent valuation report that will be filed with the Ontario Securities Commission. It is the Fund’s intention to satisfy this requirement by engaging PricewaterhouseCoopers LLP, the Fund’s independent auditor, to perform certain procedures on the value of the Fund’s venture investment portfolio as at August 31, 2012 as part of its audit and report on the Fund’s August 31, 2012 financial statements. See “Calculation of Net Asset Value”.

RISK FACTORS

Investors should consider the following risk factors and the additional risk factors outlined in “Risk Factors” before purchasing Class A Shares:

The Class A Shares are highly speculative in nature. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or long term. An investment in Class A Shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. In addition to the tax benefits of investing in Class A Shares, prospective investors should fully assess the investment merits of the Class A Shares. Investors should consult with a professional advisor. There is no assurance that sufficient suitable eligible investments or Reserves will be found in order to fulfil the Fund’s investment objectives. As a result, the Fund may be subject to certain penalty taxes and, if the Fund’s registration is revoked, investors may be ineligible for Federal Tax Credits. The business of the Fund is to make investments in small to medium-sized eligible businesses directly, or in CSBIFs, many of which will have a limited operating history. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time. The Fund will require a greater commitment to initial analysis and to monitoring and support of ongoing developmental activities of Portfolio Companies, relative to the amount of capital invested, than is required by most mutual funds. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles. There is no formal market, such as a stock exchange, through which Class A Shares may be sold and none is expected to develop. The elimination of the Ontario Tax Credit is likely to materially reduce future sales of Class A Shares of the Fund. As a result, the availability of funds for investment by the Fund could be reduced, and the liquidity of the Fund may be adversely affected, potentially resulting in a reduction of the value of Class A Shares. In any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in certain circumstances. The Fund cannot guarantee that it will be able to honour all redemption requests as and when they are made. Requests to redeem Class A Shares typically increase as the proportion of outstanding Class A Shares held for more than eight years increases and the first eight year period during which Class A Shares could not generally be redeemed without withholding expired during the 2012 RRSP sales season. It is likely that Portfolio Companies

will require additional financing after the investments made by the Fund in order to fully implement their business strategies. Investors in Class A Shares will be relying upon the business judgment, expertise and integrity of the Board of Directors, the Manager, the Investment Advisor and the Audit Committee. The services of the Manager and the Investment Advisor and their respective directors and officers are not exclusive to the Fund. The Net Asset Value Per Share is based on the value of the publicly held and privately held securities in the Investment Portfolio and will increase or decrease with the value of such investments. The values the Fund places on its investments may not reflect the amounts for which they can actually be sold. Individuals holding Class A Shares otherwise than in a trust governed by a RRSP, a RRIF or a TFSA, may be liable for the payment of tax arising on the deemed receipt by the holder of a dividend or capital gain dividend for which the holder did not receive a distribution from the Fund with which to pay such tax. Many of the rules normally applicable to mutual funds operating in Canada are not applicable to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply. There are restrictions imposed by applicable law on the redemption and transfer of Class A Shares. See “Attributes of the Securities Distributed”. The Federal Tax Credits available on a purchase of Class A Shares, the investment restrictions imposed on the Fund, and the pace at which the Fund is required to invest the capital it raises may be altered by legislative changes in the future, which could impair the Fund’s investment performance and its ability to attract future investment capital.

See “Risk Factors” and “Canadian Federal Income Tax Considerations”.

TAX BENEFITS

The Federal Act provides that Individual Eligible Investors who purchase Class A Shares (directly or through a Qualifying Trust) are generally eligible for a Federal Tax Credit equal to 15% of the net cost to such investor of the Class A Shares and certain other qualifying shares purchased during the relevant period to a maximum credit of \$750 per year (based on an investment of \$5,000). Individual Eligible Investors who purchase or subscribe and pay for Class A Shares after December 31, 2012, but on or before the 2013 Cut-Off Date may elect to have their Federal Tax Credit apply in respect of the 2012 taxation year instead of the 2013 taxation year. The maximum Federal Tax Credit applies in respect of an Individual Eligible Investor’s aggregate purchase (directly or through a Qualifying Trust) of class A shares of Federal LSVCCs, LSIF Corporations and certain similar entities registered under the laws of a province of Canada. See “Canadian Federal Income Tax Considerations”.

INCOME TAX CONSIDERATIONS

When the Fund sells, or otherwise disposes of a capital property, the Fund will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Fund of the property and any reasonable costs of disposition. One-half of any capital gain or capital loss will be the Fund’s taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the Fund’s income. Allowable capital losses may normally be deducted against taxable capital gains of the Fund for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

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

Interest and other investment income (other than taxable capital gains and dividends in respect of shares of taxable Canadian corporations) will be included, net of reasonable expenses, in calculating the Fund’s income subject to normal corporate rates of tax. The Fund will be subject to an additional refundable tax equal to 6 $\frac{2}{3}$ % of such investment income. The Fund will be eligible for a refund of a portion of the normal corporate tax and for the 6 $\frac{2}{3}$ % refundable tax in accordance with the detailed rules in the Federal Act if the Fund pays or is deemed to pay taxable dividends other than Capital Gains Dividends, to its shareholders. See “Canadian Federal Income Tax Considerations – Federal Taxation of the Fund”.

Class A Shareholders will be liable to tax on taxable dividends, other than Capital Gains Dividends, received, or deemed to be received, from the Fund, subject to the gross-up and dividend tax credit rules normally applicable to dividends from taxable Canadian corporations. Capital Gains Dividends received, or deemed to be received, by Class A Shareholders will be treated as realized capital gains in the hands of the Class A Shareholder.

A Class A Shareholder will realize a capital gain (capital loss) on the disposition of a Class A Share, including on a redemption of a Class A Share and on a transfer or sale of a Class A Share, equal to the amount by which the proceeds of disposition of the Class A Share exceed (or are less than) the adjusted cost base of the Class A Share and any reasonable costs of disposition. Any capital loss realized on a disposition of Class A Shares will be reduced by the amount of the tax credits received by the Class A Shareholder. Any capital loss realized by a holder of Class A Shares on the sale or transfer of Class A Shares to a RRSP or a RRIF under which the holder or the holder's Spouse is the annuitant is deemed to be nil. See "Canadian Federal Income Tax Considerations – Federal Taxation of Class A Shareholders".

Subject to the qualifications discussed under the heading "Eligibility for Investment", so long as the Fund is a LSIF Corporation or a Federal LSVCC, Class A Shares are qualified investments for trusts governed by RRSPs, RRIFs and TFSAs. See "Eligibility for Investment".

Statutory Pacing Requirements

At the end of each calendar year after 2004 and prior to 2013, the Fund is required to hold eligible investments that have a cost of not less than 60% of the capital raised on the issue of Class A Shares to shareholders ordinarily resident in Ontario that were issued before the 61st day of that year and that remain outstanding at the end of the applicable year (excluding Class A Shares that have been outstanding for at least 7 years and 10 months), less 20% of the capital raised from Class A Shares that were issued to shareholders ordinarily resident in Ontario during the period beginning on the 61st day of the year preceding the applicable year and ending on the 60th day of the applicable year and that are outstanding at the end of that year.

At the end of each calendar year after 2012, the Fund is required to hold eligible investments that have a cost of not less than 60% of the capital raised on the issue of Class A Shares to shareholders ordinarily resident in Ontario that remain outstanding at the end of the applicable year and were issued before March 1, 2012 (excluding Class A Shares that have been outstanding for at least 7 years and 10 months). In each case, the calculation is adjusted to reflect net realized losses, if any, in the year and certain taxes and penalty amounts incurred for the year.

Under the Federal Act, the Fund will generally be liable for a tax imposed on a monthly basis if, at any time, the Fund has an investment shortfall. An "investment shortfall" is, generally, the amount by which 60% of the lesser of the shareholders' equity in the Fund at the end of the preceding taxation year or the shareholders' equity in the Fund at the end of the particular taxation year exceeds the aggregate cost amount to the Fund of its eligible investments. See "Investment Restrictions".

ORGANIZATION AND MANAGEMENT OF THE FUND

- Manager:** B.E.S.T. Investment Counsel Limited is the manager of the Fund and is responsible for the Fund's daily administrative operations and engaging and supervising service providers to the Fund. The address of the Manager is 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3. See "Organization and Management Details of the Fund – Manager of the Fund".
- Investment Advisor:** B.E.S.T. Investment Counsel Limited is the investment advisor of the Fund and is responsible for the development and refinement of the investment strategy and criteria of the Fund, providing investment advisory services to the Fund and sourcing and monitoring investments for the Fund. The Investment Advisor provides its services in Toronto, Ontario. See "Organization and Management Details of the Fund – Investment Advisor".
- Sponsors:** The Sponsors are CLAC, The Society of Energy Professionals and IFPTE Local 164. CLAC represents over 50,000 members across Canada and The Society of Energy Professionals and IFPTE Local 164 represent approximately 8,500 professional and supervisory employees and approximately 85 engineers, designers and technical employees, respectively. The responsibilities of the Sponsors include assisting with the ongoing administration of the Fund and the offering of the Class A Shares from time to time. CLAC owns the one issued and outstanding Class B Share. CLAC provides its services in Mississauga, Ontario, The Society of Energy Professionals provides its services in Toronto, Ontario and IFPTE Local 164 provides its services in Peterborough, Ontario and Cambridge, Ontario. See "Organization and Management Details of the Fund – Sponsors" and "Attributes of the Securities Distributed – Class B Shares".
- While members of the Sponsors may subscribe for Class A Shares, neither the Sponsors nor their members will be required to make any investment in the Fund. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsors.
- Registrar and Transfer Agent:** Convexus Managed Services Inc. has been retained to provide registrar, transfer agency, fund accounting, shareholder reporting, customer support and shareholder administration services. In addition to providing the registrar, transfer agency and other shareholder administration services to the Fund, the Registrar and Transfer Agent performs similar services for other clients including other labour sponsored investment funds. The Registrar and Transfer Agent will also perform certain valuation services for the Fund. The Registrar and Transfer Agent provides its services in Richmond Hill, Ontario. See "Organization and Management Details of the Fund – Registrar and Transfer Agent", "Calculation of Net Asset Value" and "Securityholder Matters – Reporting to Securityholders".
- Custodian:** The Fund has retained CIBC Mellon Global Securities Services Company (and certain of its affiliates) to act as Custodian of the Investment Portfolio and the Reserve Portfolio. The Custodian provides its services in Toronto, Ontario. See "Organization and Management Details of the Fund – Custodian".
- Auditor:** The Fund has retained PricewaterhouseCoopers LLP to act as the auditor of the Fund. The Auditor provides its services in Toronto, Ontario. See "Organization and Management Details of the Fund – Auditor".

SUMMARY OF FEES AND EXPENSES

This table lists the fees and expenses that an investor may have to pay if they invest in the Fund. An investor may have to pay some of these fees and expenses directly. The Fund may have to pay some of these fees and expenses, which will therefore reduce the value of the investor's investment in the Fund.

Fees and Expenses Payable by the Fund

<u>Type of Fee</u>	<u>Amount and Description</u>
Management Fee (Annually) 1.50% of aggregate Net Asset Value Per Share attributable to Class A Shares up to \$100 million; 1.25% of aggregate Net Asset Value Per Share attributable to Class A Shares in excess of \$100 million	<p>The Fund pays the Manager an annual fee for its performance of administrative services of 1.50% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.25% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million.</p> <p>The fee is calculated and paid monthly in arrears. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund. Any fees or benefits received by the Manager from a prospective investee or a Portfolio Company, except with respect to services not normally provided by a venture capital investor to an investee company, will be set off against the management fees otherwise payable by the Fund to the Manager.</p> <p>See "Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Management Fees" and "Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Performance Bonus".</p>
Investment Advisory Fee (Annually) 2.00% of aggregate Net Asset Value Per Share attributable to Class A Shares up to \$100 million; 1.75% of aggregate Net Asset Value Per Share attributable to Class A Shares in excess of \$100 million	<p>The Fund pays the Investment Advisor an annual fee for its performance of investment advisory services of 2% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.75% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million.</p> <p>The fee is calculated and paid monthly in arrears. The Investment Advisor is also entitled to be reimbursed for certain reasonable costs and expenses. Any fees paid to the Investment Advisor that are normally provided by a venture capital investor to an investee company will be paid to the Fund.</p> <p>See "Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Investment Advisory Fees" and "Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Performance Bonus".</p>
Performance Bonus Subject to satisfying certain performance conditions, the Investment Advisor shall receive all gains and income earned from each eligible investment in excess of a 12% compounded annual rate of return to a 15% compounded annual rate of return, plus 16% (and 4% to the Manager) of realized gains and income earned from each eligible investment in excess of a 15% compounded annual rate of return	<p>The Manager and the Investment Advisor are entitled to share in the Performance Bonus as soon as practicable after the Disposition Date of an eligible investment based on the gains and income earned from each eligible investment. No Performance Bonus shall be paid by the Fund in respect of the realization of an eligible investment, unless on the Disposition Date of such eligible investment:</p> <p>(a) the total net realized and unrealized gains and income from the Fund from its portfolio of eligible investments since inception must have generated a return greater than the average annual rate of return on five year Guaranteed Investment Certificates offered by a Schedule I Canadian chartered bank plus 2%;</p>

Type of Fee

Amount and Description

- (b) the compounded annual rate of return (including realized and unrealized gains and income) from the particular eligible investment since its acquisition by the Fund must equal or exceed 12% per annum; and
- (c) the Fund must have recouped an amount equal to all principal invested in the particular eligible investment.

The Fund will not pay the Performance Bonus on any partial dispositions of an eligible investment unless and until the Fund receives (from all dispositions of that investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the eligible investment.

Provided that the payment of the Performance Bonus does not reduce returns to shareholders on the Investment Portfolio below the threshold outlined in (a) above, the proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund, after deducting the costs of such investment and the proceeds of disposition paid to the Fund, shall be allocated and paid as follows:

- (a) The Investment Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12% compounded annual rate of return contemplated in (b) above, up to and including an amount representing a 15% compounded annual rate of return earned from the particular eligible investment.
- (b) All gains and income earned on each particular eligible investment in excess of a 15% compounded annual rate of return earned from the particular eligible investment shall be allocated and paid in the following proportions:
 - (i) 16% to the Investment Advisor; and
 - (ii) 4% to the Manager.

The Fund will retain the other 80% of such gains and income.

The Performance Bonus will be calculated and paid quarterly in arrears based upon realized gains, calculated on the last day of the last month of each calendar quarter. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Performance Bonus”.

**Sponsorship Fee
(Annually)**

0.07% of aggregate Net Asset Value Per Share attributable to Class A Shares to each Sponsor

The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate Net Asset Value Per Share attributable to the Class A Shares, calculated and paid monthly in arrears. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sponsorship Fee”.

Administration Fees and Operating Expenses

(As incurred)

The Fund pays all of its administrative expenses, including expenses relating to the provision of registrar, transfer agency, trustee, shareholder reporting and other shareholder administration services being provided by the Manager and all of the Fund’s operating expenses, including expenses relating to portfolio transactions, taxes, legal, audit, custodial and accounting, costs of qualifying the Fund’s securities for distribution, certain marketing, security realization, storage and rent costs, directors’ fees and borrowing fees. The Fund will pay reasonable fees and expenses relating to the operation of the IRC. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Operating Expenses” and “Securityholder Matters – Reporting to Securityholders”. In addition, the Fund has agreed to assume the annual RRSP administration fee payable to the Trustee for RRSPs established with

Type of Fee**Amount and Description**

the Trustee. See “Purchases of Securities – RRSPs and TFSAs”.

**Sales Commissions
(Paid at the time of Investment)**

Sales commission of 6% of the selling price, paid by the Fund

Investors who purchase Class A Shares will not pay any sales commissions directly. The Fund will pay a commission of 6% of the selling price to registered dealers selling Class A Shares. Commissions on the sale of the Class A Shares will be charged to share capital as a share issue cost as they occur. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Commissions”.

**Service Fees
(Annually)**

0.50% of the aggregate Net Asset Value Per Share attributable to Class A Shares held by clients, paid by the Fund

The Fund pays to registered dealers having clients holding Class A Shares a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the aggregate Net Asset Value Per Share attributable to the Class A Shares held by the clients of the sales representatives of the dealers. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Service Fees”.

Sales Incentives

(As incurred)

The Fund may enter into co-operative marketing programs with certain dealers providing for the reimbursement by the Fund of certain expenses incurred by those dealers in promoting sales of the Class A Shares, subject to applicable law. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Incentives”.

The Fund is generally required to pay HST at the rate of 13% on fees and most expenses which it pays.

Summary of Fees, Charges and Expenses Payable Directly by an Investor**Sales Charge**

Nil. Sales commissions are paid indirectly by the shareholder through the Fund which pays sales commissions out of the proceeds from the sale of Class A Shares. See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Commissions”.

Transfer Fee

Nil.

RRSP Fee

Nil.

Redemption Fee

Nil.

Share Certificate Fee

(As incurred)

A share certificate will not be issued except on an investor’s request and on payment by the investor of a fee of \$100 (plus applicable taxes).

Summary of Dealer Compensation**Sales Commissions**

See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Commissions”.

Service Fees

See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Service Fees”.

Sales Incentives

See “Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Incentives”.

ANNUAL RETURNS AND MANAGEMENT EXPENSE RATIO

The table below provides the annual return and management expense ratio data for the Class A Shares for each of the past five years as disclosed in the most recently filed annual management report of fund performance of the Fund.

	2012	2011	2010	2009	2008
Annual Returns	-4.01%	5.36%	2.01%	-1.32%	-0.09%
MER⁽¹⁾⁽²⁾	10.55%	11.24%	9.67%	8.54%	9.21%
MER before Performance Bonus	7.70%	6.73%	6.01%	6.66%	5.91%

- (1) "MER" means management expense ratio. Because of the nature of the investments that the Fund makes, it is anticipated that the management expense ratio will continue to be higher than that of conventional mutual funds.
- (2) MER is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year.

How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND

The Fund's full legal name is "B.E.S.T. Total Return Fund Inc.". The Fund was incorporated under the *Canada Business Corporations Act* by articles of incorporation dated October 31, 2003, as amended on November 30, 2004 and December 20, 2005. The Fund is sponsored by CLAC, The Society of Energy Professionals and IFPTE Local 164. The Fund is registered as a labour sponsored investment fund corporation under the Ontario Act and a labour-sponsored venture capital corporation under the Federal Act.

The articles of amendment of the Fund dated November 30, 2004 changed the name of the Fund from "Roynat Canadian Diversified Fund Inc." and amended the articles of the Fund to permit the directors to appoint one or more additional directors, to hold office for a term expiring not later than the close of the next annual meeting of shareholders, provided that the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders. The articles of amendment of the Fund dated December 20, 2005 amended the articles of the Fund to delete all references to the Fund's registration as a labour sponsored venture capital corporation in the provinces of Nova Scotia and New Brunswick and all related references in the articles, including references to applicable legislation in such provinces.

As Class A Shares were originally offered for sale in all provinces of Canada, the Fund originally obtained registration in Nova Scotia as a labour sponsored venture capital corporation, which registration has been revoked. The Fund ceased offering its Class A Shares in the Provinces of Québec and Nova Scotia in 2004. The Fund ceased to be a reporting issuer in the province of Québec as of February 27, 2008.

The head office and principal place of business of the Fund is at 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3.

Although the Fund is a mutual fund, many of the rules normally applicable to mutual funds under relevant Securities Legislation are not applicable to the Fund as a labour sponsored investment fund. See "Risk Factors – Mutual Fund Rules".

INVESTMENT OBJECTIVES

The primary objective of the Fund is to generate interest and dividend income as well as long-term capital appreciation through investments in a diversified portfolio of small and medium-sized private and public companies which qualify as eligible investments. Such investments are intended to assist the development of eligible businesses and create, maintain and protect employment. The Fund invests in securities such as convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of eligible businesses that, in the Fund's opinion, have the greatest potential to achieve the Fund's objectives. The Fund intends to maintain a focus in both geographic and sector diversification by investing in all Canadian provinces in businesses that have the ability to generate sustainable positive cash flow and have attractive growth prospects, and by considering investments in traditional industries such as service, distribution and manufacturing, as well as in technology sectors and special situations such as turnarounds. The investment horizon for each investment, from investment to exit, is expected to be five to seven years, subject to the characteristics of each individual investment.

Any change in the investment objectives will require a resolution of the Class A Shareholders, passed by a majority of the votes cast at a meeting of such shareholders duly called and held to consider a proposed change.

INVESTMENT STRATEGIES

In order to achieve the Fund's objectives, the investment strategy of the Fund is to invest in a diversified portfolio of small and medium-sized private and public companies in two broad industry sectors: Traditional Businesses and Technology Related Businesses.

Investment Considerations

The Fund will consider a number of factors when making investment decisions.

- **Size of Investments:** The size of each investment will depend on the financial requirements of the business and the amounts raised by the Fund so as to attempt to achieve a diversified portfolio. Subject to restrictions imposed by applicable law, investments will typically range between \$500,000 and \$5 million, excluding any follow-on investment requirements. The Fund's investment in a particular company may form part of a larger investment made with other investors. See also "Co-Investing" below.

- **Investment Structure:** In general, investments in the traditional business sector will take the form of debt and debt-like securities with equity features, preferred or common shares. Investments in high growth technology opportunities will generally take the form of preferred shares or common equity, however, depending on the circumstance, investments may take other forms including debt (with or without conversion features), or debt with warrants to acquire shares. Technology investments will be made in companies with a commercialized technology having proven the value proposition through customer acquisition. The Fund will not invest in start-ups or early stage product development companies. The Fund will seek to provide eligible companies with funds to enhance sales and marketing, launch new products and expand into new markets.
- **Geographic Diversification:** The Fund will attempt to diversify its investments geographically through contacts of the Investment Advisor.
- **Stage of Development:** In the traditional business sector, the Fund will invest in businesses that have a demonstrated track record and are expected to produce sustainable cash flows. Typically, the Fund will invest in relatively mature businesses that have positive cash flows. In the technology related sector, the Fund will invest in companies that have commercialized products and customers as well as high growth potential. The Fund may also elect to participate in special situations such as turnarounds. By virtue of its segmented approach, the Fund will diversify its investment in businesses at different stages of development and sectors so as to balance appropriate risks with desired returns.
- **Realization Potential:** The Fund will normally have a reasonable expectation that it will be able to dispose of an investment within five to seven years of investment. Some investments may require a greater maturation period in order to realize their full potential. Exits are expected to be in the form of a combination of the following: initial public offering, reverse takeover, acquisition, management buyback or refinancing.
- **Industry Focus:** The Fund will attempt to achieve a balance in terms of sectors with a focus on manufacturing, distribution, service and technology. However, the Fund will consider investing in a broad range of industries as opportunities present themselves provided they meet the Fund's key objectives. Areas of interest include, in the traditional business sector: automotive, manufacturing, service, consumer products, industrial machinery, distribution and retail; and in the technology related sector: vertical market and enterprise software, logistics, content management, telecommunications, advanced manufacturing, medical device, energy and environmental technologies.
- **Co-Investing:** Participation with other investors in attractive investments will increase the Fund's investment opportunities and enable the Fund to share the investment risk. In addition, this will enable the Fund to invest in a greater number of eligible businesses and to further diversify its portfolio.

The Fund is subject to certain investment restrictions under applicable provincial and federal legislation. Capital not invested in eligible businesses shall be invested in Reserves, comprised of instruments permitted by applicable provincial and federal legislation, including Canadian government and provincial government bonds, and shall be used for the general corporate purposes of the Fund.

Identifying Investment Opportunities

The success of the Fund will depend highly on its ability to identify attractive investment opportunities, which is the responsibility of the Investment Advisor. The Investment Advisor will also be responsible for managing investments.

The Investment Advisor relies on its networks in the investment community to assist in identifying appropriate investment opportunities for the Fund. The Fund also receives proposals directly from businesses seeking financing and co-operates with other investors in identifying, structuring and negotiating investments. Participation with other investors in well-structured, attractive investments increases the Fund's investment opportunities.

Evaluating Investment Opportunities

The Investment Advisor has established detailed investment criteria to facilitate the evaluation of an investment opportunity. In general, the Investment Advisor holds the view that the management team of a potential investee company is the key success factor. The Investment Advisor has a strong understanding of what is required of a successful management team and is looking for management that has a significant positive track record, with not only academics or consultants, but operators having a broad network of contacts within their respective industries. Management should have similar goals as the Fund so as to reduce conflict, and should have committed significant personal equity to the proposal. Management should also have a

balanced approach blending the importance of vision with day to day requirements, and have a realistic view of investor requirements.

The following represents a more detailed description of the Fund's investment criteria:

- **Industry Structure**
 - Does the company have a defensible market position with strong barriers to entry?
 - Are the overall industry trends positive?
 - Where does the company sit with regard to its potential as a market leader?
 - What are the resources and positioning of its competitors?
- **Company Characteristics**
 - Is the company positioned for growth with adequate infrastructure and processes?
 - Does the company have a demonstrable core competence and competitive advantage?
 - Does the company have low capital requirements?
 - Are there clear opportunities to improve margins and efficiencies?
 - Does the company have a broad and non-dependent access to various distribution channels?
 - Is the company positioned to acquire other companies?
- **Product Structure**
 - Is the opportunity a low cost producer?
 - Can the company achieve high gross margins?
 - Does the company have a defined product road map?
 - Is the company's product or service proprietary or protected?
 - What differentiates the product or service?
 - Does the company have a large number of demonstrable customers?
 - Does the product or service have a compelling value proposition and quick pay back for customers?
- **Management and Board of Directors**
 - What degree of industry experience does the company have, and is there a particular focus on sales and sales planning?
 - What is the management depth and commitment?
 - Does the team have a cohesive and articulate vision?
 - Is the vision instilled throughout all levels of the company?
 - Do management and advisors have a successful track record?
 - Are they willing to accept business partners?
 - Has management made a significant commitment to the company?
- **Financial performance**
 - Are there indications of a positive trend in historical cash flows?
 - Is there a healthy balance sheet?
 - Is there evidence of fiscal prudence and cost controls?
 - Are there solid financial management systems?
- **Exit criteria**
 - Are there a large number of diverse potential buyers?
 - Are there strategic purchasers?
 - Are there intangible attribute(s) unique to potential investees?
- **Evaluating exit opportunities for the investment**
 - Initial public offering;
 - Sale of company;
 - Refinance of investment;
 - Five – seven year horizon.

Due Diligence

The expertise, time and effort required to complete the evaluation of prospective investments is substantial. Due diligence includes an in-depth evaluation of the industry, market, competition, business strategy, sales and marketing plan, products, customers, management, financials and any pending environmental, litigation, tax or labour issues. The Investment Advisor will complete site visits and contact customers and business partners to assess each potential investee company. Where it is

considered appropriate, the Investment Advisor will engage other professionals with particular expertise for assistance and advice with respect to its review of particular investment opportunities which may include an independent evaluation of the technology, management, or market.

The Investment Advisor will thoroughly review the knowledge, expertise and competency of the management team of each prospective investment. The management team is expected to not only provide the stewardship for successful operations, but also be the force behind the vision of the company. Management's abilities will facilitate the positioning of the company to future success in dynamic or recessionary markets. The Investment Advisor takes extensive time to evaluate the management group of the prospective investment for which it is responsible with internal and external expertise, as it is regarded as the most critical aspect of any investment prospect.

Managing Investments

It is the responsibility of the Investment Advisor to maintain regular contact with the management of a Portfolio Company. Any events which are likely to significantly impact the company's operations, prospects or value are expected to be summarized in a memorandum and reported to the Board of Directors on a timely basis. These types of occurrences include:

- labour interruption;
- loss/gain of major customer contract;
- new legislation;
- changes in competition (e.g. merger, new entrant);
- significant new product introduction;
- major expansion program;
- loss of key management personnel; and
- threatened legal action.

The Investment Advisor intends to schedule plant or site visits at least once quarterly, both to view operations and to meet face-to-face with management.

Quarterly, a review of the Portfolio Companies' financial statements with brief commentary will be performed by the Investment Advisor including an updated forecast, a comparison of original budget results to actual achieved results and commentary discussing significant events and management outlook.

The Investment Advisor monitors the Portfolio Companies, which normally includes participating as an observer or director or placing appropriate independent nominees on Portfolio Companies' boards of directors. In addition, where appropriate, the Investment Advisor seeks to add value to the Portfolio Companies by assisting management in developing strategic plans, assessing or recruiting key personnel, evaluating productivity, raising additional funding and enhancing industrial relationships. This may involve engaging the services of professionals with special expertise, which will normally be paid for by the Portfolio Company.

Key Success Factors

Experience

Successful investing in eligible businesses requires substantial expertise and effort. The Investment Advisor has been managing private equity and venture capital since 1998. Key members of the investment team include John M.A. Richardson, Thomas W.R. Lunan and Alan V. Chettiar. See "Organization and Management Details of the Fund – Officers and Directors of the Fund".

Active Investors

The likelihood of achieving the Fund's objective of generating interest and dividend income and long-term capital appreciation will be improved through the Investment Advisor's abilities to not only identify, but also add value to, the Investment Portfolio through active observer or director status on the boards of Portfolio Companies. In addition, when necessary, the Investment Advisor, on behalf of the Fund, may provide general business advice, recommend key management

enhancements, assist in arranging corporate finance advisors, help identify new markets or partners, as well as arrange legal and other professional advice to Portfolio Companies.

Geographic and Sector Diversification

The Fund believes that there is a need for a balanced and diversified approach to labour fund investments so as to mitigate risk exposures while maintaining the potential of generating returns for the shareholders. The Fund is well positioned to access both the private equity and venture capital sectors on a national basis. The success of any fund depends significantly on its ability to identify a large number of investment opportunities and to invest in the most attractive of those opportunities. The contacts of the Investment Advisor provide the Fund with exposure to an extensive range of investment opportunities from high quality business and professional community deal sources.

OVERVIEW OF THE SECTORS THE FUND INVESTS IN

The Fund will invest in two broad industry sectors:

Traditional Businesses

The primary focus of this sector is opportunities which would be classified as traditional businesses in the areas of, but not limited to, automotive, manufacturing, service, consumer products, industrial machinery, distribution and retail. These businesses will, in the Fund’s opinion, have the ability to generate sustainable positive cash flows. These investments will generally take the form of debt or debt-like securities combined with equity participation (including potential buy back or earn back features) and generate current income through interest payments. Investment instruments may also include common or preferred share equity when considered appropriate.

The Fund will endeavour to provide companies in this sector with expansion capital to increase marketing activities, launch new products, enter new markets, and improve production efficiencies and capacity.

Technology Related Businesses

The primary focus of this sector is technology related companies with high growth potential. A typical investment opportunity would include companies with proven commercialized technology seeking further investment to enhance sales and marketing, launch new products and expand into new markets. Generally, technology related investments will be completed as part of a syndicate to allow for greater diversification of investments and allocation of risk across multiple investors. Within the broad class of technology, the Fund will target potential investments in, but not limited to, the following sub-sectors: vertical market and enterprise software, logistics, content management, telecommunications, advanced manufacturing, medical device, energy and environmental technologies. Given the long-term growth objective of the Fund, it is anticipated that investments will be primarily in common shares, preferred shares, securities exchangeable into common shares, or rights to acquire common shares; however, depending on the circumstance, investments may take other forms including debt (with or without conversion features), or debt with warrants to acquire shares. Certain investments may involve a combination of these securities.

Significant Holdings in Other Entities

The following table contains information with respect to the Fund’s eligible investments current to November 30, 2012:

NAME AND ADDRESS OF ENTITY	NATURE OF ENTITY’S PRINCIPAL BUSINESS	PERCENTAGE OF SECURITIES OF EACH CLASS OWNED BY THE FUND	AMOUNT INVESTED AT COST
AXENTRA CORP. 377 Dalhousie Street Suite 210 Ottawa, Ontario K1N 9N8	Axentra Corp. is an Ottawa based software company whose main product, HipServ 2.0, offers consumers a platform to centralize and manage their digital data while integrating this data with other appliances, such as televisions, games stations and smart phones.	80.00% of 18% Promissory Note, due August 15, 2013 2.00% of Common Shares	\$243,713

NAME AND ADDRESS OF ENTITY	NATURE OF ENTITY'S PRINCIPAL BUSINESS	PERCENTAGE OF SECURITIES OF EACH CLASS OWNED BY THE FUND	AMOUNT INVESTED AT COST
BSM TECHNOLOGIES INC. 5875 Hwy 7 Suite 200 Woodbridge, Ontario L4L 1T9	BSM Technologies designs, manufactures and markets a comprehensive line of automatic vehicle security and location solutions. BSM services range from fleet management and consumer vehicle protection products, to products behind the "Bait Car" application used by law enforcement to deter vehicle theft.	0.62% of Common Shares	\$96,883
COGNIVUE CORPORATION 25 Eddy Street Suite 100 Gatineau, Quebec J8X 4B5	CogniVue has developed a disruptive parallel image cognition processing technology that solves both high performance processor challenges while also focusing on productizing a solution for the fast emerging need across multiple markets like automotive.	61.38% of 16.0% Promissory Note, due October 6, 2012 32.0% of Common Share Purchase Warrants expiring December 21, 2014	\$890,000
DISCLOSURENET INC. 330 Bay Street Suite 200 Toronto, Ontario M5H 2S8	DisclosureNet Inc. specializes in developing solutions for organizations that require secure, data focused internet applications which utilize microsoft.net technology. The company's core product provides a targeted method of accessing corporate disclosure information in Canada and the United States.	28.00% of Class A Common Share Purchase Warrant expiring April 29, 2014 30.00% of Preferred Share Purchase Warrant expiring April 29, 2014	\$0
ECHOWORX CORPORATION 4101 Yonge Street Suite 708 Toronto, Ontario M2P 1N6	Echoworx Corporation is a global provider of email and data encryption for enterprises. Echoworx partners with leaders in technology and internet communications to provide encryption services to the mass market. Echoworx's encryption products include Encrypted Mail, Encrypted Mail Gateway, Encrypted Documents, Encrypted Document Presentment and Encrypted Message eXchange.	14.0% of 13.5% Promissory Note, due December 31, 2012	\$574,919
ERMS CORPORATION 2916 South Sheridan Way Suite 300 Oakville, Ontario L6J 7J8	Emergency Response Management Services (ERMS) is a phone and web enabled business solution that resolves complicated aspects of crisis management and response coordination and control. By integrating computer and voice technology, the crisis management software solution provides functionality to support companies in meeting the objectives of life safety, business continuity and brand image.	30.69% of 11.0% Debenture, due October 21, 2013 40% of Common Share Purchase Warrants expiring October 12, 2014 40% of Common Share Purchase Warrants expiring September 29, 2015 16.96% of Common Share Purchase Warrants expiring December 31, 2015 17.91% of Common Share Purchase Warrants expiring August 6, 2017 1.32% of Common Shares	\$915,988
GEMINARE INC. 277 Richmond Street West Toronto, Ontario M5V 1X1	Geminare Inc. provides its Business Continuity offering, the industry's first hosted SaaS platform that provided Business Continuity solutions for small to mid-sized businesses.	0.38% of Common Shares 12.5% of Common Share Purchase Warrants expiring December 22, 2012	\$0

NAME AND ADDRESS OF ENTITY	NATURE OF ENTITY'S PRINCIPAL BUSINESS	PERCENTAGE OF SECURITIES OF EACH CLASS OWNED BY THE FUND	AMOUNT INVESTED AT COST
HEALTH CARE SERVICES INTERNATIONAL INC. 460 Richmond Street West Suite 100 Toronto, Ontario M5V 1Y1	Health Care Services International Inc. operates Novus Health which offers a single-source solution to help insurance companies manage costs and improve the health of their members. Members have one source to find answers to questions, understand their options, learn the right questions to ask, and identify resources for themselves and their family.	33.00% of 17% Promissory Note, due February 28, 2013 33.00% of Common Share Purchase Warrant expiring February 28, 2013	\$330,000
KNEEBONE CORP. 322 King Street West Suite 400 Toronto, Ontario M5V 1J2	Kneebone provides a Web-based solution for marketers. Its turnkey software-as-a-service solution captures internal marketing information, standardizes the information, integrates the information relevant to user business, models the information to drive discovery exploring relationships and creating connections that exist between the information, generates reporting and enables planning, budgeting, and forecasting.	32.94% of 18% Promissory Note, due April 29, 2013 32.94% of Common Share Purchase Warrant expiring April 29, 2013 32.94% of Common Share Purchase Warrant expiring October 29, 2013	\$251,999
N-DIMENSION SOLUTIONS INC. 9030 Leslie Street Unit 300 Richmond Hill, Ontario L4B 1G2	N-Dimension Solutions Inc. assists critical infrastructure organizations including electric, water, oil and gas utilities with the protection of their control systems and information systems by providing them with cyber security solutions. N-Dimension's products facilitate compliance with industry-specific security standards such as those proposed by the U.S. Department of Energy and the U.S. Department of Homeland Security.	3.04% of Class A Common Shares	\$0
OPTESSA INC. 905 Weber Centre 5555 Calgary Trail Edmonton, Alberta T6H 5P9	Optessa Inc. designs and sells intelligent scheduling, sequencing and planning optimization software to large manufacturing companies. Optessa products have applicability in industries as diverse as auto original equipment manufacturers (OEMs), suppliers, power equipment, appliances, electronics, semiconductor, textiles, food and beverage and paints.	57.23% of 20.0% Debenture, due July 27, 2012	\$435,343
POWERBAND GLOBAL INC. 3350 South Service Road Suite 102 Burlington, Ontario L7N 3M6	PowerBand Global works with car dealers to simplify the process of acquiring and disposing vehicles by bringing together dealerships, commercial enterprises like rental companies, and auto finance. The company provides software and a suite of services to help clients improve their auto dealer business.	20.25% of 18% Promissory Note due October 2, 2014 20.25% of Common Share Purchase Warrants expiring October 2, 2017	\$405,000
QUESTRADE INC. North American Centre 5650 Yonge Street Suite 1700 Toronto, Ontario M2M 4G3	Questrade Inc., headquartered in Toronto, provides Canadians with high speed direct access trading to the U.S. and Canadian stock and options markets as well as forex trading. Founded in 1999, Questrade strives to provide innovative service, advanced technology and competitive pricing structures.	9.09% of 16.0% Debenture, due August 31, 2014 9.09% of Common Share Purchase Warrant expiring August 31, 2014	\$500,000

NAME AND ADDRESS OF ENTITY	NATURE OF ENTITY'S PRINCIPAL BUSINESS	PERCENTAGE OF SECURITIES OF EACH CLASS OWNED BY THE FUND	AMOUNT INVESTED AT COST
SAND TECHNOLOGY INC. 4115 Sherbrooke Street West Suite 500 Westmount, Quebec H3Z 1B1	SAND delivers a high performing Enterprise Analytic Database Platform. SAND Analytic Platform is a patented column database management system (CDBMS), delivering high performance for every user through Infinite Optimization.	45.00% of Common Share Purchase Warrant expiring September 7, 2014	\$0
X20 MEDIA INC. 147 St. Paul Street West Suite 300 Montreal, Quebec H2Y 1Z5	X20 Media Inc. was launched in 2006 and its mission is to provide digital signage networks with the tools and services required to ensure that their networks look as good as broadcast TV.	29.65% of 16.50% Promissory Note, due February 18, 2013 33.33% of 17% Promissory Note due April 20, 2014 4.85% of Class B Common Shares	\$406,228

INVESTMENT RESTRICTIONS

Statutory Investment Restrictions

Although the Fund is a mutual fund, many of the rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply.

The Fund, however, is subject to investment restrictions contained in the Federal Act. The Fund is also subject to the investment restrictions contained in (i) the regulations to the Nova Scotia Act with respect to proceeds raised from the sale of Class A Shares in that Province prior to January 1, 2005, and (ii) the Ontario Act with respect to proceeds raised from the sale of Class A Shares in that Province prior to March 1, 2012. The purpose of such restrictions is to ensure that monies raised from investors are available to assist in the growth of eligible businesses and thereby to create new employment opportunities.

Federal Act

As a Federal LSVCC, the Fund is subject to the investment restrictions under the Federal Act. The Fund will be liable to pay penalty taxes for failure to meet the investment restrictions. In addition, the federal registration of the Fund could be revoked for failure to meet these restrictions. Under the Federal Act, an eligible investment is, generally speaking, an investment in a Canadian entity with no more than 500 employees and \$50 million in assets where substantially all of the fair market value of that entity's assets is attributable to assets used in an active business carried on in Canada, where at least 50% of the full-time employees of the business are employed in Canada and at least 50% of the wages and salaries paid to employees of the business are reasonably attributable to services rendered in Canada. The Fund cannot invest more than the lesser of \$15 million and 10% of the equity capital of the Fund in any one eligible business. Under the Federal Act, a special tax will be imposed on a monthly basis, if at any time the Fund has an "investment shortfall". The investment shortfall, subject to certain adjustments, is initially determined as the amount by which 60% of the lesser of the shareholders' equity (as determined under the Federal Act) in the Fund at the end of the preceding taxation year or the shareholders' equity in the Fund at the end of the particular taxation year exceeds the amount that is the greater of:

- (i) the total of the amounts which is the adjusted cost to the Fund of an eligible investment of the Fund at that time; and
- (ii) an average amount that is calculated as 50% of the adjusted cost to the Fund of eligible investments at the beginning of the particular year plus the adjusted cost to the Fund of eligible investments at the end of the particular year.

There are a number of adjustments in calculating the investment shortfall. For example, the 60% requirement is reduced in respect of Class A Shares issued by the Fund more than eight years before the end of the taxation year and in respect of Class

A Shares issued by it in the last 60 days of the taxation year. In determining the adjusted cost to the Fund of an eligible investment, incentives are provided for investment in smaller businesses. For certain investments in smaller businesses, the adjusted cost to the Fund is deemed to be either 150% or 200% of the actual cost to the Fund.

Ontario Act

The Ontario Act imposes certain rules for capital raised by LSIF Corporations prior to March 1, 2012 which are outlined as follows:

At the end of each calendar year after 2004 and prior to 2013, the Fund is required to hold eligible investments that have a cost of not less than 60% of the capital raised on the issue of Class A Shares to shareholders ordinarily resident in Ontario that were issued before the 61st day of that year and that remain outstanding at the end of the applicable year (excluding Class A Shares that have been outstanding for at least 7 years and 10 months), less 20% of the capital raised from Class A Shares that were issued to shareholders ordinarily resident in Ontario during the period beginning on the 61st day of the year preceding the applicable year and ending on the 60th day of the applicable year and that are outstanding at the end of that year.

At the end of each calendar year after 2012, the Fund is required to hold eligible investments that have a cost of not less than 60% of the capital raised on the issue of Class A Shares to shareholders ordinarily resident in Ontario that remain outstanding at the end of the applicable year and were issued before March 1, 2012 (excluding Class A Shares that have been outstanding for at least 7 years and 10 months). In each case, the calculation is adjusted to reflect net realized losses, if any, in the year and certain taxes and penalty amounts incurred for the year.

Under the Ontario Act, “eligible investments” include specified types of investments in “eligible businesses” within the meaning of the Ontario Act. Generally, an “eligible business” for the purposes of the Ontario Act means a taxable Canadian corporation or a Canadian partnership which, together with related corporations or partnerships, does not have more than \$50 million in assets or more than 500 employees at the time the investment is made. In addition, the business must pay 50% or more of its wages and salaries to employees whose ordinary place of employment is a permanent establishment located in Ontario, must have 50% or more of its full-time employees employed in respect of its eligible business activities carried on by it in Ontario and must have been primarily engaged in “eligible business activities” for at least two years or for such shorter period of time as it has been in business.

The Fund’s investment may not be used or intended to be used by the eligible business to carry on business or re-invest outside of Canada or, subject to certain exceptions, re-lend to another business. Further, the Fund’s investment may not be used by the eligible business to invest in land (except land which is incidental or ancillary to the eligible business) or to pay the principal amount of outstanding liabilities owing to shareholders of the Fund or to persons related to such shareholders. In addition, the Fund’s investment may not be used to finance the purchase or sale of goods or services provided to the eligible business by shareholders of the Fund or through a person related to any such shareholder unless the Fund is widely held. The Ontario Act generally permits the Fund to hold only investments that are eligible investments or were so when acquired by the Fund and specified liquid investments (generally Reserves).

As a Federal LSVCC, the Fund is permitted under the Ontario Act to invest in businesses that are eligible for investment under the Federal Act and is also subject to the investment restrictions, described above, under the Federal Act. Under the Ontario Act, the Fund may not invest or maintain an investment in an eligible business if the aggregate of all investments made by the Fund in such a business and any related business exceeds \$20 million. When calculating this amount, 25% of any amount of debt of an eligible business guaranteed by the Fund would be counted as an investment in the eligible business. As noted above, under the Federal Act, the Fund cannot invest more than the lesser of \$15 million and 10% of the equity capital of the Fund in any one eligible business.

Failure to meet any of the foregoing investment restrictions will subject the Fund to penalty taxes and could result in the Fund losing its registration as a LSIF Corporation.

In the event the Fund were subject to such penalty taxes, the Fund may be eligible to receive a rebate of such penalty tax, without interest, by applying to the Minister of Finance (Ontario). Any such application must be received within three years after the end of the calendar year with respect to which the tax was imposed and the Minister of Finance (Ontario) must be satisfied that the Fund is maintaining the minimum and maximum eligible investment requirements. Where an amount of penalty tax is rebated by the Minister of Finance (Ontario), the Fund is deemed to have paid at that time an amount equal to the rebate on account of its federal tax payable under the Federal Act. In addition, if the Minister of Finance (Ontario) is of

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

The Fund remains subject to the investment pacing and other requirements in respect of capital raised before March 1, 2012. The Minister of Finance (Ontario) may revoke the registration of the Fund under the Ontario Act for certain reasons, including if the Fund:

- (a) does not comply with the restrictions in its articles of incorporation, including those relating to the redemption and transfer of Class A Shares;
- (b) fails to maintain the minimum level of eligible investments;
- (c) in the opinion of the Minister of Finance (Ontario), is conducting its affairs in a manner contrary to the spirit and intent of the Ontario Act; or
- (d) does not comply with the requirements of the Ontario Act or the regulations thereunder, including filing the proper forms and returns and paying any special taxes or penalties, or preparing in a timely way proper valuations of its Class A Shares.

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Finance (Ontario) an amount equal to the lesser of: (i) the sum of (A) 15% of the equity capital received by the Fund in respect of all Class A Shares then outstanding issued on or before March 1, 2010 and less than eight years immediately preceding the date of revocation of the registration, (B) 10% of the equity capital received by the Fund in respect of all Class A Shares then outstanding issued after March 1, 2010 and on or before March 1, 2011 and less than eight years immediately preceding the date of revocation of the registration and (C) 5% of the equity capital received by the Fund in respect of all Class A Shares then outstanding issued after March 1, 2011 and on or before February 29, 2012 and less than eight years immediately preceding the date of revocation of the registration; and (ii) the total amount that would be determined for the purpose of (i) if the equity capital received by the Fund on the issue of each of the Class A Shares had been an amount equal to the fair market value of the Class A Shares at the date of the revocation of registration.

The Minister of Finance (Ontario) must give notice to the Fund of any proposal, together with written reasons, to revoke the Fund's registration. The Fund will have an opportunity, within 60 days of the day of mailing of the notice of proposal, to object to any proposed revocation of its registration. If the decision of the Minister of Finance (Ontario) to revoke the Ontario registration of the Fund is confirmed, the Fund may only appeal the confirmation if the Minister's decision to confirm the proposal involves the interpretation of a provision under the Ontario Act or is an issue solely of law.

Investors will not be eligible to receive Information Returns if the Fund's registration is revoked under the Federal Act.

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

Nova Scotia Act

Class A Shares were originally offered for sale in all provinces of Canada and the Fund originally obtained registration as a Nova Scotia LSVCC. The Fund has not sold Class A Shares in Nova Scotia since February 2004 and ceased offering Class A Shares in Nova Scotia in December 2004. The Fund's registration as a Nova Scotia LSVCC has been revoked. However, the Fund remains subject to the investment restrictions contained in the regulations to the Nova Scotia Act with respect to proceeds raised from the sale of Class A Shares prior to January 1, 2005. The regulations to the Nova Scotia Act applicable to the Class A Shares issued in Nova Scotia require that: (i) at least 80% of the equity capital raised by the Fund in Nova Scotia must be invested in eligible businesses or Reserves within twelve months after the end of the Fund's taxation year in which the equity capital was raised; and (ii) at least 60% of the equity capital raised by the Fund in Nova Scotia must be invested in eligible businesses within two years after the end of the Fund's taxation year in which the equity capital was raised. Generally, at all times relevant to the issue of the Class A Shares in Nova Scotia, an eligible business for the purposes of the Nova Scotia Act was a taxable Canadian corporation that carried on an active business in Canada which: (a) employed not more than 500 employees; (b) paid at least 25% of its salaries and wages to employees resident in Nova Scotia; and (c) had total assets, together with the total assets of all related corporations, which did not exceed \$25 million.

As described above, the Fund's registration as a Nova Scotia LSVCC has been revoked. While the Minister of Finance (Nova Scotia) may impose a penalty, as described below, in connection with the revocation of a Nova Scotia LSVCC's

registration in Nova Scotia, the Fund was not required to pay any penalties with respect to the revocation of its registration as a Nova Scotia LSVCC. In general terms, the penalty that may be imposed by the Minister of Finance (Nova Scotia) in connection with the revocation of registration as a Nova Scotia LSVCC is equal to the aggregate of: (a) 20% of all amounts raised by the particular fund through the issue of shares for which a Nova Scotia Tax Credit Certificate was issued, less (b) 20% of all amounts invested by such fund in eligible businesses.

CSBIFs

The Fund may invest in CSBIFs, for which the Fund qualifies as an eligible investor.

CSBIFs themselves are subject to certain investment restrictions under the Ontario Act, the purpose of which is to ensure that monies raised from investors are available to assist the growth of eligible businesses and thereby create employment in Ontario.

Restrictions in Articles of Incorporation

In addition to the investment restrictions contained in the Ontario Act, the Fund is prohibited by its articles of incorporation from lending money, guaranteeing a loan or providing other financial assistance to a shareholder of the Fund, to a person related to a shareholder of the Fund or to a trade union, an association or federation of trade unions, or an association or federation of worker co-operatives. In addition, the Fund will not make an investment in any eligible business with which the Fund, or any director of the Fund, does not deal at arm's length unless such investment has been reviewed or approved by the IRC, as applicable, and unless: (a) the Fund would deal at arm's length with the eligible business but for the Fund's interest as the holder of investments in the eligible business; or (b) the investment has been first approved by special resolution of the shareholders of the Fund.

Voluntary Investment Restrictions and Policies

In addition to the investment restrictions described above, the Board of Directors will from time to time establish certain other investment policies which apply to the Class A Shares. The Board of Directors has approved the following investment restrictions and policies, which may be varied from time to time by the Board of Directors as opportunities and market conditions dictate if permitted by Applicable Legislation.

- The Fund will not make loans except in the ordinary course of investing its funds and except that it may enter into securities lending transactions.
- The Fund will not make short sales of securities or purchase securities on margin.
- The Fund will not act as an underwriter of securities.
- The Fund will not invest in the securities of a mutual fund but may invest in the securities of an investment company if such an investment would otherwise meet the Fund's investment objectives.
- The Fund will not buy securities from or sell securities to the directors or officers of the Fund, the Manager or the Investment Advisor.
- The Fund will not purchase puts, calls or combinations thereof except for hedging purposes and except that it may purchase securities including options, rights and warrants to acquire additional securities or rights to sell securities of the eligible businesses in which it invests.
- The portfolio assets of the Fund will be held in the custody of a federally or provincially licensed trust company or a Canadian chartered bank.
- The Fund will not pledge or mortgage any of its assets or borrow money, except: (i) as a temporary measure for the purpose of accommodating requests for redemption of Class A Shares while effecting an orderly liquidation of portfolio securities, provided that after giving effect to such borrowing the outstanding amount of all such borrowing does not exceed 5% of the Net Asset Value of the Fund at the time of such borrowing; or (ii) a pledge of assets in favour of the Custodian for payment of its fees, charges and expenses.
- Except as permitted under the Applicable Legislation, the Fund will not acquire control of Portfolio Companies.

In addition, unlike ordinary mutual funds, the Fund may provide guarantees as funding alternatives for eligible businesses, invest in securities which may require it to make an additional contribution, invest in more than 10% of the securities of any

one issuer and invest more than 10% of the net assets of the Fund in illiquid assets as defined in National Instrument 81-102 – *Mutual Funds*.

FEES AND EXPENSES

Fees and Expenses Payable Directly by the Fund

Remuneration of Executive Officers

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

Remuneration of Directors

Directors of the Fund are entitled to receive an annual fee of \$7,000 and a fee of \$600 for each meeting of the Board of Directors or any committee thereof attended. In addition, the Chairman of the Board of Directors receives an additional annual fee of \$4,000 and the Chairman of the Audit Committee receives an additional annual fee of \$2,000.

Management Fees

Pursuant to the Management Agreement, the Manager is responsible, on an ongoing basis, for the Fund's day-to-day operations and for engaging and supervising service providers to the Fund.

As compensation for the management services provided for and on behalf of the Fund by the Manager, the Fund pays to the Manager an annual fee of 1.50% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.25% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Manager is entitled to a Performance Bonus as described under "Performance Bonus" below. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund. Any fee or benefit received by the Manager from a prospective investee or Portfolio Company, except with respect to services not normally provided by a venture capital investor to an investee company, will be set-off against the management fees otherwise payable by the Fund to the Manager.

Aggregate management fees paid to the Manager for the fiscal year ended August 31, 2012 were \$69,781. The Performance Bonus paid to the Manager for the fiscal year ended August 31, 2012 was \$15,437.

Investment Advisory Fees

Pursuant to the Investment Advisor Agreement, the Investment Advisor assists with the development and refinement of the investment strategy and criteria of the Fund and provides investment advisory services to the Fund.

The Fund pays the Investment Advisor an annual fee for its performance of investment advisory services of 2% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the first \$100 million of the aggregate Net Asset Value Per Share attributable to the Class A Shares and 1.75% of the aggregate Net Asset Value Per Share attributable to the Class A Shares on the aggregate Net Asset Value Per Share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Investment Advisor is also entitled to be reimbursed for certain reasonable costs and expenses incurred in performing its duties under the Investment Advisor Agreement. Any fees paid to the Investment Advisor that are normally provided by a venture capital investor to an investee company will be paid to the Fund. For greater certainty, services that are normally provided by a venture capital investor to an investee company for which fees may be paid include, but are not limited to, providing general business advice, recommending key management enhancements, assisting in arranging corporate finance advisors and potential investors, conducting due diligence, helping to identify new markets or partners, as well as arranging legal and other professional advice to portfolio companies.

For the fiscal year ended August 31, 2012, the Investment Advisor was paid fees in the aggregate amount of \$93,040. The Performance Bonus paid to the Investment Advisor for the fiscal year ended August 31, 2012 was \$243,967.

Performance Bonus

The Manager and the Investment Advisor are entitled to share in a Performance Bonus as soon as practicable after the Disposition Date of an eligible investment based on the gains and income earned from each eligible investment. No Performance Bonus shall be paid by the Fund in respect of the realization of an eligible investment, unless on the Disposition Date of such eligible investment:

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

The Fund will not pay the Performance Bonus on any partial dispositions of an eligible investment unless and until the Fund receives (from all dispositions of that investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the eligible investment.

Provided that the payment of the Performance Bonus does not reduce returns to shareholders on the Investment Portfolio below the threshold outlined in (a) above, the proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund, after deducting the costs of such investment and the proceeds of disposition paid to the Fund, shall be allocated and paid as follows:

- (a) The Investment Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12% compounded annual rate of return contemplated in (b) above, up to and including an amount representing a 15% compounded annual rate of return earned from the particular eligible investment.
- (b) All gains and income earned on each particular eligible investment in excess of a 15% compounded annual rate of return earned from the particular eligible investment shall be allocated and paid in the following proportions:
 - (i) 16% to the Investment Advisor; and
 - (ii) 4% to the Manager.

The Fund will retain the other 80% of such gains and income.

The Performance Bonus will be calculated and paid quarterly in arrears based upon realized gains, calculated on the last day of the last month of each calendar quarter.

As realized gains from an eligible investment will be factored into the calculation of the Performance Bonus without any time limit, if the thresholds described above are achieved, the Fund may be required to pay a Performance Bonus in future periods, which may be in excess of one year subsequent to the Fund's realization of such gains.

The Manager and the Investment Advisor consider the Performance Bonus to be appropriate as it is reasonable and consistent with incentive fee structures commonly used by the private venture capital industry and the Fund's investment strategy and objectives are designed to be similar to the private venture capital industry. The Fund believes that the Performance Bonus allows it to be competitive with other venture capital funds to attract the necessary professional expertise.

Sponsorship Fee

The Sponsor Agreement provides that the Sponsors will make available to the Fund such of its members and employees as are necessary or desirable to fill such positions on the Board of Directors and the committees thereof as the Fund may require. The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate Net Asset Value Per Share attributable to the Class A Shares, calculated and paid monthly in arrears. For the fiscal year ended August 31, 2012, the Sponsors were paid fees in the aggregate amount of \$8,645.

Operating Expenses

The Fund pays all of its administrative expenses, including expenses relating to the provision of registrar, transfer agency, trustee, shareholder reporting and other shareholder administration services being provided by the Manager and all of the Fund's operating expenses, including expenses relating to portfolio transactions, taxes, legal, audit, custodial and accounting, costs of qualifying the Fund's securities for distribution, certain marketing, security realization, storage and rent costs, directors' fees, borrowing fees and reasonable fees and expenses relating to the operation of the IRC. The Fund has also agreed to assume the annual RRSP administration fee payable to the Trustee for RRSPs established with the Trustee.

Businesses in which the Fund invests will be of a relatively small size and early stage of development in comparison with the investments made by most conventional mutual funds. The Fund will thus require a greater commitment to initial analysis, due diligence investigations, post-investment monitoring and support of ongoing developmental activities of Portfolio Companies, relative to the amount of capital invested, than is required by most mutual funds. In addition, the cost to determine the value of the Fund's investments in Portfolio Companies for which no published market exists will be greater than the valuation cost for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles.

Reference is made to the audited financial statements of the Fund for the fiscal year ended August 31, 2012, for particulars of all fees, charges and expenses charged to the Fund.

Sales Commissions

Investors who purchase Class A Shares will not pay any sales commissions directly. The Fund will pay a commission of 6% of the selling price to registered dealers selling Class A Shares. Commissions on the sale of the Class A Shares will be charged to share capital as a share issue cost as they occur.

Service Fees

The Fund pays to registered dealers having clients holding Class A Shares a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the aggregate Net Asset Value Per Share attributable to the Class A Shares held by the clients of the sales representatives of the dealers. This fee is intended to compensate dealers for the expenses incurred by them in communicating on an ongoing basis with their clients who are shareholders of the Fund with respect to investments made by the Fund and the investment strategies and investment performance of the Fund.

Sales Incentives

The Fund may enter into co-operative marketing programs with certain dealers providing for the reimbursement by the Fund of certain expenses incurred by those dealers in promoting sales of the Class A Shares, subject to applicable law.

The Fund is generally required to pay HST at the rate of 13% on fees and most expenses which it pays.

Fees and Expenses Payable Directly by an Investor

There is a fee of \$100 (plus applicable taxes) payable by investors to cover the administrative cost of the issuance of a share certificate at an investor's request.

ANNUAL RETURNS AND MANAGEMENT EXPENSE RATIO

The table below provides the annual return and management expense ratio data for the Class A Shares for each of the past five years as disclosed in the most recently filed annual management report of fund performance of the Fund.

	2012	2011	2010	2009	2008
Annual Returns	-4.01%	5.36%	2.01%	-1.32%	-0.09%
MER⁽¹⁾⁽²⁾	10.55%	11.24%	9.67%	8.54%	9.21%
MER before Performance Bonus	7.70%	6.73%	6.01%	6.66%	5.91%

- (1) "MER" means management expense ratio. Because of the nature of the investments that the Fund makes, it is anticipated that the management expense ratio will continue to be higher than that of conventional mutual funds.
- (2) MER is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year.

How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

RISK FACTORS

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

Speculative Nature of Investment and No Guaranteed Rate of Return

The Class A Shares are highly speculative in nature. There is no guarantee that an investment in Class A Shares will earn a specified rate of return or any return in the short or the long term. An investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. In addition to the tax benefits of investing in Class A Shares, prospective purchasers should fully assess the investment merits of the Class A Shares. Investors should consult with a professional advisor.

Availability of Suitable Investments

There is no assurance that sufficient suitable eligible investments or Reserves will be found in order to fulfil the investment objectives of the Fund. If the Fund is unable to invest sufficient funds in eligible investments to enable it to meet its “pacing requirements” under the Applicable Legislation, the Fund may be subject to penalty taxes and other consequences as disclosed under “Penalty Taxes and Revocation of Registration” below.

Nature of Portfolio Companies

The business of the Fund is to make investments in small to medium-sized eligible businesses directly, or in CSBIFs, many of which will have a limited operating history. These investments may require a number of years in order to mature and generate the returns expected by the Fund and investors. A significant portion of the Investment Portfolio will be comprised of investments in private companies. These investments are likely to mature and generate returns at different times, which could create an irregular pattern in the Net Asset Value Per Share attributable to the Class A Shares. In addition, losses on unsuccessful private company investments are often realized before gains on successful private company investments are realized. Investors should not expect to receive a dividend on the Class A Shares in the foreseeable future.

Eligible businesses will be of a relatively small size and early stage of development in comparison with the investments made by most publicly-offered mutual funds. The Fund will thus require a greater commitment to initial analysis, due diligence investigations, post-investment monitoring and support of ongoing developmental activities of Portfolio Companies, relative to the amount of capital invested, than is required by most mutual funds. In addition, the cost to determine the value of the Fund’s investments in Portfolio Companies for which no published market exists will be greater than the valuation cost for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than those of many mutual funds and other pooled investment vehicles.

Lack of Liquidity

There is no formal market, such as a stock exchange, through which the Class A Shares may be sold and none is expected to develop. In addition, a Class A Shareholder is prohibited from transferring Class A Shares unless such shareholder has satisfied all conditions imposed by the Applicable Legislation. As a result, Class A Shareholders will likely be unable to dispose of Class A Shares other than through the redemption of their shares by the Fund. The transfer of Class A Shares are generally restricted to those between an Individual Eligible Investor, an Individual Eligible Investor’s Spouse and a trust governed by a TFSA, RRSP or RRIF of which the Individual Eligible Investor or his or her Spouse is the annuitant. Otherwise, transfers of Class A Shares may occur in very limited circumstances such as death or disability resulting in the Class A Shareholder being permanently unfit to work.

There are restrictions on the redemption of Class A Shares. Except in very limited circumstances, no Class A Shares may be redeemed before the expiration of at least eight years from the date on which such shares were issued without repayment of an amount in respect of tax credits. In particular, the Fund may limit aggregate redemptions of Class A Shares in any year to 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year. Accordingly, investors may not be able to redeem their Class A Shares on demand. Consequently, such shares may not be accepted as collateral for loans. The Fund is entitled to suspend the right of Class A Shareholders to redeem Class A Shares and/or delay the date for payment of the redemption amount in respect of any redeemed Class A Share for the whole or any part of any period for which the consent of the applicable securities regulators has been obtained.

The elimination of the Ontario Tax Credit for the 2012 and subsequent taxation years is likely to materially reduce future sales of Class A Shares of the Fund. As a result, the availability of funds for investment by the Fund could be reduced, and the liquidity of the Fund may be adversely affected, potentially resulting in a reduction of the value of Class A Shares.

Redemption

In any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in certain circumstances. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit referred to above. Although the Fund will endeavour to maintain at all times sufficient liquid assets to honour redemption requests up to such 20% limit, it cannot guarantee that it will be able to honour all redemption requests as and when they are made. Requests to redeem Class A Shares typically increase as the proportion of outstanding Class A Shares held for more than eight years increases and the first eight year period during which Class A Shares may be redeemed without withholding expired during the 2012 RRSP sales season. The majority of the Fund's investments are in private companies which are illiquid assets and, as such, the Fund may not be able to exit such investments on favourable terms to satisfy redemption requests, and the Fund may be unable to meet its investment objectives.

Follow-on Financings

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

Management

Investors will be relying upon the business judgment, expertise and integrity of the Board of Directors, the Manager, the Investment Advisor and the Audit Committee. There is no guarantee that the principals of the Manager and persons retained by the Manager will be available throughout the life of the Fund.

Class A Shareholders are entitled to elect two of the directors of the Fund (currently two of five directors).

Conflicts of Interest

The services of the Manager and the Investment Advisor and their respective directors and officers are not exclusive to the Fund. The Manager and the Investment Advisor and their respective directors and officers will be providing similar services and devoting a substantial portion of their time to other investment activities, directorships and offices. These activities and those of the affiliates and associates of the aforementioned persons may result in certain conflicts of interest. Certain conflict of interest matters relating to the operation of the Fund must be referred to the IRC. See "Organization and Management Details of the Fund – Conflicts of Interest".

External Factors

The Net Asset Value Per Share is based on the value of the publicly held and privately held securities in the Investment Portfolio. As a result, the value of the Class A Shares will increase or decrease with the value of such investments.

The value of the investments will fluctuate with general economic conditions including the level of interest rates, corporate earnings, economic activity, the Canadian dollar and other factors. The risks associated with such fluctuations may be amplified for investors as emerging businesses are often affected by external events to a greater degree than larger, more established businesses.

The return realized by the Fund on the disposition of its securities in Portfolio Companies will be affected by the market for securities in the industries in which the Fund invests at the time the Fund divests of its holdings. There can be no assurance that the investment climate for these types of securities will not deteriorate by the time the Fund divests of the securities held in the Investment Portfolio.

Valuations

The Fund issues Class A Shares at the Net Asset Value Per Share. The Fund will generally redeem Class A Shares at the Net Asset Value Per Share determined on each Business Day on which the redemption request is received or is deemed to be received. The Net Asset Value Per Share attributable to the Class A Shares will be determined daily and will be based on the estimated fair value of the assets of the Fund and may not reflect amounts for which they can actually be sold. This valuation process is subjective to a degree and, to the extent that these valuations are inaccurate, existing investors may gain a benefit or suffer a loss.

Non-Cash Distributions

Individuals holding Class A Shares otherwise than in a trust governed by a RRSP, a RRIF or a TFSA may be liable for the payment of tax arising on the deemed receipt by the holder of a dividend or capital gain dividend for which the holder did not receive a distribution from the Fund with which to pay such tax. See “Distribution Policy”.

Mutual Fund Rules

Although the Fund is a mutual fund, many of the rules normally applicable to mutual funds under relevant Securities Legislation are not applicable to the Fund as a labour sponsored investment fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds operating in Canada do not apply. The Fund may take positions in businesses that represent a larger percentage of the equity than a mutual fund would be permitted to take, and this may increase the risk per investment.

Penalty Taxes and Revocation of Registration

If the Fund does not comply with the investment requirements of the Applicable Legislation, it may be subject to penalty taxes, other penalties and possible revocation of registration under the Applicable Legislation. Any penalty taxes payable under the Applicable Legislation will reduce the Net Asset Value of the Fund. See “Canadian Federal Income Tax Considerations – Federal Penalty Taxes Potentially Applicable to the Fund” and “Investment Restrictions”. The investment performance of the Fund may be adversely affected if the Fund becomes subject to such special taxes and penalties.

Investors will not be eligible to receive Information Returns if the Fund’s registration is revoked under the Federal Act.

Legislative Changes

Changes may be introduced to the Applicable Legislation providing for tax credits for investments in labour sponsored funds and related matters, including the investment restrictions imposed on the Fund and the pace at which the Fund is required to invest the capital it raises. Changes to federal or provincial legislation, rules or practices, if unfavourable, could impair the Fund’s ability to attract future investment capital and its investment performance or otherwise adversely affect the Fund. The Ontario Tax Credit was eliminated as of March 1, 2012 and as such an Ontario Tax Credit is no longer available to purchasers of Class A Shares in Ontario, which impacts the Fund’s ability to attract investment capital. As a result, the availability of money for investment by the Fund and the return to investors in the Fund could be reduced.

DISTRIBUTION POLICY

The Board of Directors may declare from time to time such dividends out of monies legally available for dividends as it may consider advisable. Any decision as to the amounts and timing of any dividends will be at the discretion of the Board of Directors and there is no guarantee that dividends will be paid at any time or in any amount. No cash dividends or other distributions were paid by the Fund during the fiscal year ended August 31, 2012 or in any prior fiscal period.

The Fund intends to increase the stated capital of the outstanding Class A Shares and Class C Shares periodically in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and, if available to it, on net investment income. The Fund will be deemed to have paid, for tax purposes, a dividend on its then issued and outstanding Class A Shares and Class C Shares equal to the amount added to the stated capital of such Class A Shares and Class C Shares and each such Class A Shareholder and Class C Shareholder will be deemed to have received a dividend equal to the Class A Shareholder’s and Class C Shareholder’s proportionate share thereof even though the holder will not receive a cash distribution from the Fund. See “Canadian Federal Income Tax Considerations – Federal Taxation of the Fund” and “Canadian Federal Income Tax Considerations – Federal Taxation of Class A Shareholders – Taxation Implications of the Fund’s Distribution Policy”.

PURCHASES OF SECURITIES

Class A Shares may be purchased only by Eligible Investors ordinarily resident in a province of Canada other than Québec or Nova Scotia. Class A Shares are offered on a continuous basis and will be issued at the Net Asset Value Per Share as at the close of business on the date on which a properly completed subscription for Class A Shares is received or deemed to be received by the Registrar and Transfer Agent, and will be issued on such date. The minimum investment in Class A Shares is \$1,200 and all subsequent subscriptions must be in increments of \$50. The continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue.

All subscriptions for Class A Shares are subject to acceptance or rejection by the Fund and the Registrar and Transfer Agent and the right is reserved to reject any subscription. The Fund will distribute the Class A Shares through dealers licensed to sell shares of Federal LSVCCs and LSIF Corporations. The Fund will not accept a subscription placed directly by an investor. Investors may subscribe by completing the application form available through their financial advisor, who will then forward the application form and the total amount of the subscription price to the Registrar and Transfer Agent. Orders submitted will be processed by the Registrar and Transfer Agent on the day they are received or, if they arrive after 4:00 p.m. (Toronto time) or on a day that is not a Business Day, the next Business Day. A completed application form and payment must be received within three Business Days, or any lesser period required by Securities Legislation, after the date the Net Asset Value Per Share was calculated for a particular order. If the Registrar and Transfer Agent has not received payment by such date, the Class A Shares will be redeemed. If the amount received on redemption exceeds what the investor would have paid for the Class A Shares, the Fund will keep the surplus. However, if the purchase obligation exceeds the amount received on redemption, the investor or the investor's financial advisor will be required to reimburse the Fund for the deficiency plus additional expenses. The decision to accept or reject any subscription for Class A Shares will be made promptly and in any event within one Business Day of receipt of the subscription by the Registrar and Transfer Agent on behalf of the Fund. In the event that a subscription for Class A Shares is rejected, all money received with the subscription will be returned immediately to the applicant.

There is no direct sales charge to investors on the purchase of Class A Shares. The full amount of the purchase price paid by investors (excluding any interest earned) will be used to purchase Class A Shares, however the Fund shall receive the subscription proceeds less all sales commissions. See "Fees and Expenses – Fees and Expenses Payable Directly by the Fund – Sales Commissions".

Pending the issuance of Class A Shares, the amount of the subscription price accompanying subscriptions will be held in a manner permitted by applicable Securities Legislation. Interest earned on those funds will accrue for the account of the Fund. Share certificates will not be provided unless requested by investors in writing. Requests for share certificates must be accompanied by payment of the share certificate fee of \$100 plus applicable taxes. Purchasers of Class A Shares will receive an acknowledgement of receipt of subscription and a transaction confirmation for each purchase of Class A Shares. Shareholders will receive a statement showing the number and current value of their Class A Shares at least annually.

The Registrar and Transfer Agent, on behalf of the Fund, will arrange for the Information Returns to be issued to Individual Eligible Investors. Investors will be required to file the Information Return with their federal income tax return in order to claim the Federal Tax Credit.

RRSPs and TFSAs

Class A Shares may be purchased directly by a Qualifying Trust of an individual. In such circumstances, the individual or the individual's Spouse (in the case of a RRSP that is a Spousal Plan under which the Spouse or the individual is the annuitant) will generally be entitled to the Federal Tax Credit in respect of the acquisition by the Qualifying Trust of the Class A Shares. Subject to the RRSP contribution limits contained in the Federal Act, any amount contributed to a RRSP to be used to pay the subscription price for Class A Shares or the fair market value of Class A Shares transferred to a RRSP will generally be deductible in computing the individual's taxable income. Individual Eligible Investors may also arrange to transfer Class A Shares they have purchased to their own TFSA or RRSP or to a RRSP under which their Spouse is the annuitant.

An individual may establish a RRSP (including a Spousal Plan to which the individual's Spouse may contribute) with the Trustee and either have Class A Shares purchased directly by such RRSP or have Class A Shares purchased by the individual or his or her Spouse transferred to such RRSP. Shareholders may take advantage of these arrangements by completing a

declaration of trust supplied by the Trustee in addition to the subscription form. The Fund has agreed to assume the annual RRSP administration fee payable to the Trustee for RRSPs established with it. The decision to assume this annual fee on behalf of shareholders may be reversed at the sole discretion of the Fund at any time. Application forms are available from the dealer from whom Class A Shares are purchased. For more details investors should contact their investment advisor.

Transfer to RRIFs

Investors may establish a RRIF with the Trustee and have Class A Shares transferred to such RRIF by a RRSP, another RRIF or individuals in certain circumstances. Application forms are available from the registered dealer from whom Class A Shares were purchased.

Tax Incentives

Federal

Under the Federal Act, Individual Eligible Investors are entitled to a Federal Tax Credit equal to 15% of the net cost of the Class A Shares to the individual or a Qualifying Trust for the individual to a maximum credit of \$750 per year (based on an investment of \$5,000) in respect of the individual's aggregate purchase(s) of class A shares in the year of Federal LSVCCs, LSIF Corporations and certain similar entities registered under the laws of a province of Canada. The availability of these credits is subject to specific exceptions and requirements described under "Canadian Federal Income Tax Considerations". Individual Eligible Investors who purchase or subscribe and pay for Class A Shares after December 31, 2012, but on or before the 2013 Cut-Off Date may elect to have their Federal Tax Credit apply in respect of the 2012 taxation year instead of the 2013 taxation year.

RRSPs, TFSAs and RRIFs: A Qualifying Trust includes certain RRSPs and TFSAs but does not include RRIFs, which are not permitted to subscribe directly for Class A Shares and may generally acquire such shares only from certain RRSPs, other RRIFs or individuals in certain circumstances (see definition of "Qualifying Trust" in "Selected Definitions"). See "Eligibility for Investment" and "Canadian Federal Income Tax Considerations".

Ontario

The Ontario Tax Credit was eliminated as of March 1, 2012. As a result, no Ontario Tax Credit will be issued to purchasers of Class A Shares.

REDEMPTION OF SECURITIES

Redemptions

A Class A Shareholder may require the Fund to redeem Class A Shares without having to repay an amount in respect of the tax credits received on issue if the redemption occurs more than eight years after the date of issue of such shares.

Requests for redemption of Class A Shares may be made by completing the Fund's request for redemption form which is available from financial advisors. Redemptions of Class A Shares will be made at the Net Asset Value Per Share as at the close of business on the day on which the Fund receives the request for redemption. Such requests must normally be received by the Fund by 4:00 p.m. (Toronto time) on a Business Day in order to be priced at the Net Asset Value Per Share for that day, otherwise, such requests will be priced at the Net Asset Value Per Share for the following Business Day. If all required documentation has not been received by the Registrar and Transfer Agent within three Business Days after the date the Net Asset Value Per Share was calculated for the redemption and the value of Class A Shares has increased during such period, the redeeming shareholder will be required to reimburse the Fund for the difference. A dealer may make provision in arrangements that it has with an investor that will require the investor to compensate the dealer for any losses suffered by the dealer in connection with any failure of the investor to satisfy the requirements of the Fund or Securities Legislation for a redemption of securities of the Fund.

All requests for redemption must be signed by the shareholder with the signature guaranteed by a Canadian chartered bank, trust company, a member of a recognized stock exchange in Canada or other party considered acceptable by the Registrar and Transfer Agent. No redemption will be effected until the written request for the same has been duly completed and delivered to the Registrar and Transfer Agent, together with a duly endorsed share certificate (if any).

If redemption occurs within eight years of the date of issue, the redemption will generally be subject to withholding under the Federal Act in an amount generally determined with reference to the Federal Tax Credit generally available on the issuance of the Class A Shares. See “Attributes of the Securities Distributed – Class A Shares – Redemption by Holders”.

The Fund may suspend redemptions for substantial periods of time in certain circumstances and, in any financial year, the Fund will not be required to redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year and may suspend redemptions for substantial periods of time in such circumstances. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit referred to above. Although the Fund will endeavour to maintain at all times sufficient liquid assets to honour redemption requests up to such 20% limit, it cannot guarantee that it will be able to honour all redemption requests on the day they are made.

Short-term Trading

The Fund has not arranged for any person or company to conduct or permit short-term trades in the Fund. A significant portion of the Investment Portfolio will be comprised of investments in private companies. These investments may require a number of years in order to mature and generate the returns expected by the Fund and investors. Short-term investors expose themselves to unpredictable volatility. Short-term trading can harm the Fund’s performance as such trading can increase administrative costs and interfere with investment decision making on behalf of the Fund, particularly if large sums are involved. However, if redemption occurs within eight years of the date of issue, the redemption will generally be subject to withholding under the Federal Act in an amount generally determined with reference to the Federal Tax Credit generally available on the issuance of the Class A Shares. The unpredictable price volatility risk and the withholding are believed by the Fund to be sufficient to discourage short-term trading in the Class A Shares, and therefore the Fund does not impose any specific restrictions on short-term trading.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Introduction

In the opinion of McMillan LLP, counsel to the Fund, the following summary presents fairly the principal Canadian federal income tax considerations generally applicable to prospective purchasers of Class A Shares pursuant to this prospectus who, for the purposes of the Federal Act, are individuals (other than trusts) resident in Canada, hold their Class A Shares as capital property and deal at arm’s length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade. This summary also addresses the principal Canadian federal income tax considerations generally applicable to trusts governed by RRSPs or RRFs with an annuitant that is resident in Canada and trusts governed by TFSA’s the holder of which is resident in Canada. The Fund is registered as a LSIF Corporation under the Ontario Act and a Federal LSVCC under the Federal Act. This summary assumes that the Fund will continue to be so registered at all relevant times.

This summary is based on the current provisions of the Federal Act and the Tax Regulations and counsel’s understanding of the current administrative practices of the Canada Revenue Agency (the “CRA”) publicly available as of the date hereof. This summary also takes into account the Tax Proposals. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative action and does not take into account foreign income tax legislation or considerations.

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

Status of the Fund

The Fund is registered as a LSIF Corporation under the Ontario Act and a Federal LSVCC under the Federal Act. These registrations enable Eligible Investors for Class A Shares to obtain the tax benefits summarized below.

Subject to the qualifications discussed under “Eligibility for Investment”, so long as the Fund is a LSIF Corporation or a Federal LSVCC, Class A Shares are qualified investments for trusts governed by RRSPs, RRFs and TFSA’s.

Federal Tax Credit Available to First Purchasers

An Individual Eligible Investor will be entitled to a non-refundable Federal Tax Credit.

Pursuant to the Federal Act, the Federal Tax Credit will be 15% of the investor's net cost of the Class A Shares up to a maximum net cost of \$5,000. Generally, an investor's net cost of a Class A Share is the price paid in respect of the subscription for, or the acquisition of, the Class A Share less the amount of any assistance provided by a government, municipality or public authority in respect of or for the acquisition of the Class A Share, other than a tax credit (including the Federal Tax Credit). The annual aggregate maximum Federal Tax Credit that an investor may claim in respect of purchases of Class A Shares and any shares of Federal LSVCCs, LSIF Corporations and certain similar entities registered under the laws of a province of Canada other than the Fund is \$750.

The Federal Tax Credit may be deducted only from the individual's tax payable under the Federal Act and only in respect of the calendar year in which the Class A Share is acquired, or subscribed and paid for, unless the Class A Share is acquired, or subscribed and paid for after December 31 of a particular calendar year and by the applicable Cut-Off Date, in which case the Federal Tax Credit may, at the individual's option, be deducted from the tax payable under the Federal Act in respect of the preceding calendar year.

The Federal Tax Credit is not transferable by the individual and is not refundable to the extent it exceeds the individual's tax otherwise payable. In order to claim a Federal Tax Credit, the individual must file with his or her tax return the Information Return issued to him or her by the Fund in respect of the acquisition of the Class A Shares.

RRIFs are not permitted to directly subscribe for Class A Shares. Accordingly, although RRIFs may in appropriate circumstances acquire Class A Shares (for instance, from certain RRSPs or other RRIFs), no Federal Tax Credit will be available in respect of the acquisition of Class A Shares by a RRIF.

Generally, an individual will be eligible for the Federal Tax Credit where the purchaser of the Class A Shares is a Qualifying Trust for the individual in respect of such Class A Shares. Subject to the RRSP contribution limits provided in the Federal Act, any amount contributed by the individual to a qualified RRSP to be used to pay the subscription price for Class A Shares may be deductible by the individual in computing the individual's income for tax purposes.

Transfer of Class A Shares to and Holding Class A Shares through RRSPs, RRIFs and TFSAs

The following is subject to the limitations and qualifications set out under "Eligibility for Investment" and should be read together with the discussion under "Taxation of Registered Plans" below.

An individual who acquires Class A Shares may transfer for no consideration the Class A Shares to a RRSP under which the individual or his or her Spouse is the annuitant. On the transfer of Class A Shares to a RRSP, the holder of the Class A Shares will be deemed to have disposed of the Class A Shares and to have received proceeds of disposition equal to the fair market value of the Class A Shares at the date of transfer. If the fair market value of the Class A Shares is greater than the individual's adjusted cost base of the Class A Shares, the excess will be the holder's capital gain. If the fair market value of the Class A Shares is less than the individual's adjusted cost base of the Class A Shares, any resulting capital loss will be deemed to be nil. See "Federal Taxation of Class A Shareholders — Disposition of Class A Shares" below. The individual may be eligible to treat an amount equal to the fair market value of the Class A Shares at the time of the transfer as a deductible contribution to the RRSP, subject to the contribution limits in the Federal Act. The determination of the fair market value of Class A Shares is a factual matter. In assessing the income tax return of an individual who has made such a transfer, the CRA has the right to review the fair market value of a Class A Share.

Contributions to RRSPs are deductible in accordance with the provisions of the Federal Act which place limits on the annual amount of deductible RRSP contributions. This deduction is in addition to the Federal Tax Credit. Generally, for any year, an individual may deduct a RRSP contribution that does not exceed the amount by which the lesser of the RRSP dollar limit for the year and 18% of his or her earned income (as defined in the Federal Act) for the immediately preceding year exceeds the value of his or her pension or deferred profit sharing plan benefits determined in accordance with the Federal Act. For 2012 and 2013, the RRSP dollar limit is \$22,970 and \$23,820, respectively. Unused RRSP deduction room for 1991 and subsequent years can be carried forward to increase the amount of an individual's deductible contribution to a RRSP.

A RRIF is not permitted to directly subscribe for Class A Shares. However, certain transfers of Class A Shares to RRIFs are permitted including by certain RRSPs. An individual who acquires Class A Shares may transfer the Class A Shares to a RRIF which purchases the Class A Shares for valuable consideration if the individual or his or her Spouse is the annuitant.

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

Subject to available contribution room, an individual who acquires Class A Shares may transfer Class A Shares to a TFSA under which the individual is the holder for no consideration. An amount equal to the fair market value of the Class A Shares at the time of the transfer will be treated as a contribution to the TFSA. On the transfer of Class A Shares to a TFSA, the holder of the Class A Shares will be deemed to have disposed of the Class A Shares and to have received proceeds of disposition equal to the fair market value of the Class A Shares at the date of transfer. If the fair market value of the Class A Shares is greater than the individual's adjusted cost base of the Class A Shares, the excess will be the holder's capital gain. If the fair market value of the Class A Shares is less than the individual's adjusted cost base of the Class A Shares, any resulting capital loss will be deemed to be nil. See "Federal Taxation of Class A Shareholders — Disposition of Class A Shares" below. The determination of the fair market value of Class A Shares is a factual matter. In assessing the income tax return of an individual who has made such a transfer, the CRA has the right to review the fair market value of a Class A Share.

Federal Taxation of the Fund

The taxation year of the Fund ends on August 31 of each year. As a federal LSVCC, the Fund is a "mutual fund corporation" for the purposes of the Federal Act.

Counsel has been informed by the Fund that it has elected, in accordance with the Federal Act, to have each of its "Canadian securities" (as defined in subsection 39(6) of the Federal Act) treated as capital property. Such an election is intended to ensure that gains or losses realized by the Fund on the disposition of Canadian securities are treated as capital gains or capital losses.

When the Fund sells, or otherwise disposes of a capital property, the Fund will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Fund of the property and any reasonable costs of disposition. One-half of any capital gain or capital loss will be the Fund's taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the Fund's income. Allowable capital losses may normally be deducted against taxable capital gains of the Fund for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

Taxes payable by the Fund on net realized capital gains will be refundable on a formula basis when Class A Shares or Class C Shares are redeemed or when the Fund pays, or is otherwise deemed to pay, dividends to the Class A Shareholders or the Class C Shareholders, which it elects to be treated as capital gains dividends ("Capital Gains Dividends").

Interest and other investment income (other than taxable capital gains and dividends in respect of shares of taxable Canadian corporations) will be included, net of reasonable expenses, in calculating the Fund's income subject to normal corporate rates of tax. The Fund will be subject to an additional refundable tax equal to 6 $\frac{2}{3}$ % of such investment income. The Fund will be eligible for a refund of a portion of the normal corporate tax and for the 6 $\frac{2}{3}$ % refundable tax in accordance with the detailed rules in the Federal Act if the Fund pays or is deemed to pay taxable dividends other than Capital Gains Dividends, to its shareholders.

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

The Fund has informed counsel that it intends to increase the stated capital of its outstanding Class A Shares and Class C Shares on an annual basis in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and, if available to it, the refunds of tax in respect of taxes payable on net investment income. Counsel has been informed that the Fund has made an election under the Federal Act such that it will be deemed to have paid a dividend on its

then issued and outstanding Class A Shares and Class C Shares equal to the amount added to the stated capital of Class A Shares and Class C Shares and each Class A Shareholder and Class C Shareholder will be deemed to have received a dividend, or if the Fund so elects, a Capital Gains Dividend, equal to the Class A Shareholder's or Class C Shareholder's proportionate share thereof even though the Class A Shareholder or Class C Shareholder will not receive a cash distribution from the Fund. The deemed dividends received by a Class A Shareholder or Class C Shareholder will be added to the Class A Shareholder's or Class C Shareholder's adjusted cost base in respect of their Class A Shares or Class C Shares, respectively.

Federal Taxation of Class A Shareholders

Taxation Implications of the Fund's Distribution Policy

Class A Shareholders will be liable to tax on taxable dividends, other than Capital Gains Dividends, received, or deemed to be received, from the Fund, subject to the gross-up and dividend tax credit rules normally applicable to dividends from taxable Canadian corporations.

As described above, the Fund may pay, or may be deemed to have paid, Capital Gains Dividends to Class A Shareholders. Capital Gains Dividends received, or deemed to have been received, by a Class A Shareholder will be treated as realized capital gains in the hands of such Class A Shareholder, subject to the general rules relating to the taxation of capital gains. One-half of any capital gain will be included in the shareholder's income for purposes of the Federal Act.

A Class A Shareholder will not receive any cash distribution in respect of such deemed dividends or deemed Capital Gains Dividends. Accordingly, an individual Class A Shareholder may be liable to pay tax in respect of deemed dividends or deemed Capital Gains Dividends even though the Class A Shareholder will not have received a cash distribution from the Fund with which to pay the tax.

A Class A Shareholder which is a RRSP, a RRIF or a TFSA will generally be exempt from tax on the amount of any dividend, Capital Gains Dividend, deemed dividend or deemed Capital Gains Dividend. See "Taxation of Registered Plans".

Disposition of Class A Shares

A Class A Shareholder will generally realize a capital gain (or capital loss) on the disposition of a Class A Share, including on a redemption of a Class A Share, or deemed disposition to the extent that the proceeds of disposition of the Class A Share exceed (or are less than) the adjusted cost base to the Class A Shareholder and any reasonable costs of disposition. On the redemption of a Class A Share within eight years of the date the shares were issued, the proceeds of disposition will include any amount withheld from the redemption proceeds and paid to the Receiver General for Canada.

The cost of Class A Shares acquired by the holder will be equal to the subscription price paid. Generally, the cost of each Class A Share acquired will be averaged with the adjusted cost base of all other Class A Shares of the holder for the purpose of determining the adjusted cost base of each Class A Share at any subsequent time. The adjusted cost base of Class A Shares of the holder will be increased by the amount of any deemed dividend or deemed Capital Gains Dividend arising as a result of the increase in the stated capital of Class A Shares as described above under "Federal Taxation of the Fund". The adjusted cost base of Class A Shares will not be reduced by a Federal Tax Credit received by the holder.

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

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

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

Withholding Taxes on Early Redemptions of Class A Shares

The Fund will generally be required to withhold certain amounts on a redemption of Class A Shares in respect of which an Information Return has been issued, if the shares are redeemed within eight years of the date the shares were issued. Pursuant to a Tax Proposal, for taxation years ending after October 24, 2012, a Class A Shareholder that is liable to tax as a result of redeeming Class A Shares within eight years of the date the shares were issued are required to file a tax return estimating the tax payable by the Class A Shareholder for the year. See “Attributes of the Securities Distributed — Class A Shares — Redemption by Holders”.

Alternative Minimum Tax

Taxable dividends (without application of the dividend gross-up) and Capital Gains Dividends received, or deemed to be received from the Fund and capital gains realized on the disposition of Class A Shares may increase a Class A Shareholder’s liability for alternative minimum tax. The Federal Tax Credit may not be applied to reduce a Class A Shareholder’s liability for alternative minimum tax.

Taxation of Registered Plans

A holder of a Class A Share which is a RRSP, a RRIF or a TFSA, will generally be exempt from tax on the amount of any dividends received from the Fund (including deemed dividends and Capital Gains Dividends) as well as tax on the amount of any gains arising on a disposition of the Class A Share, provided the Class A Share continues to be a qualified investment as discussed under “Eligibility for Investment”. Moreover, the alternative minimum tax under the Federal Act does not apply to such RRSPs, RRIFs and TFSA.

Distributions from a RRSP or RRIF to the annuitant are included in the income of the annuitant in the year of the distribution. In the case of a Spousal Plan, under certain circumstances the distributions to the annuitant may instead be included in the income of the spouse who was the contributor to the Spousal Plan. Distributions from a TFSA are not included in the income of the holder and are not subject to tax under the Federal Act.

If the Class A Shares cease to be a qualified investment for a RRSP, RRIF or TFSA, the Federal Act imposes tax on the income earned on such Class A Shares. If the Class A Shares become a prohibited investment, the Federal Act imposes tax on income reasonably attributable to such Class A Shares. Further, the holder of a TFSA or the annuitant of a RRSP or RRIF that holds the Class A Shares would be subject to a tax equal to 50% of the fair market value of the Class A Shares at the time they ceased to be a qualified investment or become a prohibited investment. However, if the TFSA, RRSP or RRIF, as the case may be, disposes of the Class A Shares before the end of the year following the year in which the Class A Shares ceased to be a qualified investment, the holder will generally be entitled to a refund of tax in the year of disposition.

The Federal Act contains certain punitive rules to address the use of TFSA, RRSPs and RRIFs in certain tax planning arrangements. Potential investors who propose to hold their Class A Shares in a TFSA, RRSP or RRIF should consult their own tax advisors regarding their particular situation.

Federal Penalty Taxes Potentially Applicable to the Fund

The Fund will be subject to certain penalty taxes if it fails to comply with the requirements of the Federal Act applicable to registered labour-sponsored venture capital corporations.

If the Fund issues an Information Return in respect of a Class A Share at a time when its registration as a Federal LSVCC is revoked or in respect of a Class A Share which is not issued within 180 days of the issuance of the Information Return, the Fund is liable to pay a penalty equal to the issue price of the affected Class A Share.

The Fund will be subject to taxes and penalties under the Federal Act if it fails to maintain a minimum level of its investments in eligible investments. The Fund may be entitled to a rebate of such tax and 80% of such penalty if it is able to demonstrate subsequent compliance with the investment requirements in the manner prescribed in the Federal Act.

The Fund must pay a penalty tax under the Federal Act equal to the amount of any provincial tax payable by the Fund prior to the discontinuance of its venture capital business as a consequence of a failure of the Fund to acquire sufficient properties of a character described in the applicable provincial statute.

The Fund must pay a penalty tax under the Federal Act if it discontinues its venture capital investment business. The tax is designed to approximate a recovery of the Federal Tax Credit. Tax is payable in respect of outstanding shares which have not, at the time of discontinuance of the venture capital investment business, been outstanding for more than eight years.

Revocation of Registration under the Federal Act

The Minister of National Revenue may revoke the registration of the Fund under the Federal Act if:

- its articles do not comply with certain provisions of the Federal Act;
- it does not comply with certain provisions in its articles;
- it does not file the proper forms or returns or does not pay any special taxes or penalties required of it under the Federal Act;
- it does not issue the proper Information Returns within the prescribed time to purchasers of Class A Shares in respect of their Federal Tax Credit;
- its financial statements are not prepared in accordance with generally accepted accounting principles;
- it does not prepare proper independent valuations of its Class A Shares within the time prescribed by the Federal Act;
- it has been liable for penalty taxes for failure to meet the investment requirements under the Federal Act for a prescribed period of time;
- it has provided a guarantee of a debt that is an eligible investment and has failed to maintain the reserve required under the Federal Act in respect of the guarantee;
- it has paid a fee or commission in excess of a reasonable amount in respect of the offering for sale or sale of its shares; or
- it has a monthly deficiency in 18 or more months in any 36-month period.

The Minister of National Revenue must give notice to the Fund of any proposal to revoke the Fund's registration. The Fund will have an opportunity to appeal any proposal to revoke its registration.

Revocation of the Fund's registration under the Federal Act could, in certain circumstances, result in the Fund being liable to pay a penalty tax based on the number of years, up to eight, that the Class A Shares were outstanding.

ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND

Officers and Directors of the Fund

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

<u>Name and Municipality of Residence</u>	<u>Position with the Fund</u>	<u>Principal Occupation</u>	<u>Director Since⁽³⁾</u>	<u>Number and Percentage of Class A Shares owned or controlled</u>
John-David Alkema Hamilton, Ontario	Director	Regional Director for the Mississauga office of the Christian Labour Association of Canada	February 24, 2010	nil
David Alexander Copeland ⁽¹⁾ Guelph, Ontario	Director	Private Investor	October 31, 2003	nil

<u>Name and Municipality of Residence</u>	<u>Position with the Fund</u>	<u>Principal Occupation</u>	<u>Director Since⁽³⁾</u>	<u>Number and Percentage of Class A Shares owned or controlled</u>
Jocelyne M. Côté-O'Hara ⁽¹⁾ Toronto, Ontario	Director	President, The Cora Group	December 19, 2008	nil
George Russell Paterson ⁽²⁾ Toronto, Ontario	Director	Consultant, Paterson & Associates	October 31, 2003	nil
David Andrew Turnbull ⁽¹⁾ Toronto, Ontario	Director	Head of Private Company Advisory, Manulife Capital Markets	December 18, 2009	nil
John Michael Anthony Richardson Waterdown, Ontario	Chief Executive Officer	Chief Executive Officer of each of the Fund and The Business, Engineering, Science & Technology Discoveries Fund Inc. (the "B.E.S.T. Discoveries Fund Inc.") and President and a director of each of the Manager and Absolute Private Counsel Limited and President, sole director and corporate secretary of B.E.S.T. Capital Administration Inc.	N/A	nil
Thomas William Robert Lunan Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of each of the Fund and The B.E.S.T. Discoveries Fund Inc. and Vice-President of the Manager and Vice-President and a director of Absolute Private Counsel Limited	N/A	nil
Alan Veeriah Chettiar Toronto, Ontario	Corporate Secretary	Corporate Secretary of each of the Fund and The B.E.S.T. Discoveries Fund Inc. and Vice-President of the Manager	N/A	nil

(1) Member of the Audit Committee

(2) Chair of the Board of Directors

(3) Each director's term of office expires at the next annual meeting of shareholders

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

John-David (J.D.) Alkema is the Regional Director for the Mississauga office of the Christian Labour Association of Canada (CLAC). He has worked for CLAC for over 13 years in the Chatham and Mississauga Regional Offices. Mr. Alkema also serves as the secretary for CLAC's National Executive. Mr. Alkema holds a Bachelor of Arts in Political Science and in Business from Redeemer University College.

David Alexander Copeland is a private investor investing in small, growth-oriented businesses. Mr. Copeland has held executive roles in the automotive parts manufacturing industry including President, Co-founder and a Director of TRIAM Automotive Inc. and Executive Vice-President and Chief Financial Officer of Magna International Inc. Mr. Copeland is a director of Nuvo Research Inc. and The B.E.S.T. Discoveries Fund Inc. Mr. Copeland is a Chartered Accountant and has a Bachelor of Mathematics degree from the University of Waterloo.

Jocelyne M. Côté-O'Hara is President of The Cora Group, a corporate strategy and performance consulting firm. Ms. Côté-O'Hara is a former President and Chief Executive Officer of Stentor Telecom Policy Inc. and served for seven years as an executive and an officer of BC TEL. Over a period of ten years (1984-1994), she served in the credit union movement, including six years as a director and Chair of the Board of Directors of the Civil Service Credit Union and three years as a

director of the Ontario Deposit Insurance Corporation. She is currently a director of a number of companies and other organizations including The B.E.S.T. Discoveries Fund Inc., Manitoba Telecom Services Inc. and Ryerson University. She is a graduate of the University of Ottawa and has completed the Advanced Management Program at the Harvard Business School.

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

David A. Turnbull is the Head of Private Company Advisory at Manulife Capital Markets. He has extensive experience in the financial services industry specializing in structuring, pricing and raising capital for business acquisitions, expansion, management buyouts, leveraged buy-outs and corporate restructuring. Previously, Mr. Turnbull founded and managed a boutique investment bank for 12 years. In addition, he was with two bank-owned investment dealers, an international professional services firm and has been acting Chief Financial Officer for three companies. Mr. Turnbull holds the designations of Chartered Financial Analyst, Chartered Financial Planner, has a Master of Business Administration from the Richard Ivey School of Business and a Bachelor of Arts in Economics from The University of Western Ontario. Mr. Turnbull is currently a director of The Business, Engineering, Science & Technology Discoveries Fund Inc.

John Michael Anthony Richardson is the Chief Executive Officer of each of the Fund and The B.E.S.T. Discoveries Fund Inc., and the President and a director of Absolute Private Counsel Limited. Mr. Richardson is the founder, President and a director of the Manager and President, sole director and corporate secretary of B.E.S.T. Capital Administration Inc. Currently, he serves as a director on a number of private company boards. He is a Chartered Accountant and a Chartered Business Valuator, and holds a Masters in Business Administration degree from the State University of New York and a Certificate Pratique de la Langue Françaises from the University de Savoie in France.

Thomas William Robert Lunan is the Chief Financial Officer of each of the Fund and The B.E.S.T. Discoveries Fund Inc., and the Vice-President of the Manager and Vice-President and a director of Absolute Private Counsel Limited. Prior to joining the Manager, Mr. Lunan was a Manager, Company Listings at the Toronto Stock Exchange (the "TSX") and, prior to that, Mr. Lunan was at the Ontario Securities Commission in the Corporate Finance Branch. Mr. Lunan is a past director of the Toronto CFA Society, a director of Canadian World Fund Limited, a TSX listed closed-end fund, and a director of several private companies. Mr. Lunan is a Chartered Accountant and has been awarded the Chartered Financial Analyst designation.

Alan Veeriah Chettiar is the Corporate Secretary of each of the Fund and The B.E.S.T. Discoveries Fund Inc. Mr. Chettiar is a Vice-President with the Manager and is involved in conducting due diligence on prospective opportunities as well as business development planning and regulatory compliance. Prior to joining the Manager, Mr. Chettiar was involved in a range of business functions, including managerial roles in sales and marketing at Molson Canada, and several smaller businesses. He has a Bachelor of Laws degree from Dalhousie Law School and a Bachelor of Commerce degree with a Major in Global Business Management from St. Mary's University. Mr. Chettiar has completed the MBA Program at Ryerson University.

The Board of Directors will be responsible for making investment decisions, reviewing all investments and will receive and review quarterly reports from the Investment Advisor providing details of the investments and a discussion of significant events concerning such investments. The Board of Directors is also responsible for considering the appropriateness of the valuation policies adopted by the Fund. See "Calculation of Net Asset Value – Valuation Policies and Procedures of the Fund".

Audit Committee

The Audit Committee has been established by the Board of Directors, which consists of three members of the Board of Directors, all of whom are independent of the Manager, the Investment Advisor and the Sponsors. The current members of the Audit Committee are David A. Copeland (Chair), Jocelyne M. Côté-O'Hara and David A. Turnbull. A quorum for meetings of the Audit Committee is a majority of its members. The Audit Committee is responsible for reviewing financial statements prepared by the Manager on behalf of the Fund, liaising with the auditor of the Fund, reviewing the procedures respecting the approval of investments and the compliance of the Manager and the Board of Directors with those procedures and with Applicable Legislation and suggesting amendments to such procedures to the Board of Directors.

Manager of the Fund

B.E.S.T. Capital Management Ltd. assisted in the organization and creation of the Fund and worked with Absolute Private Counsel Limited, the Fund's former investment advisor, and Roynat Management Inc., the Fund's former private equity specialist, to develop and refine the investment strategy and criteria for the Fund and arranged for start up financing for the Fund. B.E.S.T. Capital Management Ltd. was not entitled to have these costs reimbursed by the Fund. The Fund retained B.E.S.T. Capital Management Ltd. pursuant to a management agreement dated as of December 22, 2003, as amended on August 23, 2004, which was assigned to the Manager, B.E.S.T. Investment Counsel Limited, an affiliate of B.E.S.T. Capital Management Ltd., as of December 20, 2007 and amended as of such date. The Management Agreement has been amended and restated as of September 15, 2008. B.E.S.T. Investment Counsel Limited was incorporated on November 24, 1998 under the *Business Corporations Act* (Ontario).

The head office and principal place of business of the Manager is 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3.

Duties and Services Provided by the Manager

The Manager is responsible for the Fund's daily administrative operations and engaging and supervising service providers to the Fund.

Details of the Management Agreement

The Manager has been retained pursuant to the Management Agreement. The Manager must exercise its powers and discharge its duties in a manner which is fair and reasonable to the Fund, honestly, in good faith and in the best interests of the Fund and, in connection therewith, must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Under the Management Agreement, the Fund has agreed to pay the Manager an annual fee and a performance fee. The Management Agreement has an initial 10 year term and will be renewed automatically each year for a further term of one year.

Unless terminated earlier by either party thereto in accordance with its terms, the Management Agreement shall terminate upon the dissolution, winding-up or termination of the Fund. The Manager may terminate the Management Agreement: (a) upon 90 days' prior written notice by the Manager to the Fund; (b) upon 10 Business Days' prior written notice being given by the Manager to the Fund, in the event the Fund is in material breach or material default of any material provisions thereof and such material breach or material default has not been cured within 20 Business Days' of written notice of such material breach or material default to the Fund; or (c) upon 10 Business Days' prior written notice by the Manager to the Fund if there is a material change in the fundamental investment objectives, strategies or restrictions of the Fund.

The Fund may terminate the Management Agreement at any time, including during the initial 10 year term: (a) upon 10 Business Days' notice being given by the Fund to the Manager if the Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Manager or a substantial portion of its assets, subject to such proceedings being contested; or (b) upon 30 Business Days' notice being given by the Fund to the Manager in respect of fraudulent behaviour, gross misconduct or criminal conduct of the Manager and such behaviour has not been cured, if capable of being cured.

Following the initial 10 year term, the Fund may terminate the Management Agreement: (a) provided a resolution is passed by at least 75% of the votes cast at a meeting of the Class A Shareholders called to consider the termination of the Management Agreement; or (b) upon 10 Business Days' prior written notice being given by the Fund to the Manager in the event that the Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Manager or a substantial portion of its assets, subject to such proceedings being contested.

In addition, the Fund may terminate the Manager at any time in the event of a "Material Breach" by the Manager, which is defined in the Management Agreement as a material failure by the Manager to perform, or the breach of, a material obligation under the Management Agreement. The Management Agreement provides the opportunity for the Manager to cure any such breach over a four month period before any such termination becomes effective.

The Manager will be indemnified by the Fund for any legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by the Manager in connection with its services, provided the loss was not incurred as a result of the breach of its standard of care and the Fund has reasonable grounds to believe that the action or inaction that caused the loss was in the best interests of the Fund.

Officers and Directors of the Manager of the Fund

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

<u>Name and Municipality of Residence</u>	<u>Positions with the Manager</u>	<u>Principal Occupation⁽¹⁾</u>
John Michael Anthony Richardson ⁽²⁾ Waterdown, Ontario	President and Director	Chief Executive Officer of each of the Fund and The B.E.S.T. Discoveries Fund Inc. and President and a director of each of the Manager and Absolute Private Counsel Limited and President, sole director and corporate secretary of B.E.S.T. Capital Administration Inc.
Thomas William Robert Lunan Toronto, Ontario	Vice-President	Chief Financial Officer of each of the Fund and The B.E.S.T. Discoveries Fund Inc. and Vice-President of the Manager and Vice-President and a director of Absolute Private Counsel Limited
Alan Veeriah Chettiar Toronto, Ontario	Vice-President	Corporate Secretary of each of the Fund and The B.E.S.T. Discoveries Fund Inc. and Vice-President of the Manager
Richard Alexander Brown Toronto, Ontario	Director	Consultant
David Rodney Kenneth Bernard Allen, Texas, U.S.A.	Director	Global Innovation Strategy & Services, PepsiCo. Business and Information Solutions
Robert John Roy Toronto, Ontario	Director	Consultant

(1) Each of the directors and officers of the Manager has held the principal occupation listed above for the last five years, except as set out below.

(2) The Manager is a wholly owned subsidiary of 1209762 Ontario Inc. Mr. Richardson controls 1209762 Ontario Inc. and is a director and officer of 1209762 Ontario Inc.

A brief biographical description for Messrs. Richardson, Lunan and Chettiar is set out under the heading “Organization and Management Details of the Fund – Officers and Directors of the Fund”. The following is a brief biographical description for Messrs. Brown, Bernard and Roy.

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

David Rodney Kenneth Bernard leads Global Innovation Strategy & Services for PepsiCo. Business and Information Solutions. Mr. Bernard has held a number of leadership roles in both finance and information technology over 17 years at PepsiCo Inc. for its international and North America businesses. PepsiCo Inc. manufactures, markets, and sells snacks and beverages worldwide. Mr. Bernard is a Chartered Accountant and holds an Honours Bachelor of Commerce degree from the University of Windsor and a Bachelor of Arts (Economics) degree from the University of Western Ontario.

Robert John Roy is currently a consultant to a number of business ventures. He was the Managing Director of Equity and Head of Ventures for Roynat Capital, a subsidiary of a Canadian chartered bank, from January 1996 to July 2012. While at Roynat, Mr. Roy was involved in sourcing, structuring, investing, monitoring and divesting its equity investments as well as representing Roynat’s interests on the board of numerous investee companies. Mr. Roy has over 30 years experience in mergers and acquisitions, private equity and venture capital. He received his Chartered Accountant designation in 1981 and

received a Bachelor of Commerce degree from McMaster University in 1978. He served as a Director of the Canadian Venture Capital Association from 1991-1997 and was Conference Chairman in 1992.

Cease Trade Order and Bankruptcies

Except as noted below, no director or executive officer of the Fund or the Manager is, or within the ten (10) years prior to the date hereof has been, a director or executive officer of any company that, while that person was acting in that capacity (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. Mr. Copeland was Chairman of the board of directors until January 15, 2009 (when he resigned) of Triton Electronik Inc., a group of companies which filed for protection under the Companies' Creditors Arrangement Act on January 28, 2009. Mr. Copeland was a director of MTB Industries Inc. ("MTB") until May 1, 2009, when he resigned. MTB filed for court appointed receivership on May 5, 2009.

No director or officer of the Fund or the Manager has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Investment Advisor

Absolute Private Counsel Limited was retained by B.E.S.T. Capital Management Ltd. pursuant to an investment advisory agreement dated as of December 22, 2003, as amended on August 23, 2004 which was assigned to the Investment Advisor as of December 20, 2007 and amended and restated as of September 15, 2008. The Investment Advisor is responsible for the development and refinement of the investment strategy and criteria of the Fund, providing investment advisory services to the Fund, including identifying investment opportunities which meet the Fund's investment criteria, evaluating proposed investments, structuring and negotiating approved investments, completing prospective investments, monitoring the performance of Portfolio Companies on an ongoing basis, assisting management of Portfolio Companies where appropriate, and assisting the Fund in respect of the disposition of investments in Portfolio Companies. As of September 15, 2008 the Investment Advisor assumed the duties previously performed by Roynat Management Inc., the former private equity specialist of the Fund. These duties were previously provided by both the Investment Advisor and Roynat Management Inc. The Investment Advisor will continue to rely on its own networks in the investment community to assist it in identifying appropriate investment opportunities for the Fund. The principals of the Investment Advisor who have primary responsibility for the investment advisory affairs of the Fund are: John M.A. Richardson, Thomas W.R. Lunan and Alan V. Chettiari. Biographies for these individuals are set out under "Organization and Management Details of the Fund – Officers and Directors of the Fund". The Board of Directors will be responsible for making investment decisions, reviewing all investments and will receive and review quarterly reports from the Investment Advisor providing details of the investments and a discussion of significant events concerning such investments.

The head office and principal place of business of the Investment Advisor is 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3.

Details of the Investment Advisor Agreement

The Investment Advisor has been retained pursuant to the Investment Advisor Agreement. The Investment Advisor must exercise its powers and discharge its duties in a manner which is fair and reasonable to the Fund, honestly, in good faith, and in the best interests of the Fund, and in connection therewith exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Under the Investment Advisor Agreement, the Fund has agreed to pay the Investment Advisor an annual fee and a performance fee.

The Investment Advisor Agreement will expire, unless terminated earlier by a party thereto in accordance with the terms of such agreement, upon the dissolution, winding-up or termination of the Fund. The Investment Advisor may terminate the

Investment Advisor Agreement: (a) upon 90 days' prior written notice given by the Investment Advisor to the Fund; (b) in the event the Fund is in material breach or material default of any material provision thereof and such material breach or material default has not been cured within 20 Business Days of written notice of such material breach or material default by the Investment Advisor to the Fund; or (c) if there is a material change in the fundamental investment objectives, strategies or restrictions of or applicable to the Fund. The Fund may terminate the Investment Advisor Agreement in the event that the Investment Advisor is in material breach or material default of any material provision thereof and such material breach or material default has not been cured within 20 Business Days of written notice of such material breach or material default by the Fund to the Investment Advisor or if the Investment Advisor becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Investment Advisor or a substantial portion of its assets.

The Investment Advisor will be indemnified by the Fund for any legal fees, judgments and amounts paid in settlement, actually and reasonably incurred by the Investment Advisor in connection with its services, provided the loss was not incurred as a result of the breach of its standard of care and the Fund has reasonable grounds to believe that the action or inaction that caused the loss was in the best interests of the Fund.

Conflicts of Interest

Conflicts of Interest – Respecting the Manager

The services of the directors, officers, employees and agents of the Manager are not exclusive to the Fund. Subject to compliance with the applicable provisions of the Securities Legislation, the Manager and its directors, officers, shareholders, employees, agents, affiliates and associates (the "Manager Group") will provide similar services and devote a portion of their time to other investments, directorships and offices, including without limitation: (i) the ownership, development and management of other investments, including investments of the Manager Group in securities of the same issuers in which the Fund invests; (ii) participation, whether as exclusive distributor, dealer, broker or otherwise in the distribution of securities issued by corporations, unit investments, trusts or other organizations; (iii) the formation or participation in the capitalization of entities which will act as managers of other funds or operating businesses; and (iv) the provision of services and advice to other persons (including persons which may invest in securities of the same issuers as the Fund) on commercially reasonable terms, and the Manager shall not be called upon to account to the Fund in respect of any such transaction or activity or benefit derived therefrom by virtue only of the relationship between the parties concerned. The Manager also agreed that it will devote sufficient resources to perform its obligations under the Management Agreement.

The Manager may also act as manager of other labour sponsored funds (the "Other Funds"), including the B.E.S.T. Discoveries Fund Inc. For greater certainty, nothing in the Management Agreement shall restrict the activities of the Other Funds, including investing in the same companies as the Fund. In addition, the IRC has established standing instructions to the Manager in connection with the allocation of investments among the Fund and Other Funds.

The Manager and its directors, officers and employees may receive a fee or benefit from a prospective investee or a Portfolio Company. Any such amount received, except in respect of services that are not normally provided by a venture capital investor to an investee company, will be set-off against the management fees otherwise payable by the Fund to the Manager. For greater certainty, services not normally provided by a venture capital investor to an investee company consist of any services provided by the Manager to an investee company pursuant to a mandate won through a process initiated by such investee company to hire an external advisor to provide services to it or any other services approved by the Board of Directors and the IRC. In the event that the Manager receives any fee or benefit for services not normally provided by a venture capital investor to an investee company, details of the contract will be disclosed in the Fund's prospectus.

Conflicts of Interest – Respecting the Investment Advisor

The services of the directors, officers, employees and agents of the Investment Advisor are not exclusive to the Fund. Subject to compliance with the applicable provisions of the Securities Legislation, the Investment Advisor and its directors, officers, shareholders, employees, agents, affiliates and associates (the "B.E.S.T. Group") will provide similar services and devote a portion of their time to other investments, directorships and offices, including without limitation: (i) the ownership, development and management of other investments, including investments of the B.E.S.T. Group in securities of the same issuers in which the Fund invests; (ii) participation, whether as exclusive distributor, dealer, broker or otherwise in the distribution of securities issued by corporations, unit investments, trusts or other organizations; (iii) the formation or participation in the capitalization of entities which will act as managers of other funds or operating businesses; and (iv) the provision of services and advice to other persons (including persons which may invest in securities of the same issuers as the

Fund) on commercially reasonable terms, and the Investment Advisor shall not be called upon to account to the Fund in respect of any such transaction or activity or benefit derived therefrom by virtue only of the relationship between the parties concerned. The Investment Advisor also agreed that it will devote sufficient resources to perform its obligations under the Investment Advisor Agreement.

The Investment Advisor will present to the Fund all investment opportunities available to the Fund and which the Fund is otherwise able to take, having regards to Applicable Legislation and investment guidelines. Some members of the B.E.S.T. Group may participate in the investment management of Other Funds and the Investment Advisor shall use its best efforts to ensure that investment opportunities which are suitable for the Fund are fairly allocated between the Fund and the Other Funds. Where appropriate, the Investment Advisor will arrange for co-investment by the Fund and the Other Funds. The Investment Advisor has no obligation to disclose to the Fund any opportunities of the Other Funds that are identified by members of the B.E.S.T. Group which are not suitable for the Fund or which the Fund is not otherwise able to take, having regard to Applicable Legislation and the investment guidelines. For greater certainty, except as set out in the Investment Advisor Agreement, nothing shall restrict the activities of the Other Funds.

For greater certainty, the members of the B.E.S.T. Group are not precluded from: (i) making an investment which is developed or originated by a third party which is made available by such third party only to one or more members of the B.E.S.T. Group and not the Fund; (ii) making an investment which relates to a pre-existing investment of such party, including a follow-on investment in any entity; and (iii) for any investment vehicles other than the Other Funds, making an investment in connection with or incidental to any business or other activity carried on by a member of the B.E.S.T. Group, if such business or activity does not principally consist of investing in the same types of investments that the Fund invests in.

Any fees paid to a member of the B.E.S.T. Group that are in respect of services that are normally provided by a venture capital investor to an investee company, which are not otherwise remitted to the Fund, shall be reimbursed by the Investment Advisor to the Fund. The types of fees paid to the Investment Advisor for services that are normally provided by a venture capital investor to an investee company include, but are not limited to, finders' fees and commitment fees. Subject to the foregoing, a member of the B.E.S.T. Group may receive, and shall not be required to reimburse the Fund for, market rate fees from Portfolio Companies for any other services provided to such Portfolio Companies provided the Investment Advisor advises the Board of Directors on a quarterly basis that it is providing such services to the Portfolio Companies setting out the services provided, the fees payable and whether such fees are required to be reimbursed to the Fund pursuant to the above.

Independent Review Committee

Pursuant to National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”), an Independent Review Committee (“IRC”) has been established by the Manager. In accordance with NI 81-107, the IRC consists of three independent members. The current members of the IRC are Geoffrey Ralph Bedford, Aleksandar Daskalovic and Brent William Bere. The IRC is responsible for overseeing all conflict of interest matters relating to the operation of investment funds managed by the Manager and its affiliates, including the Fund. The Manager is required to identify conflict of interest matters in connection with its management of the Fund and the mandate of the IRC is to review and provide input or recommendations to the Manager on all conflict of interest matters that the Manager has referred to the IRC. Certain conflict of interest matters are expected to arise in connection with the allocation of investments among the Fund and other funds managed by the Manager and its affiliates. For these and other recurring conflict of interest matters the IRC has established standing instructions to the Manager and may continue to do so in the future. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of these matters and provide assistance to the IRC in carrying out its functions. The IRC has adopted a written charter which it follows when performing its functions and is subject to requirements to conduct regular assessments and provide reports to the Fund and its shareholders in respect of its functions. In performing their duties, members of the IRC are required to act honestly, in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The reasonable fees and expenses of members of the IRC, as well as a premium for insurance coverage for such members, are paid by the Fund and other funds managed by the Manager and its affiliates and allocated in a fair and equitable manner. The Chairman of the IRC receives an annual fee of \$7,500. Each other member receives an annual retainer of \$5,500 and each IRC member is entitled to a \$660 per meeting fee. In addition, the Fund has agreed to indemnify the members of the IRC against certain liabilities.

The IRC will prepare, at least annually, a report of its activities for shareholders which will be available on the Fund's website www.bestfunds.ca or, at a shareholder's request, at no cost, by contacting the Manager at 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3 or at info@bestfunds.ca.

Policies Regarding Business Practices

All employees of the Manager and the Investment Advisor are bound by a Code of Ethics which, among other things, addresses proper business practices and conflicts of interest. There are no formal risk management policies, practices or guidelines, however, the Fund is managed in accordance with its investment guidelines and those guidelines are monitored regularly by appropriate personnel to ensure compliance therewith.

Sponsors

The Sponsors are CLAC, The Society of Energy Professionals and IFPTE Local 164. The responsibilities of the Sponsors include assisting with the ongoing administration of the Fund and the offering of the Class A Shares from time to time. CLAC owns the one issued and outstanding Class B Share and is required under the Applicable Legislation to elect a majority of the Board of Directors.

CLAC is one of Canada's largest independent unions, representing over 50,000 members across Canada. CLAC was founded in 1952 and represents workers in construction, health and social services, retail, transportation, manufacturing, and emergency services. CLAC emphasizes a co-operative, professional, mutual-gains approach to labour relations, and is one of Canada's fastest-growing unions.

The Society of Energy Professionals is a Canadian Labour Congress affiliated trade union representing approximately 8,500 professional and supervisory employees in the energy industry. The Society of Energy Professionals prides itself on conducting relations with employers in a framework of a mature and mutually beneficial partnership, while ensuring the best rewards, career opportunities, and working conditions for its members.

IFPTE Local 164 is a labour union representing approximately 85 engineers, designers and technical employees in Ontario involved mainly in the manufacturing side of the energy sector. IFPTE Local 164 is the local branch of the International Federation of Professional and Technical Engineers, an international labour union representing members in professional, technical, administrative and associated occupations.

The Board of Directors is currently comprised of five directors. CLAC is entitled to elect three of the five directors of the Fund. CLAC will nominate one director and has agreed to nominate and vote its Class B Share in favour of the election, as directors of the Fund, of such number of members or designates of the Manager as requested by the Manager (currently two), provided that such number complies with the constating documents of the Fund. The Sponsor Agreement sets out the rights and duties of the Sponsors. In addition to the right to elect directors specified above, CLAC, as the Class B Shareholder, is entitled to one vote per share at meetings of the shareholders of the Fund, but does not have any right to receive dividends. See "Attributes of the Securities Distributed – Class B Shares".

Under the Sponsor Agreement, Roynat Capital Inc., an affiliate of Roynat Management Inc., the former private equity specialist of the Fund, will be permitted to have a representative attend all meetings of the Board of Directors until such time as all of the Class C Shares held directly by Roynat Capital Inc. have been redeemed or transferred to an arm's length third party.

The Class B Share was acquired by CLAC for a nominal amount. See "Attributes of the Securities Distributed – Class B Shares". While members of the Sponsors may subscribe for Class A Shares, neither the Sponsors nor their members will be required to make any investment in the Fund. Individuals investing in Class A Shares need not be members of or have any connection with the Sponsors.

The Sponsors believe that it is important to encourage investment in Canada's economy and have undertaken the sponsorship of the Fund because they believe the Fund can, through its investments in eligible businesses, strengthen the economy and create or preserve jobs. The Sponsors believe that their objectives in sponsoring the Fund are compatible with the interests of the business community, namely expanding opportunities for economic growth, which should, in turn, assist in employment creation and preservation.

Brokerage Arrangements

The Investment Advisor is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Fund's investments and, when applicable, the negotiation of commissions in connection therewith. The Fund is responsible for paying those commissions.

Custodian

CIBC Mellon Global Securities Services Company (and certain of its affiliates) has been retained by the Fund as Custodian to hold the Investment Portfolio and Reserve Portfolio pursuant to the Custodial Services Agreement between the former manager, B.E.S.T. Capital Management Ltd., and the Fund dated as of December 22, 2003, as amended as of September 13, 2007, and assigned to the Manager as of December 20, 2007 (the "Custodian Agreement"). The address of the Custodian is 320 Bay Street, Toronto, Ontario M5H 4A6.

The Custodian is authorized to appoint sub-custodians, who may be affiliates, provided that arrangements under which a sub-custodian is appointed are such that the Fund may either enforce rights directly or require the Custodian or sub-custodian to enforce rights to the property held by the sub-custodian. The Custodian may also direct a sub-custodian to appoint a sub-sub-custodian. Any sub-custodian or sub-sub-custodian must be an entity permitted to act as a mutual fund custodian pursuant to National Instrument 81-102 – *Mutual Funds*.

The Fund is responsible for payment of the fees of the Custodian which are included in the ongoing expenses of the Fund.

Auditor

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Accountants, PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario M5J 0B2. The auditor has been the auditor of the Fund since its formation.

Registrar and Transfer Agent

Convexus Managed Services Inc. is the Registrar and Transfer Agent for the Class A Shares and keeps share records relating to the Fund in Richmond Hill, Ontario. See "Securityholder Matters – Reporting to Securityholders". A Canadian chartered bank will act as trustee for RRSPs established by investors. See "Purchases of Securities – RRSPs and TFSAs".

CALCULATION OF NET ASSET VALUE

Calculation of Net Asset Value Per Share

The Net Asset Value Per Share will be calculated by the Registrar and Transfer Agent as of the close of business on each Business Day, by subtracting the aggregate amount of the Fund's liabilities (including any accrued performance fees) and the stated capital of the Class B Shares from the aggregate of:

- (a) the value of the assets of the Fund for which a published market exists on the basis of the published valuation as of the relevant date;
- (b) the value of the assets of the Fund for which no published market exists as determined in accordance with the general valuation policies described below; and
- (c) the value of any other assets of the Fund as determined by the Board of Directors,

and dividing such amount by the total number of Class A Shares and Class C Shares outstanding on that date. The Fund will make available the Net Asset Value Per Share to the financial press (including Globefund.com) for publication daily. The Fund will recognize a liability for performance fees for realized gains and a contingent liability for performance fees for unrealized gains that meet the minimum thresholds.

Under applicable Securities Legislation, the Fund is required to provide fair value information regarding its investment portfolio by providing: (i) the individual fair value for each investment in its statement of investment portfolio, or (ii) an independent valuation report that will be filed with the Ontario Securities Commission. It is the Fund's intention to satisfy this requirement by engaging PricewaterhouseCoopers LLP, the Fund's independent auditor, to perform certain procedures on the value of the Fund's venture investment portfolio as at August 31, 2012 as part of its audit and report on the Fund's August 31, 2012 financial statements to ensure fair value is reasonable in all material respects, within the context of the

financial statements taken as a whole. The PricewaterhouseCoopers LLP personnel responsible for performing the procedures are members in good standing with the Canadian Institute of Chartered Business Valuators and have experience in valuing both private and public companies. They have no present or prospective financial interest in the securities of the Fund and the fees to be received by PricewaterhouseCoopers LLP are not contingent on the conclusions reached.

The above described procedures performed by PricewaterhouseCoopers LLP do not constitute an independent valuation (i.e. a comprehensive valuation, estimate of value or calculation of value in accordance with the standards of the Canadian Institute of Chartered Business Valuators) of the Fund, the net assets of the Fund or the individual investments of the Fund, nor do they constitute a “valuation service” as defined in the Canadian Institute of Chartered Accountants’ Independence Requirements. It is the responsibility of the Board of Directors to set appropriate valuation policies, to ensure compliance with applicable legislation, to determine the value of the Fund’s assets, the Net Asset Value of the Fund and the Net Asset Value Per Share. If the Fund is required to retain an independent valuator to prepare the appropriate report, the engagement would likely amount to a significant expense to the Fund.

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

Valuation Policies and Procedures of the Fund

The Board of Directors is responsible for considering the appropriateness of the valuation policies adopted by the Fund as set out below. The Net Asset Value of the Fund, as calculated by the Registrar and Transfer Agent, shall be reviewed by the Board of Directors as of the last day of each financial quarter of the Fund. In addition, the Board of Directors will receive and review quarterly reports from the Investment Advisor providing details of the valuations of the investments made with the proceeds raised by the Fund, including a discussion of significant events affecting the valuation of such investments. National Instrument 81-106 – *Investment Fund Continuous Disclosure* requires funds to calculate their net asset value using the fair market value of their assets and liabilities while their financial statements must be prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Under Canadian GAAP, publicly traded investments are valued at closing bid prices and private investments are valued at fair value (GAAP net assets).

Valuation of Assets for which a Published Market Exists

The Registrar and Transfer Agent will calculate on each Business Day the value of the Fund’s assets for which there exists a published market on the basis of quoted prices in such market. For this purpose, a published market means any market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. The Investment Advisor will notify the Registrar and Transfer Agent of any adjustments in the holdings of the Fund.

Valuation of Assets for which No Published Market Exists

For investments in eligible businesses for which no published market exists, the Registrar and Transfer Agent will calculate at the end of each Business Day the value of those assets pursuant to the general valuation policies described below. In determining the value of assets for which no published market exists, the Audit Committee and the Board of Directors have determined that the Registrar and Transfer Agent will be guided by the principle that such investments are valued at fair value as independently determined by the Investment Advisor. The Investment Advisor will notify the Registrar and Transfer Agent of any adjustments in the holdings of the Fund and of any circumstances that would necessitate an adjustment from a valuation equal to the fair value of the investment.

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

General Valuation Policies

Short-term debt instruments are valued at fair value with accrued interest or discount earned included in interest receivable. Listed securities are valued at the closing bid price reported on that day by the principal securities exchange on which the issue is traded or, if no sale is reported, generally, the average of the bid and ask prices is used. Securities traded over-the-counter are priced at the average of the latest bid and ask prices quoted by a major dealer in such securities. Private placements of listed securities subject to a hold or restricted period are valued as described above with an appropriate

discount as determined by the Investment Advisor. Private companies are valued at fair value as independently determined by the Investment Advisor.

Investments in private companies will be valued in accordance with the following criteria:

- (i) securities and other assets for which market quotations are, in the opinion of the Investment Advisor, inaccurate, unreliable, not reflective of all available material information, or not readily available will be fair valued giving consideration to: (a) a *bona fide* arm's-length transaction which establishes a different value; or (b) a material change in value, where the valuation will be increased or decreased, as appropriate;
- (ii) if there is a substantial arm's length, *bona fide*, enforceable offer with respect to a Portfolio Company, the investment will be valued at the proposed transaction price. Similarly, if there is a valuation prepared by a qualified independent person, such valuation will be given due consideration in assessing the value of an investment;
- (iii) debt instruments, other than short-term liquid debt instruments, will be valued at fair value (with accrued interest or discounts earned included in interest receivable) and giving consideration to whether the instrument is in arrears or whether a write-down or other provision is considered prudent due to the unlikelihood of full realization on the investment. Where there is a decline in carrying value of a debt instrument, the instrument and related accrued interest will be written down; and
- (iv) in the unusual event that the valuation policies and procedures described above are not appropriate to the particular circumstance, the Board of Directors may approve appropriate valuation techniques for that investment.

Reporting of Net Asset Value

The Fund will make available to the financial press, at no cost, the Net Asset Value Per Share on each Business Day.

ATTRIBUTES OF THE SECURITIES DISTRIBUTED

Description of the Securities Distributed

The authorized capital of the Fund consists of an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of Class C Shares. Only Class A Shares are distributed under this prospectus. The following is a summary of the material provisions attaching to each class of shares of the Fund.

Class A Shares

Issue

Class A Shares may be issued only to Eligible Investors. Generally, Eligible Investors are individuals (or trusts which are Qualifying Trusts for individuals).

Transfer

The Fund may register or otherwise recognize a transfer of a Class A Share, in respect of which an Information Return has been issued, by the original purchaser, a Spouse of the original purchaser or by a trust governed by a TFSA, RRSP or RRIF under which the original purchaser or the original purchaser's Spouse is the annuitant, only if the holder of the Class A Share has satisfied all conditions, if any, imposed by the Applicable Legislation, and:

- (a) the transfer is to the original purchaser, his or her Spouse or former Spouse, or to a trust governed by a TFSA, RRSP or RRIF under which the original purchaser or his or her Spouse or former Spouse is the annuitant;
- (b) the Fund has received notice in writing that the Class A Share is being transferred
 - (i) after the death of the original purchaser or as a consequence of the death of the original purchaser or a Spouse of the original purchaser; or

- (ii) at a time when the original purchaser has, after the Class A Share was issued and before the transfer, become disabled and permanently unfit for work or terminally ill; or
- (c) the transfer is otherwise permitted in any other circumstances for the purposes of the Applicable Legislation and approved by the Board of Directors. The Board of Directors passed a resolution on December 19, 2008 that approves all transfers that are permitted for the purposes of Applicable Legislation.

Redemption by Holders

Under the Federal Act, an Individual Eligible Investor may request the Fund to redeem any or all of the Class A Shares without being subject to the withholding tax described below, where:

- (a) the Fund is notified in writing that the shareholder, after acquiring the Class A Shares, has become disabled and permanently unfit for work or terminally ill;
- (b) the shareholder provides the Fund with a written request to redeem Class A Shares within 60 days after the day on which the Class A Shares were issued to the original purchaser and no Information Return was issued to the holder in respect of the Class A Shares;
- (c) the Fund is notified in writing that the shareholder acquired the Class A Shares from another person as a consequence of the death of the other person or the death of the annuitant under a trust governed by a RRSP or RRIF that previously held such Class A Shares;
- (d) the shareholder is a trust governed by a RRSP or RRIF, and after the shareholder acquired the Class A Shares, the annuitant under the RRSP or RRIF has become disabled and permanently unfit for work or terminally ill;
- (e) the redemption occurs more than eight years after the date on which the Class A Shares were issued; or
- (f) in any other circumstances where the redemption is permitted for the purposes of the Applicable Legislation and is approved by the Board of Directors.

The amount generally required to be withheld under the Federal Act (the “Federal Withheld Amount”) is equal to the lesser of: (i) 15% of the issue price of the Class A Share; and (ii) the amount that would otherwise have been payable by the Fund on the redemption.

Under proposed amendments to the Federal Act, no amount is required to be withheld and paid in respect of the Federal Tax Credit if the redemption occurs in February or on March 1 and not more than 31 days before the eighth anniversary of the date of issuance of the Class A Shares redeemed.

Class A Shareholders in respect of which an Information Return has not been issued may request the Fund to redeem the Class A Shares at any time without the Federal Withheld Amount being withheld.

In any financial year, the Fund is not required to, but may at its option, redeem Class A Shares having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding financial year. Requests for redemption will be accepted in the order in which they are received.

If, in any financial year, as a result of the foregoing limitation, the Fund does not redeem Class A Shares that it has been requested to redeem, then, subject to the foregoing limitation, the Fund will redeem such Class A Shares in the following financial year before it redeems any other Class A Shares that it has been requested to redeem and, for such purposes, the requests to redeem such Class A Shares will be deemed to have been received by the Fund on the first day of the following financial year.

Redemptions of Class A Shares will be made at the Net Asset Value Per Share as at the close of business on the day on which the Fund receives the request for redemption if received by the Fund by 4:00 p.m. (Toronto time) on a Business Day. Otherwise, such requests will be priced at the Net Asset Value Per Share for the following Business Day.

The Fund is entitled to suspend the right of Class A Shareholders to redeem Class A Shares and/or delay the date for payment of the redemption amount in respect of any redeemed Class A Share for the whole or any part of any period for which the consent of the applicable securities regulators has been obtained.

Dividends

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

Voting Rights

Class A Shareholders are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only the holders of shares of a different class or series are entitled to vote separately as a class or series, are entitled to one vote per Class A Share held at such meetings.

Fractional Shares

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

Election of Directors

Class A Shareholders are entitled to elect two of the directors of the Fund (currently two of five directors), or such other number that results in the Class B Shareholder electing the majority of directors on the Board of Directors.

Dissolution

On the liquidation, dissolution or winding-up of the Fund, whether voluntary or involuntary, or any other distribution of the assets of the Fund for the purpose of winding up its affairs, the Class A Shareholders and Class C Shareholders will be entitled to receive the property and assets of the Fund attributable to the class remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the holders of all other classes of shares of the Fund.

Class B Shares

Issue

Class B Shares may be issued only to a trade union, as defined in the Canada Labour Code, that represents employees in more than one province. There is one Class B Share issued and outstanding for total consideration of \$10.

Dividends

Class B Shareholders are not entitled to receive dividends.

Voting Rights

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

Election of Directors

Class B Shareholders are entitled to nominate and elect the number of directors of the Fund (currently three of five directors) representing the total number of directors less the number of directors that the Class A Shareholders are entitled to elect. CLAC has, pursuant to the Sponsor Agreement, agreed to nominate and vote its Class B Share in favour of the election, as directors of the Fund, of one person to be nominated by the Sponsors and such number of members or designates of the Manager as requested by the Manager, which is currently two members or designates.

Dissolution

On liquidation, dissolution or winding-up of the Fund, the Class B Shareholders are entitled to receive the amount of the consideration received by the Fund for such shares before any assets are distributed to the Class A Shareholders and Class C Shareholders but after payment of all liabilities of the Fund.

Class C Shares

Roynat Capital Inc., an affiliate of Roynat Management Inc., the former private equity specialist of the Fund, invested \$5 million in the Fund, through the purchase of 500,000 Class C Shares at an issue price of \$10 per share. 20,501 Class C Shares were subsequently transferred to B.E.S.T. Capital Management Ltd. upon the acceptance by the Board of Directors of a marketing plan for the sale of Class A Shares, and, subsequent to redemptions, 16,139 Class C Shares are currently held by John M.A. Richardson. The proceeds of this investment were intended to provide the Fund with the ability to take advantage of investment opportunities in eligible businesses that arose during the Fund's first year of operations, thereby providing the Fund with the benefits of having investments earning returns for the Fund and enabling the Fund to begin to satisfy its pacing requirements, both at an early stage in the life of the Fund. The number of Class C Shares permitted to be redeemed will be determined in accordance with a formula that takes into account and protects the Fund's ability to meet its liquidity and pacing requirements. Redemptions of Class C Shares may occur on or shortly after March 1 in each year until the Class C Shares are fully redeemed. Redemptions, if any, shall occur at the Net Asset Value Per Share. During the fiscal year ended August 31, 2012, a total of 3,476 Class C Shares were redeemed at the price of \$10.60 per share (rounded to the nearest cent), for an aggregate redemption amount of \$36,829.

Issue

Class C Shares may be issued only to Roynat Management Inc. and its affiliates.

Transfer

A Class C Shareholder is restricted from transferring its Class C Shares unless it has obtained the approval of the Board of Directors, and such transfer is subject to the resale restrictions under applicable securities legislation.

Redemption by Holders

A Class C Shareholder may request the Fund, in writing, to redeem any or all of its Class C Shares on March 2 of each year, or on the next following Business Day, if March 2 is not a Business Day in the year (each such day a "redemption date"), at a redemption price equal to the Net Asset Value Per Share, provided that the maximum number of Class C Shares that the Fund shall be required to redeem on the redemption date in any year shall be equal to the "Available Amount" for that year divided by the Net Asset Value Per Share.

The "Available Amount" in respect of the redemption date in any year shall be calculated as follows:

- (a) in respect of the provinces of Ontario, Nova Scotia and New Brunswick, the sum of the amounts (calculated on a province by province basis) which is equal to the lesser of:
 - (i) 70% of the amount raised in each such province, respectively, from the sale of Class A Shares to and including March 1, 2004 in respect of the March 2, 2004 redemption date, or 70% of the amount raised in each such province, respectively, during the period from and including March 2 in the previous year to and including March 1 in the year, in respect of each redemption date thereafter, and
 - (ii) the aggregate purchase price of each of the eligible investments made in each such province, respectively; and
- (b) in respect of the other provinces in which a prospectus qualifying the Class A Shares for distribution or distribution to the public shall have been filed, an amount equal to the lesser of:
 - (i) 70% of the amounts raised in such provinces, collectively, from the sale of Class A Shares to and including March 1, 2004 in respect of the March 2, 2004 redemption date, or 70% of the amounts raised in such provinces, collectively, during the period from and including March 2 in the previous year to and including March 1 in the year, in respect of each redemption date thereafter, and
 - (ii) the aggregate purchase price of each of the eligible investments made in all such provinces.

The Fund is entitled to suspend the right of Class C Shareholders to redeem Class C Shares and/or delay the date for payment of the redemption amount in respect of any redeemed Class C Share for the whole or any part of any period during which the Board of Directors has determined that such suspension and/or delay is necessary in order to ensure that the Fund may

maintain its pacing requirements or satisfy its obligations, or for a period in respect of which the consent of the applicable securities regulators has been obtained.

Dividends

Class C Shareholders are entitled to receive dividends at the discretion of the Board of Directors. The Fund shall not declare a dividend on the Class C Shares unless a dividend in an equal amount per share is declared on the Class A Shares.

Voting Rights

Except as otherwise required by law, Class C Shareholders are not entitled to any votes in respect of holdings of Class C Shares.

Fractional Shares

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

Election of Directors

Class C Shareholders are not entitled to vote for the election of the Board of Directors.

Dissolution

On the liquidation, dissolution or winding up of the Fund, whether voluntary or involuntary, or any other distribution of the assets of the Fund for the purpose of winding up its affairs, the Class C Shareholders will be entitled to receive the property and assets of the Fund attributable to the class remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the Class B Shareholders, on a parity with the Class A Shareholders.

SECURITYHOLDER MATTERS

Meetings of Securityholders

The Board of Directors must call a general meeting of shareholders every year. A special meeting of shareholders may be called by the Board of Directors at any time. Not less than 21 days' and not more than 60 days' notice will be given for any meeting of the Fund's shareholders. The quorum for any shareholder meeting is two persons present, each being a shareholder entitled to vote thereat or a duly appointed proxyholder or representative for a shareholder so entitled. If a quorum is not present for a meeting of shareholders within 30 minutes after the time fixed for holding the meeting, the meeting will be adjourned for a period of not less than 10 days and not more than 21 days, at which point the shareholders present in person or represented by proxy shall constitute a quorum. Voting at a meeting of shareholders is generally conducted by a show of hands of shareholders and proxyholders present at the meeting and entitled to vote thereat unless a ballot is demanded or required.

Matters Requiring Securityholder Approval

Certain changes affecting the Fund may only be implemented with the approval of the shareholders of the Fund. A meeting of the shareholders or, if required by law, a meeting of each class of shareholders shall be convened to consider and approve, subject to the ongoing compliance by the Fund with the provisions of the Applicable Legislation, any of the following matters which the Fund may propose to change in the future:

- (a) subject to certain exemptions available under rules applicable to mutual funds, a change in any contract or the entering into of any new contract as a result of which the basis of the calculation of the fees or of other expenses that are charged to the Fund could result in an increase in charges to the Fund;
- (b) a termination of the Manager in certain circumstances in accordance with the terms of the Management Agreement;
- (c) the Fund to discontinue offering its shares to the public in accordance with the terms of the Management Agreement;
- (d) any change in the investment objectives of the Fund;

- (e) any decrease in the frequency of calculating the Net Asset Value Per Share of the Class A Shares; or
- (f) subject to certain exemptions available under rules applicable to mutual funds, the commencement of the use by the Fund of permitted derivatives; or any other matter which is required by the constating documents of the Fund or by the laws applicable to the Fund or by any agreement to be submitted to a vote of the shareholders.

Unless a greater majority is required by the laws or any agreement applicable to the Fund, the approval of the shareholders shall be deemed to be given if expressed by a resolution passed by at least a majority of the votes cast at a meeting of shareholders or each class of shareholders, as the case may be, called to consider such resolution.

Shareholder approval will not be obtained before making changes of the type contemplated in paragraph (a) above where the Fund contracts at arm's length with parties other than the Manager for all or part of the services it requires to carry on its operations. However, shareholders will be given at least 60 days notice before the effective date of any such change.

The auditor of the Fund may be changed without prior approval of shareholders of the Fund, provided the IRC approves the change and the shareholders are sent written notice at least 60 days before the effective date of the change.

Reporting to Securityholders

Purchasers of Class A Shares will receive a trade confirmation for each purchase. Shareholders will receive annually a comprehensive statement showing the number and current value of their Class A Shares. Under an administrative services agreement, dated as of September 1, 2007 and assigned to B.E.S.T. Investment Counsel Limited as of December 20, 2007 as may be amended or extended from time to time (the "Administrative Services Agreement"), the Registrar and Transfer Agent has agreed to provide certain registrar, transfer agency, fund accounting, shareholder reporting, customer support and shareholder administration services from its principal place of business in Richmond Hill, Ontario. In addition to providing the registrar, transfer agency and other shareholder administration services for the Fund, the Registrar and Transfer Agent performs similar services for other clients including other labour sponsored investment funds. The Registrar and Transfer Agent will also perform certain valuation services for the Fund. Under the Administrative Services Agreement, the Registrar and Transfer Agent is entitled to a fee for its services in such amounts as may from time to time be agreed upon in writing by the Manager and the Registrar and Transfer Agent, together with all reasonable expenses paid or incurred by the Registrar and Transfer Agent.

Audited annual and unaudited interim financial statements, annual and interim management reports of fund performance and an annual report of the Fund will be sent to all shareholders if required by applicable law. The financial statements will be prepared in accordance with Canadian GAAP. The auditor of the Fund will report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted auditing standards.

TERMINATION OF THE FUND

Under the *Canada Business Corporations Act*, the Fund may be dissolved by special resolution of the shareholders. See "Attributes of the Securities Distributed" for information about shareholder entitlements on a dissolution.

PLAN OF DISTRIBUTION

The Fund will make arrangements with brokers and dealers that are authorized and licensed to trade in the securities of LSIF Corporations to offer its Class A Shares for sale to the public. The Fund will pay to the broker or dealer originating the sale a sales commission equal to 6% of the selling price for each Class A Share subscribed for pursuant to subscriptions procured by them and accepted by the Fund. This sales commission shall apply to all sales procured by brokers or dealers pursuant to payroll deduction or other periodic purchase plan sales initiated by them. Commissions on the sale of the Class A Shares will be charged to share capital as a share issue cost as they occur.

The continuous offering of Class A Shares may be discontinued as directed by the Board of Directors provided: (a) prior consent of the Manager is obtained, such consent not to be unreasonably withheld; and (b) a resolution is passed by at least 75% of the votes cast at a meeting of Class A Shareholders called to consider such issue.

PRINCIPAL HOLDERS OF SECURITIES OF THE FUND

The Fund

As of December 1, 2012, no person or company owned of record or beneficially, directly or indirectly, more than 10 per cent of the Class A Shares of the Fund.

One Class B Share is held by CLAC, representing 100% of the outstanding Class B Shares.

348,242 Class C Shares (95.57%) are owned of record by Roynat Capital Inc. 16,139 Class C Shares (4.43%) are owned of record by John M.A. Richardson, the Chief Executive Officer of the Fund. Other than the foregoing, the directors and senior officers of the Fund, as a group, do not own any other securities of the Fund, either directly or indirectly.

The Manager

The Manager is a wholly owned subsidiary of 1209762 Ontario Inc. 1209762 Ontario Inc. owns directly and of record all of the 100,000,000 issued and outstanding voting common shares of the Manager. Mr. John M. A. Richardson, an officer of the Fund, and a director and officer of the Manager, controls 1209762 Ontario Inc. and is a director and officer of 1209762 Ontario Inc. All of the 100 issued and outstanding voting common shares of 1209762 Ontario Inc. are owned directly and of record by The John M.A. Richardson Family Trust and all of the 2,280 issued and outstanding voting preferred shares of 1209762 Ontario Inc. are owned directly and of record by Mr. Richardson. As a result, Mr. Richardson indirectly controls the Manager.

The members of the IRC do not beneficially own, directly or indirectly, securities of the Fund, the Manager, or any service provider to the Fund or the Manager.

Affiliated Entities

John M.A. Richardson, the Chief Executive Officer of the Fund, is a director and officer of the Manager. Thomas W.R. Lunan is an officer of the Fund and is an officer of the Manager.

B.E.S.T. Capital Administration Inc., an affiliated entity of the Manager, provides staffing and overhead services to the Manager for which it is billed on a monthly basis. The Fund pays B.E.S.T. Capital Administration Inc. for certain rent and storage costs. Mr. John M.A. Richardson owns directly and of record all the issued and outstanding voting common shares of B.E.S.T. Capital Administration Inc. and is the President, sole director and corporate secretary of B.E.S.T. Capital Administration Inc. Disclosure of the amount of fees received from the Fund by B.E.S.T. Capital Administration Inc. is contained in the audited financial statements of the Fund.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Excluding their involvement in the material contracts disclosed herein, none of the Manager, the directors or executive officers of the Fund or the Manager or any person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of any class of voting securities of the Manager or the Fund and no person or company associated or affiliated with any of the foregoing persons has had any material interest, direct or indirect, in any transaction which occurred during the last three years prior to the date hereof or is anticipated to occur which materially affected or is reasonably expected to materially affect the Fund. The Manager is entitled to the management fee and Performance Bonus described herein, and the Investment Advisor is entitled to the investment advisory fee and Performance Bonus described herein. John M.A. Richardson, the Chief Executive Officer of the Fund, is a director and officer of each of the Manager, the Investment Advisor and Absolute Private Counsel Limited and the President, corporate secretary and sole director of B.E.S.T. Capital Administration Inc. Mr. Richardson indirectly controls the Manager, the Investment Advisor and Absolute Private Counsel Limited and directly owns all of the issued and outstanding shares of B.E.S.T. Capital Administration Inc., an affiliated entity of the Manager which provides services to the Manager. Mr. Richardson was a director of the Registrar and Transfer Agent until November 3, 2010. Thomas W.R. Lunan is an officer of the Manager and of the Fund. See "Material Contracts" and "Organization and Management Details of the Fund – Conflicts of Interest".

PROXY VOTING DISCLOSURE

The Fund has adopted a policy that provides general guidance as to how the Fund will vote as a securityholder of its portfolio companies. The Board of Directors has delegated day-to-day oversight of proxy voting to the Manager. The Manager

performs the following functions: (1) managing proxy voting vendors; (2) reconciling share positions; (3) analyzing proxy proposals using factors described in the guidelines; (4) determining and addressing potential or actual conflicts of interest that may be presented by a particular proxy; and (5) voting proxies. There may be circumstances where the Manager votes differently than anticipated by the guidelines, since every vote is considered on a case-by-case basis. In every case, the Manager will vote in a manner that is consistent with the best interests of the Fund. There may be circumstances when the Manager will refer proxy issues to the Board of Directors for consideration. In addition, the Board of Directors has the authority to vote proxies at any time, when, in the Board of Directors' discretion, such action is warranted.

The Fund's investments consist primarily of debt and equity investments in small, privately-held companies. It is unusual for those companies to solicit proxies. Rather, shareholders actions are usually undertaken by written resolutions of all shareholders or, in limited cases, voting at a meeting of shareholders. Accordingly, the Fund's policy extends not only to proxies, but also applies to written resolutions and voting by representatives of the Fund in person at meetings of shareholders.

In making its investments, the Manager works with each Portfolio Company, and the Portfolio Company's founders and other securityholders, to determine an appropriate structure with respect to capitalization, board structure, incentive stock option arrangements, management compensation and other matters. Such matters are generally dealt with in shareholder agreements and other agreements entered into at the time of an investment. Accordingly, any matter that is dealt with by such an agreement will be voted on by the Manager in compliance with the Fund's obligations under the agreement.

On routine matters that pertain to the operations and business of a Portfolio Company that are not governed by an agreement, the Manager will generally vote with the management of the Portfolio Company. The Manager will deviate from this policy if there are significant investment implications of any issue on which the Fund is asked to vote. On non-routine matters that are not governed by an agreement, the Manager will vote on a case-by-case basis. The Manager will vote for matters that are aligned with the best interests of the Fund and will withhold its vote on, or vote against, any matter that the Manager believes is not in the best interests of the Fund. The Manager makes its determination based on a review of the performance of the Portfolio Company's management, its business objectives, its future prospects and the impact of the vote on the value of the securities of the Portfolio Company held by the Fund.

The Manager shall authorize proxy votes that the Manager determines, in its sole discretion, to be in the best interests of the Fund. In determining how to apply the guidelines to a particular factual situation, the Manager may not take into account any interest that would conflict with the interest of the Fund in maximizing the value of shareholder investments in the Fund. From time to time, apparent conflicts of interest may arise with respect to the exercise of voting rights of the Fund such as situations where employees and officers of the Manager serve as directors of such a Portfolio Company. In the event that the Manager has a conflict of interest regarding a proxy vote, the Manager must inform the Board of Directors of the conflict, not participate in the proxy voting decision or process and refer the matter to the IRC.

The Fund will prepare a proxy voting record on an annual basis for the period ending on June 30 of such year. The Fund will promptly send the most recent copy of its proxy voting record, without charge, to any shareholder upon a request made by the shareholder after August 31 in a given year by calling toll-free 1-800-795-2378 or by writing to the Manager at 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3 and is available at www.bestfunds.ca. The policies and procedures that the Fund follows when voting proxies relating to portfolio securities are available on request, at no cost, by calling toll-free 1-800-795-2378 or by writing to the Manager at 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3.

MATERIAL CONTRACTS

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

- (a) the articles of incorporation dated October 31, 2003 as amended November 30, 2004 and December 20, 2005 referred to under "Overview of the Legal Structure of the Fund";
- (b) the Sponsor Agreement referred to under "Organization and Management Details of the Fund – Sponsors";
- (c) the Administrative Services Agreement referred to under "Securityholder Matters – Reporting to Securityholders";
- (d) the Management Agreement referred to under "Organization and Management Details of the Fund – Manager of the Fund – Details of the Management Agreement";

- (e) the Investment Advisor Agreement referred to under “Organization and Management Details of the Fund – Investment Advisor – Details of the Investment Advisor Agreement”; and
- (f) the Custodian Agreement referred to under “Organization and Management Details of the Fund – Custodian”.

Copies of the foregoing contracts may be inspected during regular business hours at the principal place of business of the Fund in Toronto during the course of the distribution of Class A Shares.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

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

Penalties and Sanctions

Except as described below, within the last 10 years of the date hereof, neither the Manager, or any director or executive officer of the Fund or the Manager has been: (i) subject to any penalties or sanctions imposed by a court or a securities regulatory authority relating to Canadian securities legislation, promotion or management of an investment fund, theft or fraud or entered into a settlement agreement before a court or with a regulatory body in relation to any of these matters; or (ii) subject to any other penalties or sanctions imposed by a court or regulatory body or entered into any other settlement agreement before a court or with a regulatory body that would likely be considered important to a reasonable investor in determining whether to purchase securities of the Fund. Mr. David Copeland is a director of Nuvo Research Inc., which entered into a settlement agreement with the Ontario Securities Commission in 2007. The grounds upon which the settlement agreement was entered into were a result of actions of the former management of Nuvo Research Inc. which occurred prior to the time when Mr. Copeland became a director of Nuvo Research Inc.

EXPERTS

Certain legal matters in connection with this offering have been passed upon on behalf of the Fund and the Manager by McMillan LLP. PricewaterhouseCoopers LLP is the Fund’s auditor and such firm has prepared an opinion with respect to the Fund’s financial statements for the financial year ended August 31, 2012. As of the date hereof, the partners and associates of McMillan LLP as a group, beneficially hold, directly or indirectly, less than one percent of the securities of the Fund.

EXEMPTIONS AND APPROVALS

Pursuant to National Instrument 81-102 – *Mutual Funds*, the Fund has obtained exemptive relief permitting the payment of the Performance Bonus as described in this prospectus. See “Fees and Expenses Payable Directly by the Fund – Performance Bonus”.

Pursuant to National Instrument 81-105 – *Mutual Fund Sales Practices*, the Fund has obtained exemptive relief permitting the Fund to pay a sales commission to the registered dealers selling the Class A Shares, pay a quarterly servicing commission to registered dealers and reimburse co-operating marketing expenses incurred by certain dealers in promoting the sales of Class A Shares.

Pursuant to National Instrument 81-106 – *Investment Fund Continuous Disclosure*, the Fund has obtained exemptive relief from the Nova Scotia Securities Commission exempting the Fund from the requirement to prepare and file an annual information form for the Class A Shares in the province of Nova Scotia.

PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase mutual fund securities within two business days after receipt or deemed receipt of a prospectus and any amendment or within forty-eight hours after the receipt of a confirmation of a purchase of such securities. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser. Such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of the province in which the purchaser resided. The purchaser should refer to the applicable provisions of the securities legislation of the province for particulars of these rights or should consult with a legal advisor.

DOCUMENTS INCORPORATED BY REFERENCE

Additional information about the Fund is available in the following documents:

- the most recently filed comparative annual financial statements of the Fund, together with the accompanying independent auditor's report;
- any interim financial statements of the Fund filed after those annual financial statements;
- the most recently filed annual management report of fund performance of the Fund; and
- any interim management report of fund performance of the Fund filed after that annual management report of fund performance.

Any of the above documents, if filed by the Fund after the date of this prospectus and prior to the termination of the distribution, are deemed to be incorporated by reference into this prospectus.

These documents are incorporated by reference into this prospectus, which means that they legally form part of this document just as if they were printed as part of this document. Investors can get a copy of these documents, at their request and at no cost, by calling toll-free 1-800-795-2378 or from their dealer.

These documents are available on the Fund's Internet site at www.bestfunds.ca, or by contacting the Fund at info@bestfunds.ca.

These documents and other information about the Fund are available on the Internet at www.sedar.com.

AUDITOR'S CONSENT

We have read the prospectus of B.E.S.T. Total Return Fund Inc. (the Fund) dated December 19, 2012 relating to the issue and sale of Class A Shares of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of our report to the shareholders of the Fund on the statement of investment portfolio as at August 31, 2012, the statements of net assets as at August 31, 2012 and 2011, and the statements of operations, cash flows and changes in net assets for the years then ended. Our report is dated November 16, 2012.

(SIGNED) PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
December 19, 2012

FUND'S CERTIFICATE

Dated: December 19, 2012

This prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

(SIGNED) JOHN MICHAEL ANTHONY RICHARDSON
Chief Executive Officer

(SIGNED) THOMAS WILLIAM ROBERT LUNAN
Chief Financial Officer

On behalf of the Board of Directors of B.E.S.T. Total Return Fund Inc.

(SIGNED) JOCELYNE MARGUERITE MARIE CÔTÉ-O'HARA
Director

(SIGNED) DAVID ALEXANDER COPELAND
Director

MANAGER'S CERTIFICATE

Dated: December 19, 2012

This prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

B.E.S.T. Investment Counsel Limited, as Manager of the Fund

(SIGNED) JOHN MICHAEL ANTHONY RICHARDSON
President
(signing in the capacity of Chief Executive Officer)

(SIGNED) THOMAS WILLIAM ROBERT LUNAN
Vice-President
(signing in the capacity of Chief Financial Officer)

On behalf of the Board of Directors of the Manager of the Fund

(SIGNED) RICHARD ALEXANDER BROWN
Director

(SIGNED) DAVID RODNEY KENNETH BERNARD
Director