Diane Urquhart

Subject: Income Trusts One Year Later

[FirstName] [LastName]
[CompanyName]

National Pensioners & Senior Citizens Federation, United Senior Citizens of Ontario and Small Investors Protection Association Support the Phase-Out of Income Trusts

The new income trust tax was not a surprise or a Halloween bombshell for all seniors. On October 18, 2006, the National Pensioners & Senior Citizens Federation, with 1,000,000 members in 450 component clubs and chapters, asked the Federal Parliament to put a moratorium on new income trusts in order to protect the tax revenue base to fund universal health care and social security programs and due to the product being unsuitable for the targeted seniors and that it was marketed to them on the basis of deceptive cash yields that were not sustainable. This request was made at the October 18, 2006 Ottawa media conference summarized in "NPSCF Press Release on Investor Protection.pdf." The NPSCF expressed support for the Tax Fairness Plan introduced by Federal Finance Minister James Flaherty and supported by NDP Finance Critic Judy Wasylycia-Leis and Bloq Finance Critic Pierre Paquette (the opposition critics are now changed) in its media release dated November 1, 2006, "NPSCF Press Release James Flaherty Announcement.pdf." Art Field, NPSCF President, reiterated NPSCF's supporting position for the Tax Fairness Plan affecting income trusts in his testimony before the House of Commons Finance Committee on February 1, 2007.

The United Senior Citizens of Ontario (USCO), with 300,000 Ontario seniors in over 1000 local chapters throughout Ontario, on August 28, 2007 voted no to a resolution that called for the new 2011 income trust tax to be rescinded, brought to its 2007 Annual Convention by its Brampton chapter. So, this is further evidence that the USCO members supported the new income trusts tax, that the investment industry calls the Halloween bombshell.

A Progress Report on the Associations' Call for a Criminal Investigation

On about April 26, 2007, the NPSCF, the United Senior Citizens of Ontario (USCO) and the Small Investors Association of Canada (SIPA) wrote letters and conducted another Ottawa media conference asking the RCMP and the OPP to conduct criminal investigations on the deceptive yields in the marketing material for income trusts, which violate S. 380 of the Criminal Code. The RCMP is treating the deceptive cash yields in the marketing materials for income trusts seriously as noted in its letter sent to Art Field of the NPSCF on July 31, 2007 signed by RCMP Chief Superintendent Denis Constant, Director General Financial Crimes. Meetings and communications are occurring between independent experts and RCMP investigators on the matter.

CAITI and CARP - 50Plus Association Are In a Conflict of Interest with Income Trusts Issuers and Vendors

CAITI, Canadian Association of Income Trust Investors and analysts working for the investment banks, Canaccord, BMO Nesbitt Burns and RBC Dominion are lobbying against the new income trusts tax, contrary to the views of a large body of independent financial and economic experts that gave testimony before the House of Commons Finance Committee. The independent experts not supporting continuation of a tax incentive for income trusts included: the Governor of the Bank of Canada, the Federal Department of Finance and ten Provincial Finance Departments, the C.D. Howe Institute, Dr. Al Rosen and his independent research firm Accountability Research Corporation, Andrew Teasdale of Tamris Consulting, Rotman School of Business Professor Ramy Elitzur, Standard and Poors Canada rating of energy trusts as highly speculative, St. Louis based Edward Jones Research Director Kate Warne rating of most income trusts as dangerous, Leith Wheeler Investment Counsel, Ross Healey of Strategic Analysis Corporation and myself.

CAITI is primarily funded by the Canadian Coalition of Energy Trusts and the trust investment management industry and, as such, is an "astroturf" lobbying group, rather than a grassroots advocacy organization. NPSCF and USCO are grassroots advocacy organizations with duly elected executives and year long parliamentary procedures for submitting and then approving their resolutions. NPSCF and USCO act in the true interests of seniors, who should not be exposed to investment products that do not have accounting standards, are sold on deceptive marketing materials, have limited unitholder rights within trust acts, do not have sufficient odds for investment success, and provide unjust enrichment to the business owners selling them and to their investment banks and legal advisors. The NPSCF and USCO are non-profit associations, where any commercial suppliers of pricing discounts or other benefits to their members do not pay royalties to the association executives directly or to any for profit affiliates these executives may own.

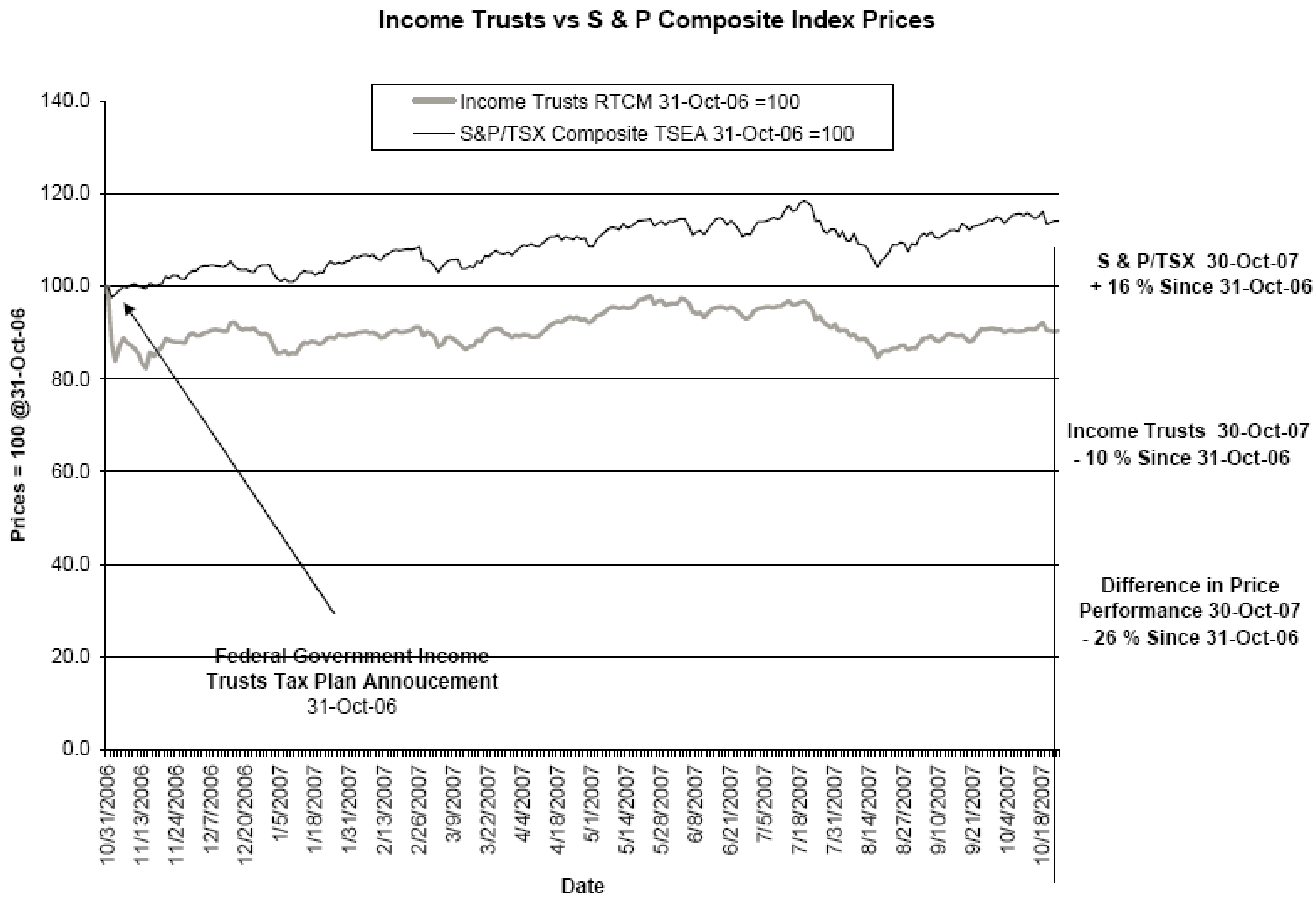
As you know, not all seniors associations supported the new tax on income trusts. The CARP - 50Plus Association, attended the same House of Commons Finance Committee hearing in support of the plan on January 30, 2007 and appeared again before the Senate Banking Trade and Commerce Committee in June 2007 to plea for reversal of the new income trusts tax in collaboration with the Canadian Coalition of Energy Trusts. The CARP - 50Plus Association is another "astroturf" lobbying group and not grassroots, where royalties and advertising revenues associated with CARP -50Plus Association member activities are paid to affiliated for profit businesses. These commercial conflicts of interest significantly influence the CARP - 50Plus Association's stance on government policy, such as its support for the reinvigoration of the income trust market, despite the roster of independent experts who found considerable flaws with the product.

For profit affiliate, Megadak Enterprises Inc., owned by the Morgenthau family, acts as the marketing agency for CARP - 50 Plus Association members and develops a wide range of member benefits and savings. Megadak receives royalties from the suppliers of benefits and savings to the CARP- 50Plus Association members, including royalties from the Independent Planning Counsel and Royal Lepage Real Estate Services, which in aggregate total hundreds of thousands to millions of dollars. The amount of supplier royalties is not publicly disclosed, although a portion of them is paid to the non-profit CARP - 50Plus Association to fund its activities, including government policy advocacy.

CARP - 50Plus Association is also affiliated with for profit Fifty-Plus.Net International Inc., a TSX Venture Exchange traded public company. On August 30, 2007, Fifty-Plus.Net International (FPN) was restructured and a new controlling shareowner became involved. FPN now consolidates under one roof all of the print and electronic media operations associated with CARP - 50Plus Association and published on its behalf. These are complemented by FPN's other publishing assets, including www.50plus.com and five electronic newsletters. Before this FPN restructuring, the Morgenthau family owned 35% of FiftyPlus.Net International Inc. and 33% of Kemur Publishing Company Ltd. Kemur Publishing Company Ltd. published the current magazine for CARP - 50Plus Association members. The two Morgenthau family interests were combined into the expanded FPN, leaving the Morgenthau family with a 13% interest in the larger company. The new controlling shareholder is Olympus Management Limited, owned by Moses Znaimer, controlling 76.8%. Mr. Znaimer's other interests outside of FPN are Classical 96.3 FM and 101.3 FM radio, MZTV, Citytv, MuchMusic, Bravo!, Space, Canadian Learning Television as well as many other local stations and national specialty TV channels in Canada and around the world.

IncomeTrusts Have Performed As Expected Over the Past Year

The Canadian income trusts RTCM index has declined -10% and has been underperforming relative to the S&P/TSX Composite Index by
- 26% since the October 31, 2006 announcement of the new tax on income trusts. I say the new income trusts tax caused -10% of this underperformance. The extra -16% relative underperformance is due to the air coming out of the over-inflated balloon, caused by two thirds of income trusts paying cash distributions that exceeded income, which was an unsustainable situation. My independent research report called, "Income Trusts: Heads I Win, Tails You Lose," released on October 18, 2006, concluded that income trusts were overvalued compared to public corporations and that income trusts could decline between -25% to -33%. The actual relative underperformance of -26% is at the bottom of the predicted range for expected future performance in my October 2006 report.



<u>Income Trusts Are Not Suitable Investments for Most Seniors and Distribution Cuts Have Caused Billions of Capital Losses</u>

These income trusts were relying upon new debt and new equity issuances to pay for their excess distributions, making them high risk investments not suitable for most seniors. Now that the new issue market is not available for most business income trusts, excess distributions are inevitably being cut, especially where there are hiccups in the underlying business. Standard and Poors Canada on September 24, 2007 described the energy trusts as speculative investments, as well. Speculative investments, such as energy trusts and most business income trusts are unsuitable for seniors whose investment objectives are income and preservation of capital.

Income Trusts' Distribution Cuts & Suspensions

	30-Oct-07 Number	Distribution Suspensions	Distribution Cuts	Combined	%
Energy Trusts	48	1	6	7	15%
Energy Services Trusts	19	2	7	9	47%
Utilities Trusts	21	1	2	3	14%
Other Business Trusts,	156	17	32	49	31%
Total Business Trusts	196	20	41	61	31%
All Energy and Business Trusts	244	21	47	68	28%

The unsustainability of the cash distributions exceeding income for close to one third of the income trusts market has caused considerable capital losses. There are 65 business income trusts or 32% of all the business income trusts that have had equity offerings since January 1, 2001 that now have more than a -20% capital loss since their IPO or last secondary offering.

The average loss in this group is -51% for total capital losses of $11,673 million. The entire business income trust market is in a deficit position or market capitalization capital loss for all the business income trusts since their latest equity offerings.

Business Income Trust Offerings Between January 1, 2001 and December 31, 2006
Performance As of October 30, 2007 **IPOs**

October 30, 2007	All Offerings All	In Capital Loss	In Capital Loss > -20%
# Trusts	174	101	65
# Offerings	289	147	93
Offerings $ Millions	$35,749	$16,968	$10,226
% of All Offerings	100%	51%	32%
Offerings Gain (Loss) Average %	5%	-35%	-51%
Offerings Gain (Loss) $ Millions	$1,638	-$5,882	-$5,219
Market Cap Gain (Loss) * $ Mil	-$333	-$13,642	-$11,673
Investment Banking Fees $ Mil	$1,892	$912	$559
Other Offering Expenses $ Mil	$622	$314	$189
Total Offering Fees $ Mil	$2,514	$1,227	$748

* Market Cap Gain/Loss
= Estimate based on % gain/loss relative to last offering price in period X current market cap.

<u>Need Action on Foreign and Pension Fund Acquirers Paying Business Income Taxes Just Like Individuals Will in 2011</u>

CAITI and the Canadian Coalition of Energy Trusts are saying I told you so about there being acquisitions of income trusts by foreigners and pension funds. Indeed, the new income trust tax was intended to have the impact of the income trust business model being phased out after 2011. The phase out occurs by acquisitions, going private transactions or conversions back to corporations. So, there is no unintended consequence from the new income trust tax here. There is, however, an important remaining action that needs to be announced by Federal Finance Minister James Flaherty and that is his intent to collect business income taxes from the underlying energy and other businesses in the income trusts that are acquired by foreigners and pension funds. It is grossly unfair for the foreign and pension fund acquirers of income trusts to receive more favourable tax treatment than individual Canadians owning these income trusts. The new income trust tax (or an equivalent business income tax collected at the business level of acquired income trusts) is a fair tax between income trusts and corporations and between personal and corporation taxpayers.

Income Trusts' Acquisitions

30-Oct-07	Number	Acquisitions	%
Energy Trusts	48	4	8%
Business Trusts, Excluding Utilities & Energy Service	156	32	21%
Utilities Trusts	21	5	24%
Energy Services Trusts	19	0	0%
Total Business Trusts	196	37	19%
All Energy and Business Trusts	244	41	17%

Diane Urquhart
Independent Analyst
Mississauga, Ontario
Telephone: (905) 822-7618
Cell: (416) 505-4832
E-mail: urquhart@rogers.com