

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States or to U.S. persons except in compliance with the registration requirements of the United States Securities Act of 1933, as amended, and applicable state securities laws, or under exemptions from those laws. See "Plan of Distribution".

PROSPECTUS

Initial Public Offering

January 28, 2005



SPINRITE INCOME FUND

\$202,912,000

20,291,200 Units

This offering is an initial public offering (the "Offering") of 20,291,200 units (the "Units") of Spinrite Income Fund (the "Fund"). The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario to indirectly acquire 80% of the securities of Spinrite Limited Partnership ("Spinrite") from its existing securityholders (the "Existing Securityholders"), each of whom will continue to indirectly hold an interest through the ownership of subordinated limited partnership units of Spinrite Holding LP (the "Subordinated Holding LP Units") representing a 20% interest in Spinrite, on a fully-diluted basis. Spinrite operates a craft yarn manufacturing and marketing business in North America. See "Reorganization and Acquisition" and "Use of Proceeds".

The Toronto Stock Exchange has conditionally approved the listing of the Units under the symbol "SNF.UN". Listing is subject to the Fund fulfilling all of the requirements of the Toronto Stock Exchange (the "TSX") on or before April 22, 2005, including the distribution of the Units to a minimum number of public unitholders.

A return on your investment in the Fund is not comparable to the return on an investment in a fixed income security. The recovery of your initial investment is at risk, and the anticipated return on your investment is based on many performance assumptions. Although the Fund intends to make distributions of its available cash to you, these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors including: dependence on Spinrite, financial and operating performance, debt covenants and obligations, future working capital requirements, leverage and restrictive covenants, potential dilution, enforcement of indemnities against certain of the Existing Securityholders, restrictions on potential growth and liquidity rights associated with the Subordinated Holding LP Units. In addition, the market value of the Units may decline if the Fund is unable to meet its cash distribution targets, and that decline may be significant. It is important for you to consider the particular risk factors that may affect the industry in which you are investing and therefore the stability of the distributions that you receive. Such risk factors include, recent sales and profit increases may be tied to cyclical trends, ability to maintain and manage growth, competition, dependence on key customers, lack of written customer and supplier agreements, inventory management, raw material price volatility and the risks described in the section "Risk Factors". This section also describes the Fund's assessment of these risk factors, as well as the potential consequences to you if a risk should occur.

The after-tax return from an investment in Units to unitholders subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the Fund (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). That composition for tax purposes of those distributions may change over time, thus affecting your after-tax return. Management estimates that the portion of distributions in 2005 that will be taxed as a return of capital is approximately 24% and that the portion that will be taxed as a return on capital is approximately 76%. Returns of capital are generally not immediately taxable to a unitholder, but reduce the unitholder's adjusted cost base of the Unit for tax purposes. Returns on capital are generally taxed as ordinary income or as a dividend in the hands of a unitholder. See "Certain Canadian Federal Income Tax Considerations".

Price: \$10.00 per Unit

	Price to the Public ⁽¹⁾	Underwriters' Fee	Net Proceeds to the Fund ⁽²⁾
Per Unit	\$10.00	\$0.575	\$9.425
Total Offering	\$202,912,000	\$11,667,440	\$191,244,560

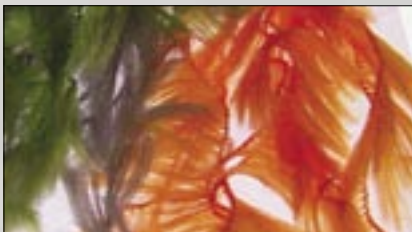
(1) The offering price of the Units was determined by negotiation between the Fund, the Underwriters and certain of the Existing Securityholders.

(2) Before deducting expenses of this Offering, estimated to be \$5,000,000 which, together with the Underwriters' fee, will be paid from the proceeds of the Offering and of which \$2,000,000 will be paid by Spinrite.

Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and TD Securities Inc. (collectively, the "Underwriters"), as principals, conditionally offer the Units, subject to prior sale, if, as and when issued by the Fund and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Fund by Torys LLP and on behalf of the Underwriters by Stikeman Elliott LLP. Subscriptions for the Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. A book-entry only certificate representing the Units will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") or its nominee and will be deposited with CDS on the date of the closing which is expected to occur on or about February 8, 2005, or any later date as the Fund and the Underwriters may agree, but in any event not later than February 28, 2005. A purchaser of Units will receive only a customer confirmation from a registered dealer which is a CDS participant and from or through which the Units are purchased.

The Canadian chartered bank affiliate of Scotia Capital Inc. is a lender to Spinrite. A portion of the proceeds from the Offering will be used to repay a portion of the indebtedness owing to such bank. Accordingly, in connection with this Offering, the Fund may be considered to be a connected issuer of Scotia Capital Inc. under applicable securities laws. See "Relationship Between the Fund and Certain of the Underwriters".

Spinrite



Spinrite Income Fund

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GENERAL MATTERS

Defined Terms

Unless otherwise indicated or the context otherwise requires, the Fund refers to Spinrite Income Fund alone; the Trust refers to Spinrite Trust, an Ontario open-ended, limited purpose trust; Holding LP refers to Spinrite Holding LP, a Manitoba limited partnership; Spinrite refers to Spinrite Limited Partnership, a Manitoba limited partnership which carries on the craft yarn manufacturing and marketing business. Existing Securityholders refers to the current direct and indirect holders of limited partnership units of Spinrite which includes the Management Corporations, Spinrite Management LP and Delaware LP.

Unless otherwise indicated or the context otherwise requires, all references to “management estimates”, “management believes”, “management expects” or variations thereof, refers to the belief or estimate of senior management of GP Inc.

Unless otherwise indicated or the context otherwise requires, all references to North America refers to Canada and the continental United States.

Unless otherwise indicated or the context otherwise requires, all information in this prospectus assumes completion of the transactions indicated under the heading “Reorganization and Acquisition”.

Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures

References to EBITDA are to earnings before interest, taxes, depreciation and amortization. Because the Fund will distribute all of its cash on an ongoing basis (after providing for certain amounts described elsewhere in this prospectus), management believes that in addition to net income or loss, EBITDA is a useful supplemental measure of cash available for distribution prior to debt service, changes in working capital, capital expenditures and taxes. However, EBITDA is not a recognized measure and does not have a standardized meaning under generally accepted accounting principles in Canada (“GAAP”). Investors are cautioned that EBITDA should not be construed as an alternative to net earnings (as determined in accordance with GAAP), as an indicator of the Fund’s or Spinrite’s performance or as an alternative to cash flows from operating, investing and financing activities as a measure of the Fund’s liquidity and cash flows. The Fund’s method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, the Fund’s EBITDA may not be comparable to similar measures used by other issuers. References to EBITDA Margin are to the percentage that EBITDA for any period is of sales for that period.

Adjusted EBITDA is EBITDA after removing the effects of non-recurring items. Non-recurring items are transactions or events which management believes are unusual in the context of a publicly-traded issuer in the craft yarn manufacturing and marketing business and are not expected to recur within the foreseeable future and include non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees, and non-cash foreign exchange translation gains (losses) on debt and other instruments. Adjusted EBITDA is not a recognized measure under GAAP and the qualifications outlined above with respect to EBITDA apply equally to Adjusted EBITDA. References to Adjusted EBITDA Margin refer to the percentage that Adjusted EBITDA for any period is of sales for that period.

A reconciliation of net income to EBITDA and Adjusted EBITDA, based on Spinrite’s financial statements, has been provided under the heading “Reconciliation of Net Income to Adjusted EBITDA”.

Distributable cash is a non-GAAP measure generally used by Canadian income funds as an indicator of financial performance. The method of calculating the Fund’s distributable cash may differ from similar computations, as reported by other issuers and, accordingly, may not be comparable to distributable cash as reported by other issuers. See “Summary of Distributable Cash of the Fund” for a description of the method of calculating the Fund’s distributable cash.

Forward-Looking Statements

This prospectus contains certain forward-looking statements. These statements relate to future events or future performance and reflect management’s expectations regarding growth, results of operations, performance and business prospects and opportunities. These forward-looking statements reflect management’s current

beliefs and are based on information currently available to the management of Spinrite. In some cases, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other comparable terminology. These forward looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not those results will be achieved. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking statements. In evaluating these statements, prospective purchasers should specifically consider various factors, including the risks outlined under “Risk Factors”, which may cause actual events or results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this prospectus are based upon what management believes to be reasonable assumptions, there can be no assurance that actual events or results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this prospectus, and none of the Fund, its subsidiaries or the underwriters of this Offering (the “Underwriters”) assumes any obligation to update or revise them to reflect new events or circumstances.

Trademarks

The Spinrite name and logo are trademarks owned by Spinrite. Spinrite also owns the Bernat, Lily Sugar n’ Cream and Phentex logos and trademarks. Spinrite licenses the Patons name and trademark. See “Business of Spinrite — Trademarks and Licenses”.

Eligibility for Investment

In the opinion of Torys LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Underwriters, provided the Fund is a mutual fund trust under the Tax Act, (i) the Units, if issued on the date of this prospectus, would be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder (the “Tax Act”) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, the “Plans”); and (ii) based in part on certificates of the Fund, the Trust, Holding LP and Spinrite as to factual matters, the Units, if issued on the date of this prospectus, would not on such date constitute foreign property for the purpose of the tax imposed under Part XI of the Tax Act on such Plans (other than registered education savings plans), registered investments and certain other tax exempt entities, including most registered pension funds or plans. Registered education savings plans are not subject to the foreign property rules. The budget of March 23, 2004 (the “Budget”) proposed amendments to the Tax Act (the “Budget Proposals”) which would cause certain investors, including registered pension funds or plans and pension corporations, to be liable for a penalty tax if they hold restricted investment property or units of a business income trust in excess of the limits described in the Budget Proposals. On May 18, 2004, the Minister of Finance announced that the implementation of the Budget Proposals is suspended pending further consultation with interested parties, following which further legislative proposals will be announced. See “Certain Canadian Federal Income Tax Considerations — Taxation of Unitholders — Budget Proposals”.

Currency and Exchange Rates

In this prospectus, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. References to “\$” and “Cdn\$” are to Canadian dollars and references to “U.S.\$” are to United States dollars.

The following table reflects the high and low rates of exchange for one United States dollar, expressed in Canadian dollars, during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada noon spot rate of exchange:

	Years Ended December 31,					
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Cdn\$)	(Cdn\$)	(Cdn\$)	(Cdn\$)	(Cdn\$)	(Cdn\$)
High for the period	1.3968	1.5747	1.6132	1.6021	1.5593	1.5298
Low for the period	1.1774	1.2924	1.5110	1.4936	1.4341	1.4433
Rate at the end of the period	1.2036	1.2924	1.5796	1.5926	1.5002	1.4433
Average rate for the period	1.3015	1.4015	1.5704	1.5484	1.4852	1.4858

During the period from January 1, 2005 to January 27, 2005, the average, high and low rates of exchange for one United States dollar, expressed in Canadian dollars, were Cdn\$1.2226, Cdn\$1.2383 and Cdn\$1.1987, respectively. On January 27, 2005, the noon rate of exchange as reported by the Bank of Canada for conversion of United States dollars into Canadian dollars was U.S.\$1.00 = Cdn\$1.2367 (U.S.\$0.8086 = Cdn\$1.00).

PROSPECTUS SUMMARY

The following is a summary of the principal features of the initial public offering (the “Offering”) of units (the “Units”) of the Fund and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used in this summary are defined in the Glossary of Terms.

Spinrite Income Fund

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated December 8, 2004. The Fund’s head office is located at 320 Livingstone Avenue South, Listowel, Ontario, N4W 3H3.

At the closing of the Offering (the “Closing”), the Fund will indirectly acquire 80% of the securities of Spinrite from the Existing Securityholders, each of whom will continue to indirectly hold an interest through the ownership of subordinated limited partnership units of Holding LP (the “Subordinated Holding LP Units”) representing a 20% interest in Spinrite, on a fully-diluted basis.

The Fund intends to make monthly distributions to holders of Units (“Unitholders”) of its available distributable cash to the maximum extent possible. The initial cash distribution for the period from Closing to February 28, 2005 is expected to be paid on or before March 15, 2005 and is estimated to be \$0.0625 per Unit. See “Description of the Fund — Distributions”.

Industry Overview

The North American craft and hobby market, whose products serve participants in leisure activities as diverse as hand knitting, woodworking, floral crafts, painting and scrap-booking, is estimated to be a \$41 billion market. This figure consists of recorded retail sales in 2003 of \$38 billion in the U.S. and a management estimate of \$3 billion of retail sales in Canada. Over a 10-year period, the North American craft and hobby market has enjoyed strong growth, with no material industry downturns.

The needlecraft market, the second largest sub-category within the larger craft and hobby market, can be further categorized into hand knitting and crocheting, cross stitching, needlepoint, sewing, and quilting. Spinrite is a leading North American supplier of yarns used in the hand knitting and crocheting category (referred to collectively as “craft yarns”). While no public data for the craft yarn category exists, management estimates that 2004 wholesale craft yarn sales in North America will be approximately \$500 million.

Management believes that revenues in the craft yarn market over the past 10 years have been stable and in recent years have enjoyed significant growth. The introduction of affordable value-added fancy yarn products, a renewed consumer interest and pride in making things by hand, and the rapid expansion of craft chain stores and craft departments at mass merchandisers have been the major factors leading the recent growth. Management expects that the North American craft yarn segment will continue to grow over the next several years in part as a result of the following:

- *Introduction of Affordable Value-Added Fancy Yarns.* Over the past three years, yarn manufacturers have introduced affordable value-added fancy yarns to the mass merchant and hobby craft chain store channels. Previously these yarns were primarily manufactured by small European yarn companies and available only at high-end specialty shops at price points above which the mass merchant and craft chain store channels could support. Value-added fancy yarns provide mass market consumers with the opportunity to knit and crochet products which closely resemble products in the ready-to-wear and home furnishings markets. As a result, the number of new and younger consumers who are now knitting has increased because these yarns have created on-trend, fashionable project opportunities which previously were not available to them. The introduction of value-added fancy yarns to the mass merchandisers and hobby channels has contributed significantly to the overall growth of the North American craft yarn market over the past three years.

- *Aging of the Baby Boom Generation.* According to the Craft Yarn Council of America, the U.S. yarn industry trade association (the “Craft Yarn Council”), the average knitter is female and over 50-years-old, a demographic projected to grow considerably. Using the demographic of females aged 45 and over as a proxy, this group is projected to grow in the United States from 53.8 million in 2001 to 69.1 million by 2016 according to the U.S. Census Bureau figures and to grow in Canada from 6.0 million in 2001 to 8.1 million by 2016 according to Statistics Canada census figures.
- *Increase in Young Knitters and Crocheters.* There has been a rise in popularity of hand knitting and crocheting with younger women, including urban professionals, in large part as a result of the introduction of affordable value-added fancy yarns. The Craft Yarn Council reports that the percentage of women under the age of 45 who know how to knit and crochet has doubled in the past six years, climbing from 9% to 18% and that college students represent the fastest growing segment of the knitting and crocheting population.
- *Increased Awareness of Knitting and Crocheting.* Over the past several years, participants in the craft yarn market have made concerted and directed efforts to increase the general public’s awareness of hand knitting and crocheting. These efforts include targeting women’s magazines such as Women’s Day and Cosmopolitan, which are not typically focused on crafts. In addition, craft yarn consumers are also being targeted through the media with the recent launch of learn-to-knit shows on Home & Garden Television (HGTV) in the U.S. and Canada.
- *Handmade Gift-Giving.* Pride in craftsmanship and a conviction that handmade products are more special than their store-bought equivalents continue to drive needlecraft enthusiasts to create handmade projects to give as gifts. Hand-knit and crocheted items such as baby clothes, throws, scarves, doilies, afghans, christening blankets and other keep-sake items have been popular for many years as “heirloom” items and remain so today.
- *“Cocooning” and Community Building.* A heightened sense of insecurity following a number of recent world events has led to a cocooning trend whereby North Americans are spending more time at home with family, friends, and neighbours. As a result of this trend, individuals are also spending more time on crafting activities such as hand knitting and crocheting. Knitting groups are also experiencing a resurgence amongst hand knitters and crocheters who appreciate the sense of community fostered by the groups.

Business of Spinrite

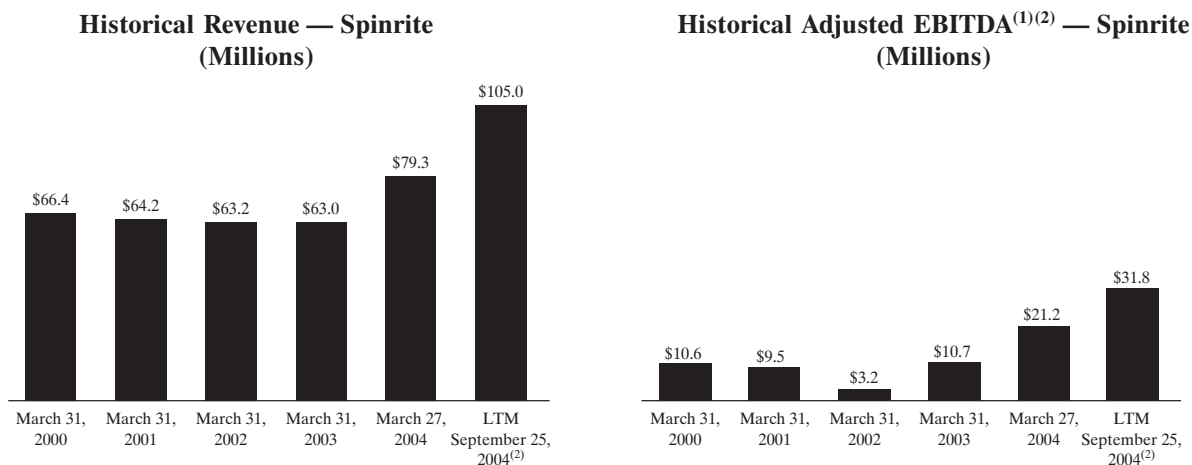
Overview

Spinrite is a leading supplier in the North American wholesale craft yarn market. Spinrite researches, develops, manufactures and markets a variety of consumer craft yarns and pattern books for all segments of the market, from classic and cotton basic to value-added baby and fancy yarns. Spinrite’s leading brand portfolio includes well known brand names such as Bernat, Patons, Lily Sugar n’ Cream and Phentex. Spinrite is well positioned to continue to grow with such customers as Wal-Mart (U.S.), Wal-Mart (Canada), Zellers, Jo-Ann’s Stores, Lewiscraft and Michaels Stores. Spinrite’s investments in its manufacturing, distribution and product development capabilities have positioned it as a low-cost producer of a broad range of innovative products and will enable Spinrite to capitalize on the future growth of the craft yarn industry.

Spinrite was established in 1952, primarily as a commercial and craft yarn manufacturing business. Over time, its operations have grown significantly and Spinrite currently possesses the most sophisticated and comprehensive craft yarn production facility in North America. In the early 1990s, Spinrite made a strategic decision to aggressively expand its higher margin craft yarn business. To grow this portion of its business, Spinrite acquired several well known consumer craft yarn brands and manufacturing assets and successfully integrated them into its operation. As a result, today Spinrite boasts the broadest product line in the craft yarn industry. Over the past five years, Spinrite has made significant investments in its manufacturing and distribution facilities. Management believes its manufacturing capabilities are unparalleled in their diversity and sophistication. In addition, Spinrite has recently focussed its product offering on higher margin, value-added fancy yarns and

value-added baby yarns which has resulted in substantial increases in revenues and Adjusted EBITDA Margins over the past five years.

Spinrite's revenues have grown from \$66.4 million in fiscal 2000 to \$79.3 million in fiscal 2004. Adjusted EBITDA grew from \$10.6 million in fiscal 2000 to \$21.2 million in fiscal 2004. Adjusted EBITDA Margin increased from 16.0% in fiscal 2000 to 26.7% in fiscal 2004.



(1) Adjusted EBITDA is EBITDA adjusted to remove certain items that management believes will not recur namely, non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees and non-cash foreign exchange translation gains (losses) on debt and other instruments. See "Management's Discussion and Analysis" for a discussion of non-recurring items. See "Reconciliation of Net Income to Adjusted EBITDA". EBITDA and Adjusted EBITDA are not recognized measures under Canadian generally accepted accounting principles ("GAAP") and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures".

(2) For an explanation of how the 12-months ended September 25, 2004 Revenue and Adjusted EBITDA amounts were calculated, see footnote (3) in the chart under the heading "Selected Consolidated Financial Information" contained on page 36 of this prospectus.

Business Strengths

Spinrite possesses a number of competitive strengths that management believes will enable it to continue to grow sales and cash flows:

- **Product Development Capability.** Spinrite distinguishes itself from its competitors by focusing its resources on the highest-margin segment of the industry: value-added fancy and value-added baby yarns. Spinrite's intensive product development efforts keep it competitive in design innovation allowing it to continuously bring new products to the market which are consistent with the latest trends in the apparel and home furnishings markets.
- **Market Leader.** Spinrite is a leader in the North American craft yarn industry. This position has been achieved by investing the resources necessary to establish diverse manufacturing and distribution capabilities, a broad and recognized product portfolio, significant product design capabilities and a strong management team. According to management estimates, Spinrite's Canadian market share is 62% while in the U.S., Spinrite's market share since 2000 has grown 65% to approximately 18%.
- **Comprehensive Brand and Product Offering.** Spinrite is unique among craft yarn manufacturers in that its brands and products span the entire craft yarn market spectrum, with offerings in the classic, cotton basic, value-added baby and value-added fancy yarn segments and price points in the value, moderate and premium ranges. The breadth of Spinrite's leading brand and product portfolio has positioned it as a source of one-stop shopping to retailers and allowed it to capture additional market share.

- *Stable Long-Term Customer Relationships.* Spinrite has broad distribution capabilities across all retail channels and is well positioned within retail chains that are projected to grow at above average rates including hobby craft chain stores and mass merchandisers. The average tenure of Spinrite's relationship with its ten largest customers is 21 years. Spinrite continues to invest in its customer relationships through its Retail Partnership Program which is aimed at working closely with its customers to help increase margins, identify areas for value improvement and improve inventory controls.
- *Diverse Manufacturing Capabilities.* Spinrite has invested substantially in its diverse craft yarn manufacturing assets which enable it to develop, manufacture and bring to market innovative new products much quicker than its competitors. Spinrite's breadth of manufacturing assets also positions it as a low-cost producer in North America, particularly as compared to other value-added fancy yarn producers and importers. Spinrite is the only North American company of its size capable of dyeing and finishing imported yarns using each of the primary methods currently used in craft yarn production.

Corporate Strategy

Spinrite intends to build upon its leading position and capitalize on future growth in the craft yarn industry by executing the following strategies:

- *Continue to Increase Market Share.* Spinrite is well positioned to capitalize on the current growth that is occurring in the U.S. and increase its market share in the U.S. as a result of its broad product portfolio and strong relationships with U.S. retailers who are increasing their store counts and allocating additional shelf space to craft yarn. Over the past four years, Spinrite's U.S. market share has climbed 65% from approximately 11% to approximately 18% and management intends to continue to focus on increasing U.S. market share. Spinrite is the market leader in the Canadian craft yarn market with a 62% market share. Spinrite will continue to grow its Canadian sales by leveraging its market leadership position.
- *Focus on Higher-Margin Products.* Spinrite's unique production capabilities enable it to offer low-cost, value-added fancy yarns providing retailers with desirable products. To retailers, Spinrite's value-added fancy yarns provide more attractive gross margins than basic yarns. Likewise, value-added fancy yarns also generate higher margins for Spinrite. Spinrite will continue to focus resources on these segments which now represent approximately 50% of Spinrite's sales and which management expects will continue to enjoy the strongest growth in upcoming years.
- *Capitalize on Superior Distribution Capabilities.* In 2002, Spinrite constructed a new distribution facility to better service its mass merchant and hobby craft chain store customers. Through its investments, Spinrite has dramatically improved its ability to fill customer orders quickly and accurately and can now track on-shelf inventory levels, warehouse inventory levels and sell rates with most of its major customers. Spinrite intends to expand its distribution among current customers and enter into new channels of distribution, particularly in the U.S. by continuing to focus on distribution efficiencies.
- *Continue to Develop and Strengthen Customer Relationships.* Spinrite intends to continue to strengthen its current customer relationships and expand its customer base by focusing on its customers' needs and reinforcing its image as an innovative product developer, reliable and responsive supplier and a low-cost producer known for providing customers with the opportunity to generate higher sales and profit margins. This focus, as well as regular, first hand participation by senior management in customer relationships, has been a part of Spinrite's culture since its inception.
- *Acquisitions.* Spinrite has been successful in the past in acquiring and integrating new brands and manufacturing assets into its existing operations. Spinrite may pursue select acquisition targets that enhance its product line and can be readily integrated. Management intends to make acquisitions with the intent that such acquisitions are expected to increase cash distributions to Unitholders.

Selected Consolidated Financial Information

The following table sets out selected consolidated financial information of Spinrite. This information should be read in conjunction with the historical financial statements of Spinrite and the *pro forma* financial statements of the Fund and the respective notes thereto that are included elsewhere in this prospectus.

	26-weeks ended		52-weeks ended	Year Ended				
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004 ⁽³⁾	March 27, 2004	March 31, 2003	March 31, 2002	March 31, 2001	March 31, 2000
	(unaudited)	(unaudited)	(unaudited)	(<i>pro forma</i>) ⁽¹⁾	(audited)	(audited)	(audited)	(audited)
Income Statement Data:	(in thousands)							
Craft Yarn Sales	\$ 55,906	\$28,384	\$102,632	\$75,110	\$55,946	\$55,378	\$55,180	\$56,105
Commercial Yarn Sales	1,130	2,882	2,393	4,145	7,046	7,822	9,035	10,266
Total Sales	\$ 57,036	\$31,266	\$105,025	\$79,255	\$62,992	\$63,200	\$64,215	\$66,371
Gross profit	22,841	10,510	40,893	28,562	18,166	12,404	18,645	18,447
Gross profit (as a percentage of sales)	40.0%	33.6%	38.9%	36.0%	28.8%	19.6%	29.0%	27.8%
Sales, general and administrative expenses	6,935	4,911	12,007	9,983	10,106	9,153	13,251	10,922
EBITDA	18,776	6,296	32,047	19,567	9,153	3,973	6,565	8,266
Adjusted EBITDA ⁽²⁾	\$ 17,411	\$ 6,805	\$ 31,794	\$21,188	\$10,699	\$ 3,226	\$ 9,453	\$10,625
Net Income	14,568	3,457	23,552	12,441	4,805	1,475	3,178	4,135
Balance Sheet Data:								
Total Assets	\$106,480	\$42,738	\$106,480	\$95,509	\$39,895	\$43,347	\$36,366	\$36,415
Total long-term debt	37,989	5,896	37,989	41,886	6,310	7,139	138	186

(1) Compiled from the audited financial statements for the 43-week period ended January 24, 2004 which coincided with the recapitalization of Spinrite as described more fully under the heading “Management’s Discussion and Analysis — Recent Events” and the audited financial statements for the 9-week period ended March 27, 2004, each of which appear elsewhere in this prospectus.

(2) Adjusted EBITDA is EBITDA adjusted to remove certain items that management believes will not recur namely, non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees and non-cash foreign exchange translation gains (losses) on debt and other instruments. See “Management’s Discussion and Analysis” for a discussion of non-recurring items. See “Reconciliation of Net Income to Adjusted EBITDA”. EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures”.

(3) The amounts in the 52-weeks ended September 25, 2004 column above were calculated by adding the corresponding amount for the year ended March 27, 2004 to the corresponding amount for the 26-weeks ended September 25, 2004 and then deducting the corresponding amount for the 26-weeks ended September 27, 2003.

Summary of Distributable Cash of the Fund

The following summary has been prepared by management on the basis of the information contained in this prospectus, more recent financial information available to management and management’s estimate of the amount of expenses and expenditures to be incurred by the Fund and its subsidiaries including Spinrite (collectively, the “Fund and its subsidiaries”). This analysis is not a forecast or a projection of future results. The actual results of operations of the Fund and its subsidiaries for any period, whether before or after Closing, will likely vary from the amounts set forth in the following analysis, and those variations may be material.

The Fund views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. As the Fund will distribute substantially all of its cash on an ongoing basis (after providing for certain amounts described below) and since EBITDA and Adjusted EBITDA are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, the Fund believes that, in addition to net earnings or loss, Adjusted EBITDA is a useful supplemental measure from which to make adjustments to determine its distributable cash.

Management believes that, upon completion of the Offering and the transactions described under the heading “Reorganization and Acquisition”, the Fund and its subsidiaries will incur interest expenses, general and administrative costs and taxes and will make certain capital expenditures that will differ from those contained in the historical financial statements or in the *pro forma* consolidated financial statements that are included elsewhere in this prospectus. Although management does not have firm commitments for additional expenses and costs listed below and, accordingly, the complete financial effects of all of these additional expenses and costs cannot be objectively determined, management believes that the following represents a reasonable estimate of what distributable cash would have been had the Fund been in existence for the 52-weeks ended September 25, 2004:

	52-weeks ended September 25, 2004
	(unaudited) (in thousands, except per Unit data)
Sales	\$105,025
Gross Profit	40,893
Sales, general and administrative expenses	12,007
EBITDA ⁽¹⁾	32,047
Adjusted EBITDA ⁽²⁾	31,794
Management believes that the following adjustments should be made to determine distributable cash:	
Foreign exchange adjustment ⁽³⁾	(2,374)
Adjustment to annualize sales prices and cost increases during the year ⁽⁴⁾	1,488
Third party interest expense ⁽⁵⁾	(3,194)
Taxes ⁽⁶⁾	(600)
Additional general, administrative and other costs ⁽⁷⁾	(1,000)
Maintenance capital expenditures	(750)
Estimated distributable cash	<u>\$ 25,364</u>
Estimated distributable cash per Unit ⁽⁸⁾	<u>\$ 1.00</u>

(1) EBITDA represents gross profit (\$40,893), less sales, general and administrative expenses (\$12,007), plus foreign exchange gain (\$1,537), plus depreciation and amortization (\$1,624).

(2) See “General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures”. Adjusted EBITDA is EBITDA adjusted to remove non-recurring items, which for the above period consisted primarily of non-recurring management fees (\$700), discretionary shareholder remuneration and expenses (\$316), non-recurring royalty payments (\$350) offset by foreign exchange translation gains on debt and other instruments (\$1,619). EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Reconciliation of Net Income to Adjusted EBITDA”.

(3) Approximately 60% of Spinrite’s sales and most of its raw material and equipment purchases are denominated in U.S. dollars. After taking into account these natural hedges, Spinrite is exposed to U.S. dollar fluctuations on approximately 42% of its U.S. sales. Spinrite intends to hedge 100% of this exposure for at least the next two years. The adjustment represents the net impact of U.S. dollar fluctuations for the 52-week period ended September 25, 2004 if no hedging (apart from natural hedges) was undertaken based on a spot rate of U.S.\$1.00 = Cdn\$1.20.

(4) Management believes that the adjustments are necessary to capture the impact on the 52-week period ended September 25, 2004 of: (i) price increases on the majority of Spinrite’s products that were announced on July 1, 2004 and took effect on September 1, 2004, and (ii) raw material price increases principally relating to acrylic which has been affected by the rise in petroleum prices and increased labour costs.

(5) Represents estimated interest expense based on borrowings of \$47,691 under the proposed term credit facility and an average annual draw under the proposed \$20,000 revolving credit facility of approximately \$3,000. Assumes funds had been drawn on September 28, 2003 at an average interest rate of 6.3%.

(6) Represents incremental foreign, federal and provincial income and capital tax in respect of a Canadian subsidiary of Spinrite through which sales to the U.S. will be made.

(7) Subsequent to the Offering, management estimates the Fund will incur additional general and administrative costs on a continuing basis relating to requirements for ongoing financial disclosure, investor relations, trustee fees, trustee, director and officer insurance and other related expenses.

(8) Assumes that the Fund has issued additional Units to fund the exercise in full of the liquidity right and that the Subordinated Holding LP Units to be issued in the manner described under “Management, Trustees and Directors — Management Arrangements” have been issued in full.

The Offering

Securities to be Distributed:	20,291,200 Units of the Fund.
Amount:	\$202,912,000.
Offering Price:	\$10.00 per Unit.
Unit Attributes:	Each Unit represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. Each Unit is transferable and entitles the holder thereof to: (1) participate equally in distributions of the Fund; (2) rights of redemption; and (3) one vote at all meetings of Unitholders. The Units are not subject to future calls or assessments. See “Description of the Fund”.
Use of Proceeds:	The net proceeds from the Offering, after deducting fees payable to the Underwriters and the estimated expenses of this Offering, is estimated to be \$188,244,560. The Fund will use the net proceeds of the Offering, together with the New Credit Facility, to indirectly acquire 80% of the securities of Spinrite and to pre-fund \$4.4 million of future expansion capital expenditures of Spinrite. See “Reorganization and Acquisition” and “Use of Proceeds”.
Retained Interest:	Following Closing, the Existing Securityholders, which includes certain members of senior management of Spinrite, will directly and indirectly hold all of the Subordinated Holding LP Units representing approximately 20% of the total outstanding limited partnership units of Holding LP. Under the terms of a liquidity agreement, the Management Corporations, will be entitled to require the Trust to acquire their Subordinated Holding LP Units for Units of the Fund or cash subject to certain conditions and adjustments. Delaware LP and Spinrite Management LP will have the right to require Holding LP to purchase for cash the shares and debt of New NSULC and New Management NSULC (the entities which hold the Subordinated Holding LP Units) at a purchase price equal to the fair market value of the shares and debt of New NSULC and New Management NSULC determined by an independent valuator retained by Holding LP. In the event that this right is exercised, the Fund will have the overriding right to require that the shares and debt of New NSULC and New Management NSULC be acquired by it through a direct or indirect wholly owned subsidiary of the Trust rather than by Holding LP. See “Principal Agreements — Liquidity Agreement”.
Subordination of Retained Interest:	Distributions on the Subordinated Holding LP Units will be subordinated in favour of distributions on ordinary units of Holding LP (the “Ordinary Holding LP Units”), which will be held indirectly by the Fund. During the subordination period, distributions will only be paid on the Subordinated Holding LP Units at the end of a fiscal quarter to the extent that: (i) the Fund has paid average monthly distributions of at least \$0.08333 per Unit to Unitholders during that quarter, and (ii) any deficiency in such distributions to Unitholders during the preceding three quarters has been satisfied. If these targets are not satisfied, any deficiency will be borne by the holders of the Subordinated Holding LP Units, distributions on which will be reduced to the extent necessary to support the continued payment of distributions on the Units and any applicable deficiency in such distributions. See “Description of Holdings LP”. For the purposes of these subordination provisions, distributions on the Units will be cumulative, such that the amount of any deficiency will accumulate for a period of 12 months. Payments of deficiencies in distributions on the Units will be made in priority to distributions on the Subordinated Holding LP Units. Any

accumulated deficiency on the Units not satisfied by a distribution within 12 months of the date it arose will cease to be payable.

The Subordinated Holding LP Units and the subordination provisions only apply until the “Subordination End Date”, being the earliest date on which both of the following conditions are satisfied:

- (a) The Fund has earned EBITDA (after adding back any amounts that are expensed but that are pre-funded as described under “Executive Compensation — Management Arrangements”) for the immediately preceding fiscal year (based on audited consolidated financial statements of the Fund) commencing with the financial year ended December 31, 2006, of at least \$29.9 million for such fiscal year; and
- (b) yearly cash distributions of at least \$1.00 per Unit and per Subordinated Holding LP Unit have been paid by the Fund or Holding LP as applicable, for each of the two most recent fiscal years or annualized in the case of 2005.

Following the Subordination End Date, the terms and conditions of the Subordinated Holding LP Units will essentially be identical in all material respects to the Ordinary Holding LP Units.

If the Subordination End Date does not occur by December 31, 2009 then the holders of the Subordinated Holding LP Units will have the option, at any time after such date, to exercise their liquidity rights on a proportionately reduced basis. See “Retained Interest” and “Principal Agreements — Liquidity Agreement”.

**Distribution Policy of
the Fund:**

The Fund intends to make monthly distributions of its available cash to Unitholders to the maximum extent possible. The Fund intends to make equal monthly cash distributions of its net monthly cash receipts, after: (i) satisfaction of any debt service obligations (principal and interest), on indebtedness of the Fund, if any; (ii) administrative expenses and other obligations; (iii) amounts that may be paid by the Fund in connection with taxes and any cash redemptions or repurchases of Units; and (iv) any amount that the trustees of the Fund may reasonably consider to be necessary to provide for the payment of any costs or expenses that have been or are reasonably expected to be incurred in the activities and operation of the Fund and reasonable reserves. The initial cash distribution for the period from the Closing to February 28, 2005 is expected to be paid on or before March 15, 2005 and is estimated to be \$0.0625 per Unit (assuming that Closing occurs on February 8, 2005). See “Description of the Fund — Distributions” and “Certain Canadian Federal Income Tax Considerations”.

**Distribution Policy of
the Trust:**

The declaration of trust pursuant to which the Trust is established will require that the Trust distribute all of its available cash, subject to applicable law, by way of monthly distributions on its securities, after: (i) satisfaction of any debt service obligations (principal and interest) on the notes issued by the Trust (the “Trust Notes”) and other indebtedness, if any; (ii) satisfaction of its other liabilities and expense obligations (including tax liabilities); (iii) satisfaction of any cash redemptions or repurchases of units of the Trust or repayment of Trust Notes; and (iv) satisfaction of other amounts in the discretion of the trustees of the Trust. See “Description of the Trust — Distributions”.

**Distribution Policy of
Holding LP:**

The Holding LP partnership agreement among GP Inc., the Trust, New Management NSULC, New NSULC and the Management Corporations will require that Holding LP distribute all of its available cash, subject to applicable

law, by way of monthly distributions on its Ordinary Holding LP Units and, subject to the subordination provisions described above, quarterly distributions on its Subordinated Holding LP Units, after: (i) satisfaction of its administrative expenses and other obligations; (ii) satisfaction of its debt service obligations (principal and interest) on any indebtedness of Holding LP; and (iii) satisfaction of other amounts in the discretion of GP Inc., the general partner of Holding LP. See “Description of Holding LP — Distributions”.

**Distribution Policy
of Spinrite:**

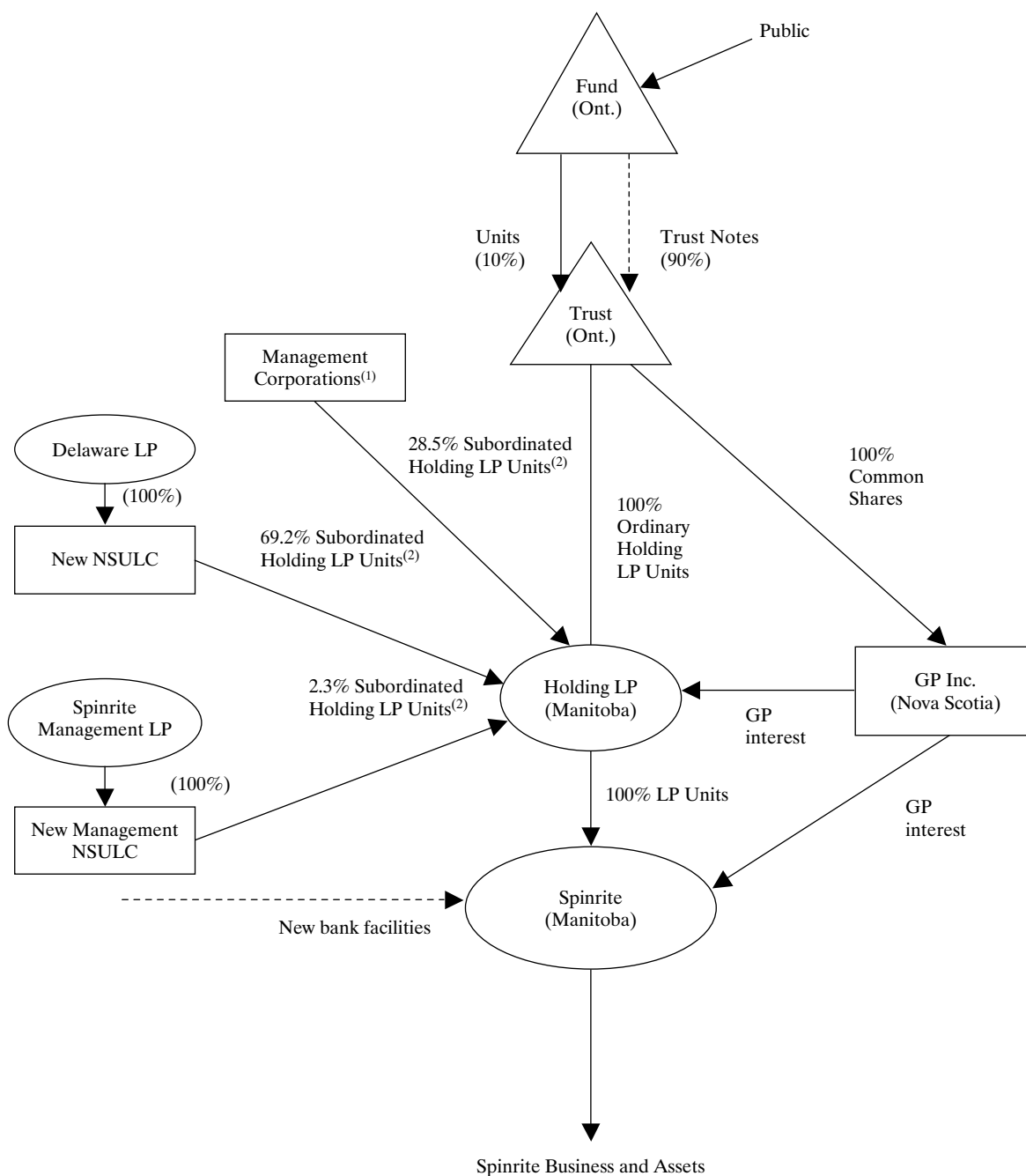
The Spinrite partnership agreement among GP Inc. and Holding LP will require that Spinrite distribute all of its available cash, subject to applicable law, by way of monthly distributions on its limited partnership units after: (i) satisfaction of any debt service obligations (principal and interest), if any; (ii) satisfaction of its other liabilities and expense obligations (including tax liabilities); (iii) satisfaction of its obligations under the executive compensation plans; (iv) any other amounts that Spinrite may consider reasonably necessary to provide for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities and operations of Spinrite and for reasonable reserves including for working capital, capital expenditures and reserves established for the purpose of stabilizing within any year, the monthly distributions to the holders of Spinrite limited partnership units; and (v) satisfaction of other amounts in the discretion of GP Inc., the general partner of Spinrite. See “Description of Spinrite — Distributions”.

Risk Factors:

An investment in the Units is subject to certain risk factors which should be considered by a potential investor making an investment decision. Cash distributions by the Fund to Unitholders depend upon the ability of the Fund’s subsidiaries to pay their interest obligations and to pay other distributions on limited partnership units. The Fund’s income will be earned from its operation of the Spinrite business which is susceptible to a number of risks. These risks include those related to: recent sales and profit increases may be tied to cyclical trends; ability to maintain and manage growth; competition; dependence on key customers; lack of written customer and supplier agreements; inventory management; raw material price volatility; risks of acquisitions and the failure to integrate acquired businesses; reliance on key personnel; government intervention; exchange rate fluctuations; interest rates; uninsured and underinsured losses; environment, health and safety requirements and related considerations; operating hazards; product liability; and risk of future legal proceedings. In addition, risks associated with the structure of the Fund include: dependence on Spinrite; income tax matters; leverage and restrictive covenants; nature of Units; absence of prior public market; distribution of securities on redemption or termination of the Fund; potential dilution; Unitholder liability; the fact that enforcement of indemnities against certain of the Existing Securityholders is required to be taken against each individually; restrictions on potential growth; and liquidity rights associated with the Subordinated Holding LP Units. See “Risk Factors”.

STRUCTURE OF THE FUND

The following chart illustrates the structure of the Fund and its principal subsidiaries and other affiliates (including jurisdiction of establishment/incorporation of the various entities) after giving effect to the initial public offering (the “Offering”) of 20,291,200 units (“Units”) in the Fund and the transactions described under the heading “Reorganization and Acquisition”:



(1) The Management Corporations will be entitled to require that their Subordinated Holding LP Units be exchanged into Units or cash. See “Principal Agreements — Liquidity Agreement”.

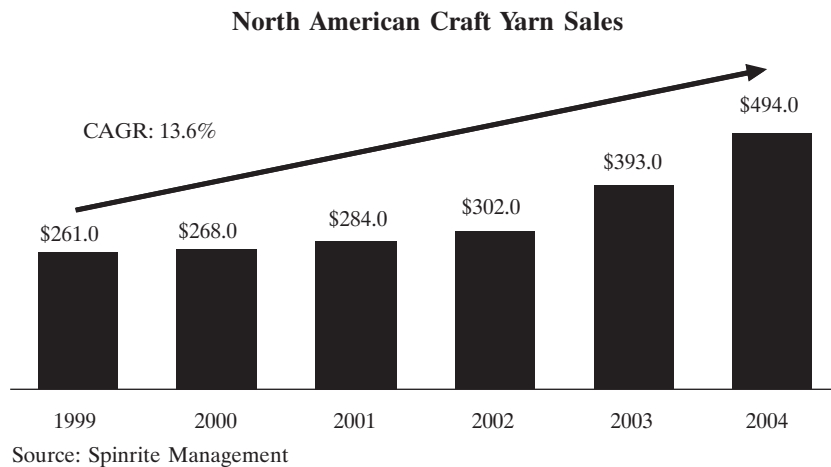
(2) The Subordinated Holding LP Units held by each of the Management Corporations, New NSULC and New Management NSULC collectively represent 20% of the Holding LP Units.

INDUSTRY OVERVIEW

General

The North American craft and hobby market, whose products serve participants in leisure activities as diverse as hand knitting, woodworking, floral crafts, painting and scrap-booking, is estimated to be a \$41 billion market. This figure consists of recorded retail sales in 2003 of \$38 billion in the U.S. and a management estimate of \$3 billion of retail sales in Canada. Over a 10-year period, the North American craft and hobby market has enjoyed strong growth, with no material industry downturns. In a U.S. national study conducted by Opinion Research Corporation in 2004, crafting ranked 5th as a leisure activity, and 80% of respondents identified themselves as crafters of some kind.

Needlecraft is the second largest segment of the North American craft and hobby market. Needlecraft can be further categorized into hand knitting and crocheting, cross stitching, needlepoint, sewing, and quilting. Spinrite is a leading North American supplier of yarns used in the hand knitting and crocheting category (referred to collectively as “craft yarns”). While no public data for the craft yarn category exists, management estimates that wholesale craft yarn sales in North America since 1999 were as follows.



Management believes that revenues in the craft yarn market over the past 10 years have been stable and in recent years have enjoyed significant growth. The introduction of affordable value-added fancy yarn products, a renewed consumer interest and pride in making things by hand and the rapid expansion of craft chain stores and craft departments at mass merchandisers have been the major factors leading the recent growth. For example, the number of stores operated by the seven largest craft chain retailers in Canada and the U.S., such as Michaels Stores and Jo-Ann's Stores, has increased from 700 in 1994 to approximately 2,200 at the end of 2003. The steady growth in the craft yarn segment has also resulted from the aggressive expansion of discount chains like Wal-Mart and through retailers dedicating additional retail space to craft yarn products. The Craft Yarn Council of America, the U.S. yarn industry trade association (the “Craft Yarn Council”), in their most recently published study, estimated that in 2002 there were 38 million hand knitters and crocheters in the U.S. and management estimates that there are currently 7 million hand knitters and crocheters in Canada. Management expects the number of knitters and the popularity of hand knitting and crocheting to continue to grow.

Industry Trends

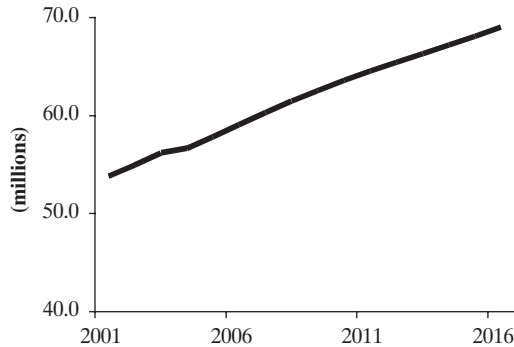
Management expects that the North American craft yarn segment will continue to grow over the next several years in part as a result of the following:

- *Introduction of Affordable Value-Added Fancy Yarns.* Over the past three years, yarn manufacturers have introduced affordable value-added fancy yarns to the mass merchant and craft chain store channels. Previously, these yarns were primarily manufactured by small European yarn companies and available only at high-end specialty shops at price points above which the mass merchant and hobby craft chain store channels could support. Value-added fancy yarns provide mass market consumers with the

opportunity to knit and crochet products which closely resemble products in the ready-to-wear and home furnishings markets. The introduction of these value-added fancy yarns to the mass market and hobby craft store channels has contributed significantly to the overall growth of the North American craft yarn market over the past three years and has increased the number of younger knitters and crocheters.

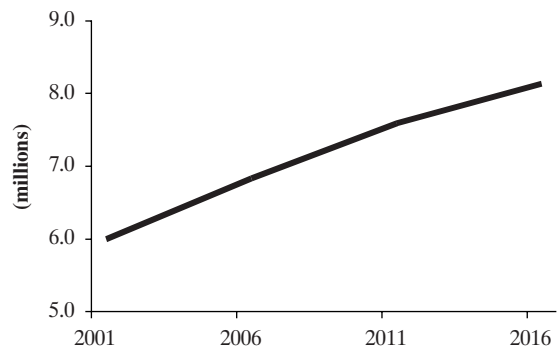
- *Aging of the Baby Boom Generation.* According to the Craft Yarn Council, the average knitter is female and over 50-years old, a demographic projected to grow considerably. Using the demographic of females aged 45 and over as a proxy, this group is projected to grow in the United States from 53.8 million in 2001 to 69.1 million by 2016 according to the U.S. Census Bureau figures and to grow in Canada from 6.0 million in 2001 to 8.1 million by 2016 according to Statistics Canada figures.

U.S. Female Population Aged 45 and Over



Source: U.S. Census Bureau

Canadian Female Population Aged 45 and Over



Source: Statistics Canada

- *Increase in Young Knitters and Crocheters.* There has been a rise in popularity of hand knitting and crocheting with younger women, including urban professionals, in large part as a result of the introduction of affordable value-added fancy yarns. The Craft Yarn Council reports that the percentage of women under the age of 45 who know how to knit and crochet has doubled in the past six years, climbing from 9% to 18% and that college students represent the fastest growing segment of the knitting and crocheting population. The introduction of the affordable value-added fancy yarn products has enabled younger consumers to create on-trend fashions, apparel and accessories, home decor and items for babies and children.
- *Increased Awareness of Knitting and Crocheting.* Over the past several years, participants in the craft yarn market have made concerted and directed efforts to increase the profile of hand knitting and crocheting. These efforts have included targeting women's magazines such as *Women's Day* and *Cosmopolitan*, which are not typically focused on crafts, to highlight knitting and sponsoring events to feature knitting and crocheting such as the annual "Knit Out" in New York City in which an estimated thirty thousand people participated. Consumers are also being targeted through the media with the recent launch of learn-to-knit shows on Home & Garden Television (HGTV) in the U.S. and Canada such as "Knitty Gritty," launched in July 2004, and the "Shay Pendray Show" on PBS. In addition to the numerous magazines devoted to hand knitting and crocheting with an estimated aggregate circulation of approximately 107 million in the fall of 2003, new books are also being published with offbeat titles like *Stitch'n Bitch: The Knitter's Handbook* (2003) and *New Knits on the Block: A Funky Mama's Guide to Knitting What Her Kids Really Want* (Spring 2004).
- *Handmade Gift-Giving.* Pride in craftsmanship and a conviction that handmade products are more special than their store-bought equivalents continue to drive needlecraft enthusiasts to create handmade projects to give as gifts to friends and family. When surveyed in 2002, 82% of the most active crafters said they gift at least a portion of their craft projects. Hand-knit and crocheted items such as baby clothes, throws, scarves, doilies, afghans, christening blankets and other keep-sake items have been popular for many years as "heirloom" items and remain so today.

- *“Cocooning” and Community Building.* A number of world events over the past several years have led to a heightened sense of insecurity resulting in a cocooning trend whereby North Americans are spending more time at home with family, friends and neighbours. As a result of this trend, individuals are spending more time on crafting activities such as hand knitting and crocheting. Knitting groups are also experiencing a resurgence amongst hand knitters and crocheters who appreciate the sense of community fostered by the group.

Products

Yarns

The craft yarn market can be categorized into the following four product segments:

- *Classic (or Basic).* Accounting for approximately 50% of North American craft yarn sales in 2003, this segment consists of no-frills, value-priced yarns, manufactured from acrylic, nylon, and other man-made fibres. Classic yarns are smooth strands twisted as two, three or four ply. This market is generally price-driven and is expected to remain stable over the next several years as growth trends continue to move towards value-added yarns.
- *Cotton Basic.* Cotton basic yarns represented approximately 10% of North American craft yarn sales in 2003. This segment consists of yarns manufactured from cotton fibres which are typically used for home decor, home fashions or baby and apparel items. Management estimates that this product segment is expected to experience moderate growth over the next several years as a result of increased shelf space allocation due to a shift to more vibrant colour choices.
- *Value-Added Baby.* Value-added baby yarns represented approximately 15% of North American craft yarn sales in 2003. Value-added baby yarns are typically soft to the touch and are offered in a variety of pastel and bright colours and are used in garments, blankets, lap pads, toys and other hand-knit and crochet items for babies and toddlers. These yarns generally incorporate unusual textures and finishes that distinguish the products from the classic and cotton basic categories. Management estimates that the value-added baby yarn segment represents a strong growth opportunity as the baby boom generation ages and these parents and grandparents want to make items for their children and grandchildren.
- *Value-Added Fancy.* Value-added fancy yarns represented approximately 25% of North American craft yarn sales in 2003. Value-added fancy yarns incorporate unique features such as multi-coloured variegated colours and special textures such as faux fur, feathers and bouclé. The recent availability and affordability of these yarns as well as the increasing popularity of hand knitting and crocheting among younger consumers and new knitters and crocheters is driving the strong growth of this product segment, as fashionable apparel and home furnishings are able to be reproduced.

Pattern Books and Other Products

Pattern books represent an additional market in the craft yarn industry. Pattern books are project pamphlets that contain detailed knitting and crocheting instructions. Many craft yarn consumers select a specific project or pattern and then purchase the yarn recommended in the pattern book. Because of the brand loyalty that pattern books generate, they are strategically important to craft yarn manufacturers in driving sales.

Manufacturing

All major participants in the North American craft yarn market are located in Canada or the U.S. While the bulk of the raw fibres used to manufacture craft yarn are sourced from overseas, the majority of the manufacturing of craft yarn is done in North America. This is so because of the high cost of shipping finished yarn and because the spinning process is highly mechanized and therefore is not labour intensive. Furthermore, by finishing yarn in North America, manufacturers are able to be more responsive to retail demand. As a result, offshore finished products are generally confined to the premium and super-premium price spectrums of the retail market.

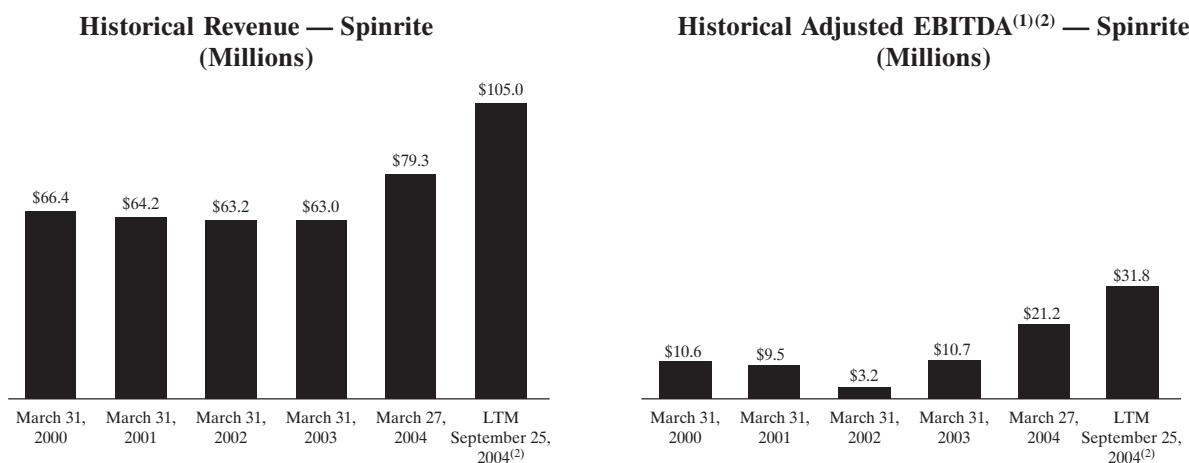
BUSINESS OF SPINRITE

Overview

Spinrite is a leading supplier in the North American wholesale craft yarn market. Spinrite researches, develops, manufactures and markets a variety of consumer craft yarns and pattern books for all segments of the market, from classic and cotton basic to value-added baby and fancy yarns. Spinrite's leading brand portfolio includes well known brand names such as Bernat, Patons, Lily Sugar n' Cream and Phentex. Spinrite is well positioned to continue to grow with such customers as Wal-Mart (U.S.), Wal-Mart (Canada), Zellers, Jo-Ann's Stores, Lewiscraft and Michaels Stores. Spinrite's investments in its manufacturing, distribution and product development capabilities have positioned it as a low-cost producer of a broad range of innovative products and will enable Spinrite to capitalize on the future growth of the craft yarn industry.

Spinrite was established in 1952, primarily as a commercial and craft yarn manufacturing business. Over time, its operations have grown significantly and Spinrite currently possesses the most sophisticated and comprehensive craft yarn production facility in North America. In the early 1990s, Spinrite made a strategic decision to aggressively expand its higher margin craft yarn business. To grow this portion of its business, Spinrite acquired several well known consumer craft yarn brands and manufacturing assets and successfully integrated them into its operation. As a result, today Spinrite boasts one of the broadest product lines in the craft yarn industry. Over the past five years, Spinrite has made significant investments in its manufacturing and distribution facilities. Management believes its manufacturing capabilities are unparalleled in their diversity and sophistication. In addition, Spinrite has recently focussed its product offering on higher margin value-added fancy yarns and value-added baby yarns which has resulted in substantial increases in revenues and Adjusted EBITDA over the past five years.

Spinrite's revenues have grown from \$66.4 million in fiscal 2000 to \$79.3 million in fiscal 2004. Adjusted EBITDA grew from \$10.6 million in fiscal 2000 to \$21.2 million in fiscal 2004. Adjusted EBITDA Margin increased from 16.0% in fiscal 2000 to 26.7% in fiscal 2004.



(1) Adjusted EBITDA is EBITDA adjusted to remove certain items that management believes will not recur namely, non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees and non-cash foreign exchange translation gains (losses) on debt and other instruments. See "Management's Discussion and Analysis" for a discussion of non-recurring items. See "Reconciliation of Net Income to Adjusted EBITDA". EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures".

(2) For an explanation of how the 12-months ended September 25, 2004 Revenue and Adjusted EBITDA amounts were calculated, see footnote (3) in the chart under the heading "Selected Consolidated Financial Information" contained on page 36 of this prospectus.

In fiscal 2002, Spinrite initiated a plan to fully integrate certain acquisitions that were made in prior years. While this plan was ultimately successful, Spinrite experienced certain difficulties which resulted in operational inefficiencies and a temporary inability to fulfill a significant number of orders on a timely basis and resulted in a decrease in Adjusted EBITDA. Spinrite's integration and consolidated plan, including the construction of a new distribution facility, is now complete. See "Management's Discussion and Analysis — 2002 Plant Integration and Consolidation".

Business Strengths

Spinrite possesses a number of competitive strengths that management believes will enable it to continue to grow sales and cash flows:

- *Product Development Capability.* Spinrite distinguishes itself from its competitors by being “first to market” and focusing its resources on the most popular trends, colours and designs desired by craft yarn customers and in line with the changing demographics of the segment. This has resulted in Spinrite introducing higher margin product offerings in the affordable value-added fancy and value-added baby yarn categories. Spinrite’s consistent and proactive approach to product development keeps it competitive in design innovation yielding quality products that inspire its customers. Spinrite is recognized for its ability to consistently bring products to the market which are consistent with the latest trends in the apparel and home furnishings markets. Spinrite’s diverse manufacturing capability enables it to react quicker than its competitors to consumer needs and retailer demand. Lead times between product conception and introduction are significantly shorter and a greater variety of unique, quality yarns can be manufactured.
- *Market Leader.* Spinrite is a leader in the North American craft yarn industry and has achieved this position by investing the resources necessary to establish diverse manufacturing and distribution capabilities, a broad and recognized product line, significant product design capabilities and a strong management team. According to management estimates, Spinrite is currently the market leader in Canada with an approximate 62% market share and is rapidly capturing a growing share of the U.S. market. Spinrite’s U.S. market share over the past four years has grown 65% to approximately 18%.
- *Comprehensive Brand and Product Offering.* Spinrite is unique among craft yarn manufacturers in that its brands and products span the entire craft yarn market spectrum, with offerings in the classic, cotton basic, value-added baby and value-added fancy yarn segments and price points in the value, moderate and premium ranges. The breadth of Spinrite’s leading brand and product portfolio has positioned it as a source of one-stop shopping to retailers and allowed it to capture additional market share.
- *Stable Long-Term Customer Relationships.* Spinrite’s top five customers accounted for 55% of gross sales for the 52-weeks ended September 25, 2004, and no single customer accounted for greater than 17% of gross sales. The average tenure of Spinrite’s relationship with its ten largest customers is 21 years. Spinrite has broad distribution capabilities across all retail channels including craft yarn chains and mass merchandisers. Spinrite continues to invest in its customer relationships through its Retail Partnership Program which is aimed at working closely with its customers to help increase their margins, identify areas for value improvement, and improve inventory controls through web-based tracking systems, internal account management and a greater focus on distribution efficiencies.
- *Diverse Manufacturing Capabilities.* Spinrite has invested substantially in its diverse craft yarn manufacturing assets which enable it to develop, manufacture and bring to market innovative new products more quickly than its competitors. Spinrite’s breadth of manufacturing assets also positions it as a low-cost producer in North America, particularly as compared to other value-added fancy yarn producers and importers. Spinrite’s dyehouse capabilities uniquely enable it to add value to its products. For example, Spinrite is the only North American company of its size capable of dyeing and finishing imported yarns and yarn components, using each of the primary methods currently used in craft yarn production.

Corporate Strategy

Spinrite intends to build upon its leading position and capitalize on future growth in the craft yarn industry by executing the following strategies:

- *Continue to Increase Market Share.* Spinrite is well positioned to capitalize on the current growth that is occurring in the U.S. and increase its market share in the U.S. as a result of its broad product portfolio and strong relationships with U.S. retailers who are increasing their store counts and allocating additional shelf space to craft yarn. Over the past four years, Spinrite’s U.S. market share has climbed 65% from approximately 11% to approximately 18% and management intends to continue to focus on increasing

U.S. market share. Spinrite is already the market leader in the Canadian craft yarn market with a 62% market share, and Spinrite will continue to grow this market leadership position.

- *Focus on Higher-Margin Products.* Spinrite's unique production capabilities enable it to offer low-cost, value-added fancy yarns providing retailers with desirable products. To retailers, Spinrite's value-added fancy yarns provide more attractive gross margins than basic yarns. Likewise, value-added fancy yarns also generate higher margins for Spinrite. Spinrite will continue to focus resources on these segments which now represent approximately 50% of Spinrite's sales and which management expects will continue to enjoy the strongest growth in upcoming years.
- *Capitalize on Superior Distribution Capabilities.* In 2002, Spinrite constructed a new distribution facility to better service its mass merchant and hobby craft chain store customers. Through its investments, Spinrite has dramatically improved its ability to fill customer orders quickly and accurately and can now track on-shelf inventory levels, warehouse inventory levels and sell rates with most of its major customers. Spinrite intends to expand its distribution among current customers and enter into new channels of distribution, particularly in the U.S. by continuing to focus on distribution efficiencies.
- *Continue to Develop and Strengthen Customer Relationships.* Spinrite intends to continue to strengthen its current customer relationships and expand its customer base by focusing on its customers' needs and reinforcing its image as an innovative product developer, reliable and responsive supplier and a low-cost producer known for providing customers with the opportunity to generate higher sales and profit margins. This focus, as well as regular, first hand participation by senior management in customer relationships, has been a part of Spinrite's culture since its inception.
- *Acquisitions.* Spinrite has been successful in the past in acquiring and integrating new brands and manufacturing assets into its existing operations. Spinrite may pursue select acquisition targets that enhance its product line and can be readily integrated. Management intends to make acquisitions with the intent that such acquisitions are expected to increase cash distributions to holders of Units ("Unitholders").

Products

Spinrite produces yarns under four well known brands — Bernat, Patons, Lily Sugar n' Cream and Phentex. In addition, Spinrite produces pattern books under its Bernat, Patons and Lily Sugar n' Cream yarn brands. Spinrite's brands are leaders in each product category in the Canadian market. Lily Sugar n' Cream and Bernat are leading brands in the U.S. while Patons is rapidly becoming a leading U.S. brand evidenced by its growing market share. Below is an overview of each of Spinrite's four major brands.

Bernat represents the largest brand group in the Spinrite portfolio accounting for approximately 60% of sales. The brand has been in existence for over 60 years and was purchased by Spinrite in 1990. Sales are divided almost evenly between the Canadian and U.S. markets although the brand has displayed significant growth in the U.S. in recent years. The brand spans the entire spectrum of yarn products from classic to value-added fancy and is marketed primarily through mass merchandisers such as Wal-Mart (U.S.), Wal-Mart (Canada), Zellers, and hobby chain craft stores such as Jo-Ann's Stores, Michaels Stores and Lewiscraft. The Bernat line is widely recognized in the youth and infant segment of the knitting and crocheting market. Bernat is also one of the most recognized names in acrylic and cotton yarns.

Patons represents approximately 19% of Spinrite's sales. The Patons brand has been in existence in the U.K. for over a century and has a 70-year history in North America. Sales are divided almost evenly between the Canadian and U.S. markets and both markets have displayed significant growth rates in the past 12 months. The Patons brand is positioned as a premium, trend leading fashion-forward yarn which is available in upscale hobby craft chain stores such as Michaels Stores, Jo-Ann's Stores and independent yarn stores throughout Canada and the U.S. In fiscal 2000, Spinrite entered into a licence agreement with Coats & Clark for the Patons trademark and acquired certain assets related to the Patons name. Its licence expires on August 31, 2009, however, Spinrite has the right, in its sole discretion, to extend the licence for a ten year term or in perpetuity. See "Trademarks and Licences".

Lily Sugar n' Cream represents approximately 7% of Spinrite's sales. The 70-year-old brand was purchased by Spinrite in 1995. Lily Sugar n' Cream is a widely recognized brand and the leader in the cotton craft yarn segment in North America. Lily Sugar n' Cream is sold through all retail channels.

Phentex represents approximately 5% of Spinrite's sales. Phentex was established in 1964 and is widely recognized by consumers in the acrylic yarn market in Canada and particularly in Québec. Phentex is positioned as a value brand and its distribution, primarily through discount stores, reinforces this proposition. Spinrite purchased the Phentex line of products in 1998.

Other Products

An important component of Spinrite's consumer marketing strategy is the use of patterns. Customers tend to choose a pattern and then typically purchase branded yarns recommended for that pattern. As a result, Spinrite's strategy has been to both sell pattern books and provide free patterns to consumers as a means of driving craft yarn sales. Pattern books are produced under the Patons, Bernat, and Lily Sugar n' Cream brands and are sold primarily in the yarn departments of Spinrite's customers' stores. Free patterns are printed on the label of every pack of Bernat and Lily Sugar n' Cream yarn, can be downloaded from the Bernat and Lily Sugar n' Cream websites, and are located in-store next to Spinrite's products as complimentary tear-sheets. Patterns are tailored for knitters and crocheters of all skill levels, and are labeled accordingly as "beginner", "easy", "intermediate", or "experienced". Spinrite also designs and manufactures latch hook and craft kits. Spinrite's non-yarn product sales, commercial yarn sales and private label product sales represented approximately 9% of its sales.

Product Development

Part of Spinrite's success is based on its ability to meet market demand by identifying and monitoring short and long term trends in the apparel and home furnishing markets and dedicating its resources to producing craft yarns which reflect these trends. Spinrite's monitoring of apparel and home furnishing trends is equally essential to its new pattern development effort. Spinrite's senior management attend yarn fairs and expositions in North America, Europe and Asia to identify these trends. Spinrite also analyzes colour marketing trends to gauge which hues of which colours are most likely to sell at retail. Once senior management has determined which yarn features will be most in demand, new products go through a stringent product development, engineering and launch process. New patterns are most often inspired by and designed specifically for a particular new yarn and are brought to market concurrently with that particular partner yarn. On an ongoing basis senior management monitors products and colour offerings by communicating with its retail customers, incorporating consumer feedback received through its 1-800-number where consumers may call for help with projects and conducting consumer focus groups in order to decide which products to discontinue and which new products to offer.

Manufacturing Process

Spinrite's manufacturing plant encompasses three highly mechanized processes: spinning, dyeing and finishing. In the spinning process, purchased raw fibres are straightened and aligned to form a continuous long strand, stretched, twisted and spun. Uncoloured yarn is dyed in Spinrite's dyehouse. The finishing process includes texturing, balling, banding, and packaging. All of Spinrite's products go through one or more of the above-mentioned three processes.

Spinrite's manufacturing assets are a major competitive strength. Spinrite is the only North American company of its size capable of dyeing and finishing imported yarn components. Spinrite's diversified dyehouse includes full shade-matching capabilities and the ability to dye yarn through each of the primary dyeing methods currently used in craft yarn production. Spinrite boasts the largest North American production capability for fancy yarns. Spinrite's finishing equipment allows Spinrite to package products in many different sizes and formats. Spinrite's ability to provide spinning, dyeing and finishing in a single location is a competitive strength. Spinrite also has substantial underutilized capacity in its manufacturing plant across all three of the aforementioned manufacturing processes. Management believes that Spinrite can increase revenues by approximately 65% without adding additional capacity.

Spinrite adheres to an intensive quality assurance program. Quality checks at each step of production verify correct and consistent colour, finish and weight. Historically, Spinrite has had to discard very few products in response to quality issues.

Customers, Sales and Marketing

Spinrite sells its products through a variety of distribution channels in both Canada and the United States. Channels include national mass merchandiser accounts (such as Wal-Mart (U.S.), Wal-Mart (Canada) and Zellers), national hobby craft chain store accounts (such as Jo-Ann's Stores, Lewiscraft and Michaels Stores); national chain discount stores (such as Giant Tiger, Saan and Dollar Store), independent specialty stores, and specialty catalogues (such as Mary Maxim (U.S.), Mary Maxim Canada and Herrchners). Spinrite's largest mass merchandiser accounts have independent purchasing functions and decision making in the United States and Canada, respectively, and are treated as separate and independent customers. No single customer accounted for greater than 17% of gross revenue in the 52 weeks ended September 25, 2004 and the top five customers accounted for approximately 55% of gross sales.

Spinrite's goal of fostering relationships with major customers is embodied by its Retail Partnership Program, elements of which are:

- *Shift to higher margins.* Value-added fancy and baby yarns generate higher gross margins than basic yarns. In leading this market, Spinrite has established itself as a forward-thinking manufacturer with superior design capabilities for fancy yarns. Moreover, through its advertising, websites and distribution of free project patterns, Spinrite aims to encourage consumers to choose value-added fancy and baby yarns over lower-margin yarns.
- *Data and trend analysis.* Through web-based applications, Spinrite is directly linked to the inventory management systems of several of its largest customers including Wal-Mart (U.S.), Wal-Mart (Canada), Zellers, Jo-Ann's Stores, Michaels Stores and A.C. Moore. Spinrite's account managers and analysts analyze current on-shelf inventory levels, warehouse inventory levels, sell rates, and identify potential areas for volume and profit improvement. Spinrite is immediately able to determine, for example, if a particular SKU sold out before it could be restocked, enabling it to be proactive in helping its customers with future orders.
- *Direct executive involvement.* Marketing is viewed as a team effort. Spinrite's senior management accompany account managers on marketing calls to Spinrite's largest customers. Regular first-hand participation by senior management in customer relationships has been a part of Spinrite's culture since its inception.

Consumer Promotional Activities

Spinrite runs print ads in most of the major consumer knitting and crocheting magazines, including *Vogue Knitting International*, *Family Circle Easy Knitting*, *Michaels Create*, and *Jo-Ann's* magazine. Spinrite also benefits from non-paid editorial exposure in knitwear publications as well as in larger crafting, lifestyle, and women's magazines, and enjoys placements in its customers' product circulars and other marketing materials.

Spinrite maintains one website for each of the Bernat (www.bernat.com), Patons (www.patonsyarns.com) and Lily Sugar n' Cream (www.sugarncream.com) brands. For the first 6 months of calendar 2004, these websites received 1,112,279 visits, 231,693 visits, and 154,008 visits, respectively. From these websites, visitors can download free patterns, learn about specific yarns, determine which yarn is best for their project, and locate nearby retail stores that carry Spinrite products.

Suppliers

Spinrite's primary production inputs are acrylic fibre, cotton, wool and other partially finished and finished yarn components which account for 60% of total production costs. Spinrite sources its acrylic fibre in the United Kingdom and Turkey, and its cotton in the United States. Spinrite has developed strong relationships with yarn component manufacturers in Asia, principally in Taiwan and China and in Europe, principally in Turkey and Italy. Spinrite's principal suppliers generally face competition in their respective industries, providing

Spinrite with purchasing alternatives. Spinrite has never had an interruption in its operations as a result of a lack of supply. Spinrite considers its relationship with its suppliers to be excellent. The average length of Spinrite's relationships with its primary suppliers is 17 years.

Acrylic is petroleum-based and is therefore subject to significant price volatility. Pricing of natural fibres can vary from year to year based on supply and demand, particularly demand from other industries. Spinrite has been successful in passing along long-term price increases to its customers. Spinrite normally adjusts prices annually.

Employees

Spinrite employs 568 employees, 503 of whom work on an hourly basis and 65 of whom are salaried. The labour force at Spinrite is not unionized. Spinrite draws on the local town of Listowel, Ontario and its neighbouring communities for its labour supply and has experienced low turnover rates. The average employee has approximately 8 to 10 years of experience with Spinrite and management considers current labour relations to be good.

Competition

The competitive landscape of the North American craft yarn industry includes four prominent participants including Spinrite as well as a number of smaller, lesser-known players. The barriers to entry for new prospective participants are formidable: critical relationships with retailers and suppliers take years to solidify and initial capital requirements are high. There have been no new major entrants to the North American craft yarn industry in the last 20 years, nor is management aware of any prospective new participants.

Currently, two companies enjoy major positions in the Canadian yarn market — Spinrite and Coats & Clark Canada. In the United States, Spinrite competes with Coats & Clark, Caron International and Lion Brand Yarns. Broken down by craft yarn segment, Spinrite and Lion Brand are the leaders in the value-added fancy segment; Spinrite, Lion Brand, and Coats & Clark are the leaders in the value-added baby segment; Spinrite is the leader in the cotton basic segment; and Coats & Clark and Caron are the leaders in the classic segment.

Facilities

Spinrite owns an 8-acre production facility in Listowel, Ontario. The facility includes a raw material warehouse, spinning plant, finishing plant, dyehouse, offices and retail store. Spinrite also owns a distribution and logistics center in Listowel. The product development and design department operates from an office facility in Toronto. This office facility is leased under a five-year lease that will expire in 2009. Consistent maintenance and upgrades to all facilities and equipment have ensured that Spinrite is utilizing current and leading technology.

All finished inventory is stored and sorted for shipment at Spinrite's modern distribution centre in Listowel, Ontario. Constructed in fiscal 2002, Spinrite's distribution centre is 92,000 square feet and has a ceiling height of 35 feet. The distribution center is located four kilometers from the production plant and can accommodate significant future expansion. Products are shipped through a combination of third-party common carrier for large accounts and courier for smaller independent accounts. Management considers its distribution efficiency to be one of its competitive strengths.

Capital Expenditures

Spinrite's capital expenditures are generally divided into two categories: (1) maintenance capital, which primarily consists of the replacement or refurbishment of major machine components and computer equipment; and (2) expansion capital undertaken to promote growth, which primarily consists of the purchase of certain

equipment to add value to products or provide additional production capacity. The following table sets forth our maintenance and expansion capital expenditures over the past four years:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Maintenance capital expenditures	\$ 182	\$280	\$ 205	\$ 203
Expansion capital expenditures	1,195	381	5,145	3,132
Total	<u>\$1,377</u>	<u>\$661</u>	<u>\$5,350</u>	<u>\$3,335</u>

Spinrite has invested heavily in its business over the last four years to expand manufacturing and distribution capacity. These capital expenditures include the consolidation of the previous distribution facilities within a newly constructed distribution centre, the purchase of additional manufacturing equipment and significant changes to the production floor layout.

Expansion capital expenditures have been undertaken to promote growth. Investment in expansion capital expenditures has totaled \$9.9 million over the past four years including the construction of a new distribution centre (\$3.7 million) and changes to the production floor layout and the purchase of additional production equipment (\$5.0 million). Spinrite intends to continue to pursue growth initiatives in the future. However, as a result of the expenditures that have been outlaid to date, we do not expect to incur significant expansion capital expenditures for additional manufacturing or distribution capacity in the near term.

Maintenance capital expenditures primarily consist of replacement or refurbishment of major machine components and computer equipment. Over the past four years maintenance capital expenditures have averaged \$0.2 million.

For the next five years, management estimates annual capital expenditures will be approximately \$1.8 million comprised of approximately \$1.05 million for expansion capital and \$0.75 million for maintenance capital. Anticipated expansion capital expenditures include ventilation equipment to increase employee productivity, expansion of fancy yarn production lines to accommodate anticipated growth, and dispensing and supply equipment in the dyeing area to generate materials and labour cost savings while producing a more consistent product. Management believes that maintenance capital expenditures over the next five years will be higher than the average over the past four years because of requirements to maintain the significant expansion undertaken and to manage growth.

Spinrite has several sources of liquidity with which to fund capital expenditures in 2005 and beyond, including cash flow from operations and, if required, the proposed credit facility. In addition, at Closing the Existing Securityholders will pre-fund a reserve of \$4.4 million dollars for future expansion capital expenditures.

Trademarks and Licenses

Spinrite is the owner of the Bernat, Lily Sugar n' Cream and Phentex trademarks. Spinrite entered into a license agreement for the use of the Patons brand and yarns in North America from Coats plc in 1999. A royalty agreement exists between Spinrite and Coats plc which expires August 31, 2009. At that time, Spinrite will have the right, in its sole discretion, to renew the arrangement for a second 10-year term or renew indefinitely for a lump sum payment of \$0.5 million. There have been no claims regarding the infringement of the Bernat, Lily Sugar n' Cream, Phentex and Patons trademarks.

Environmental, Health and Safety

Spinrite's operations are subject to a broad range of federal, provincial, state and local laws and regulations governing environmental and workers' health and safety matters associated with the handling, use, discharge and disposal of hazardous materials and contaminants. Spinrite believes that the conduct of its operations is in material compliance with current applicable environmental and workers' health and safety laws and regulations. Maintaining such compliance in the conduct of its operations has not had, and is not expected to have, a material adverse effect on Spinrite's financial condition or operating results. See "Risk Factors".

THE FUND

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated December 8, 2004 (the “Declaration of Trust”). The Fund’s head office is located at 320 Livingstone Avenue South, Listowel, Ontario, N4M 3H3.

The Fund has been established to indirectly acquire the securities and assets of Spinrite. On closing of the Offering (“Closing”), the Fund will own all of the units issued by the Trust (the “Trust Units”) and all of the notes issued by the Trust (the “Trust Notes”). On the date of Closing, following an internal reorganization, the Trust will hold limited partnership units of Holding LP (the “Holding LP Units”) representing an 80% interest in Spinrite. Holding LP was established to hold limited partnership units of the operating entity, Spinrite. Spinrite was established as a Manitoba limited partnership on January 23, 2004. The head and registered office of Spinrite is located at 320 Livingstone Avenue South, Listowel, Ontario, N4M 3H3.

MANAGEMENT, TRUSTEES AND DIRECTORS

Trustees of the Fund

Upon Closing, the trustees of the Fund will be James R. Fleck, Robert T.E. Gillespie, Gary J. Lukassen, Anthony G. Miller and George S. Taylor. The profiles of each of these individuals are set out under “Biographies of Trustees, Directors and Officers” below. The term of office for each of the trustees will expire at the time of the first annual meeting of Unitholders of the Fund.

Trustees of the Trust

The trustees of the Fund will also act as trustees of the Trust.

Directors and Officers of GP Inc.

The trustees of the Fund will also act as directors of GP Inc. The following table sets out, for each of the trustees of the Fund and the Trust and the directors and executive officers of GP Inc., the person’s name, municipality of residence, position with GP Inc., and principal occupation.

<u>Name and Municipality of Residence</u>	<u>Positions with GP Inc. and Affiliates</u>	<u>Principal Occupation</u>
James R. Fleck Oakville, Ontario	Trustee and Director	President and Chief Executive Officer, Camco Inc.
Robert T.E. Gillespie Mississauga, Ontario	Trustee and Director	Retired Chairman and Chief Executive Officer, General Electric Canada Inc.
Gary J. Lukassen Mississauga, Ontario	Trustee and Director	Corporate Director
Anthony G. Miller Toronto, Ontario	Trustee and Director	Chairman Emeritus, MacLaren McCann
George S. Taylor St. Marys, Ontario	Trustee and Director	Independent Consultant
Eric D. Bommer New York, New York	Director	Partner, Sentinel Capital Partners, L.L.C.
Thomas P. Fitzpatrick Oldwick, New Jersey	Director	Operating Partner, Sentinel Capital Partners, L.L.C.
Dario Margve Stratford, Ontario	Director, President and Chief Executive Officer	President and Chief Executive Officer, GP Inc.

<u>Name and Municipality of Residence</u>	<u>Positions with GP Inc. and Affiliates</u>	<u>Principal Occupation</u>
Richard Brown Waterloo, Ontario	Vice President, Sales and Marketing	Vice President, Sales and Marketing, GP Inc.
Ryan Newell Waterloo, Ontario	Chief Financial Officer	Chief Financial Officer, GP Inc.
Frank Janssen Waterloo, Ontario	Operations Manager	Operations Manager, GP Inc.
John Verwey Listowel, Ontario	Vice President, Manufacturing	Vice President, Manufacturing, GP Inc.
Catherine Blythe Toronto, Ontario	Marketing and Creative Director	Marketing and Creative Director, GP Inc.

Each of the directors and executive officers of GP Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor) in which the person currently holds his or her principal occupation except as described under “Biographies of Trustees, Directors and Officers”.

Biographies of Trustees, Directors and Officers

The following are brief profiles of the trustees of the Fund and the Trust and the directors and executive officers of GP Inc.

James R. Fleck, Trustee and Director, is the President and Chief Executive Officer of Camco Inc., Canada’s largest manufacturer and distributor of major home appliances. Prior to his appointment to this position in December 1999, he was their Chief Operating Officer — Commercial. From 1990 until January 1998, Mr. Fleck held senior management positions in various divisions of the General Electric Company. Mr. Fleck also worked as a management consultant with the LEK Partnership in London from 1987 to 1990. Mr. Fleck holds a Bachelor of Science Degree in Chemical Engineering from Queen’s University in Kingston, Ontario and a Masters Degree in Business Administration from INSEAD in Fontainebleau, France.

Robert T.E. Gillespie, Trustee and Director, was the Chairman and Chief Executive Officer of General Electric Canada Inc. until 2004. Prior to his appointment to this position in 1992, he held various senior management positions with General Electric Canada Inc. Mr. Gillespie is also a director of Call-Net Enterprises Inc., Husky Injection Molding Systems Limited, Canadian Council for International Business, and the International Chamber of Commerce. Mr. Gillespie was also a director of Atlas Cold Storage Income Trust during which time all of the directors and officers were subject to a cease trade order, which is no longer in effect, as a result of failing to file quarterly financial reports and Management’s Discussion and Analysis within the time requirements mandated by Canadian securities laws. Mr. Gillespie attended Heriot-Watt University in Edinburgh, Scotland and Harvard Business School in Boston, Massachusetts.

Gary J. Lukassen, Trustee and Director, is a corporate director. Mr. Lukassen was Executive Vice President and Chief Financial Officer of Hudson’s Bay Company between 1989 and 2001 and served as a director of Hudson’s Bay Company between 1987 and 2001. Mr. Lukassen is a director of The North West Company and Abitibi Consolidated Inc. Mr. Lukassen has also been a director of Stelco Inc. from June 2002 to present. Stelco Inc. is currently undergoing a court-supervised restructuring under the *Companies’ Creditors Arrangement Act* (Canada). Mr. Lukassen is a Chartered Accountant.

Anthony G. Miller, Trustee and Director, is Chairman Emeritus of MacLaren McCann, an advertising and communications marketing company. Mr. Miller previously served as Vice Chairman of McCann Worldgroup, the New York based parent company, and has held senior positions in both the U.S. and Canadian advertising industry over a 30 year career. He serves on the board of directors of The Yellow Pages Group and CARE Canada.

George S. Taylor, Trustee and Director, is an independent consultant. He was President and Chief Executive Officer of John Labatt Limited from 1992 until his retirement in December 1995 and he continued to provide consulting services to John Labatt Limited until 1998. Prior to his appointment as President and Chief Executive Officer, Mr. Taylor held a number of senior management and financial, administrative and strategic planning positions with John Labatt Limited. Mr. Taylor is a director of Brascan Corporation, Teknion Corporation, London Health Sciences Centre and the Ontario Arts Council. Mr. Taylor is a Certified Management Accountant.

Eric D. Bommer, Director, is a Partner at Sentinel Capital Partners, L.L.C. Prior to joining Sentinel Capital Partners in 1997, Mr. Bommer spent two years as an associate at Gefinor Acquisition Partners, L.P., a private equity fund. From 1993 to 1995, he worked on a variety of corporate finance and merger and acquisition transactions in the Investment Banking Division of Credit Suisse First Boston. Mr. Bommer was a financial analyst at La Salle Partners from 1992 to 1993. Mr. Bommer is a director of Alemite LLC, NorSun Food Group, Spinrite and Romacorp, Inc. Mr. Bommer holds a Bachelor of Arts from Brown University.

Thomas P. Fitzpatrick, Director, is an Operating Partner at Sentinel Capital Partners, L.L.C. Prior to his appointment to this position in 2002, Mr. Fitzpatrick held a number of senior executive positions with Coopers & Lybrand LLP throughout his 34 year career with the firm. From 1997 to 2000, he was Senior Vice President and Chief Financial Officer of Engelhard Corporation, a Fortune 500 company involved in surface and metal sciences. Mr. Fitzpatrick is a director of Alemite LLC, Nivel and Spinrite. Mr. Fitzpatrick holds a Bachelor of Business Administration from St. John's University and is a Certified Public Accountant.

Dario Margve, Director, President and Chief Executive Officer, recently joined Spinrite in 2004. Mr. Margve is a senior consumer products business executive with over 21 years of general management, sales and marketing experience. Prior to joining Spinrite, Mr. Margve served as the Chairman of Craft House Corporation, a marketer of activity-based crafts and toys. From 1995 until its sale in 2002, Mr. Margve served as the President and Chief Executive Officer of J.B. Williams Company, Inc., a privately held company involved in the marketing and distribution of health and personal care products. Mr. Margve joined J.B. Williams Company, Inc. as Vice President of Sales in 1993 and served in that capacity until his promotion to President and Chief Executive Officer. From 1983 until joining J.B. Williams Company, Inc. in 1993, Mr. Margve held senior management positions for various divisions of Nestle SA, the largest food and beverage marketer in the world. Mr. Margve is a graduate of the United States Military Academy, West Point, New York, USA.

Richard Brown, Vice President, Sales & Marketing, joined Spinrite in 1987. From 1969 to 1975, Mr. Brown was Branch Manager and Senior Account Manager of the Bedding and Towel Division of Dominion Textile Ltd. From 1975 to 1987, he was General Manager of CGT Home Fashions Inc. Mr. Brown serves on the board of directors of the Hobby Industry Association (now the Craft and Hobby Association), where he chairs the Consumer Marketing Committee and is Chair of the 2004-5 Nominating Committee. He is also Chairman of the Craft Yarn Council and chairs its Strategic Planning Committee.

Ryan Newell, Chief Financial Officer, joined Spinrite in 2002. From 2000 to 2002, Mr. Newell served as Partner with the accounting firm Ward & Uptigrove LLP. From 1996 to 2000 he was an Audit Senior at Ernst & Young LLP. Mr. Newell received a Bachelor of Business Administration degree from Wilfrid Laurier University in Waterloo, Ontario and is a Chartered Accountant.

Frank Janssen, Operations Manager, joined Spinrite in 2000 as Distribution Manager. He was promoted to Operations Manager in 2002. From 1999 to 2000, Mr. Janssen was Distribution Manager at GroceryGateway.com. From 1997 to 1999 he was Distribution Manager at Allen Candy. From 1992 to 1997, he held several positions with Surelink, a grocery distribution company, leaving as Distribution Manager.

John Verwey, Vice President, Manufacturing, joined Spinrite in 1978 as an Industrial Engineer. Mr. Verwey was promoted to Engineering Manager in 1985 and to Vice President, Manufacturing in 2004. Mr. Verwey received a Bachelor of Science Degree from the University of Waterloo in Waterloo, Ontario.

Catherine Blythe, Marketing & Creative Director, joined Spinrite in 2000. Ms. Blythe has been an avid knitter since the age of five and possesses a keen sense of fashion. She has been instrumental in the development and launch of several of Spinrite's new products. Prior to joining Spinrite, Ms. Blythe was self-employed for 15 years in the fashion industry as an international model and actor.

Remuneration of Trustees of the Fund and the Trust and Directors of GP Inc.

Initial compensation for trustees of the Fund and directors of GP Inc., who are not officers or employees of any subsidiary of the Fund (the “Independent Trustees”), will be \$40,000 per year. The chair of the board of trustees will be paid an additional \$5,000 per year. The Declaration of Trust provides that the Independent Trustees shall be paid reasonable remuneration for their services as the trustees may from time to time determine and in no event shall the fees payable on an annual basis by the Fund to any Independent Trustee in his or her capacity as a trustee together with fees paid on an annual basis to such Independent Trustee in his or her capacity as a director of any subsidiary of the Fund exceed in total such reasonable amount for that year.

The Fund and GP Inc. will also reimburse trustees and directors, respectively, for reasonable out-of-pocket expenses incurred in performing their duties. Trustees of the Trust and directors of GP Inc. will not receive any additional remuneration for acting in that capacity but will be reimbursed for reasonable out-of-pocket expenses incurred in performing their duties and will participate in the insurance and indemnification arrangements described below. Certain directors of GP Inc. will have the option to receive a portion of their compensation in Units. In addition, GP Inc. has granted to certain directors 7,500 options to purchase Units at an exercise price of \$10 per Unit and such directors will have the opportunity to purchase Units in the Offering.

Governance of the Fund

Corporate Governance

In lieu of a corporate governance committee, the trustees will be directly responsible for developing the Fund’s approach to governance issues, filling vacancies among the trustees and periodically reviewing the composition and effectiveness of the trustees and the contribution of individual trustees. In fulfilling their governance responsibilities, the trustees will consult with the committees of the board of directors of GP Inc.

Audit Committee

The trustees will appoint an audit committee consisting of not less than three trustees, all of whom will be independent of management within the meaning of Multilateral Instrument 52-110 “Audit Committees” and a majority of whom will be residents of Canada. The audit committee will be responsible for the oversight and supervision of: (1) the accounting and financial reporting practices and procedures of the Fund; (2) the adequacy of the Fund’s internal accounting controls and procedures; and (3) the quality and integrity of the Fund’s financial statements.

Disclosure Policy

The trustees will be responsible for adopting and periodically reviewing and updating the Fund’s written disclosure policy. This policy will, among other things:

- articulate the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential information;
- identify spokespersons of the Fund and Spinrite who will be the only persons authorized to communicate with third parties such as analysts, media and investors;
- provide guidelines on the disclosure of forward-looking information;
- require advance review by senior representatives of Spinrite of any disclosure of financial information to ensure the information is not material, and to ensure that selective disclosure of material information is not permitted and that when selective disclosure occurs, a news release is issued immediately; and
- establish black-out periods immediately prior to and following the disclosure of quarterly and annual financial results by the Fund and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates and their respective trustees, directors, officers and employees may not purchase or sell Units of the Fund.

Governance of Holding LP

Upon Closing, GP Inc. as the general partner of Holding LP will be responsible for the management of Holding LP. Holding LP will be governed in accordance with a partnership agreement (the “Holding LP Partnership Agreement”), and GP Inc. will be governed by a securityholders’ agreement between GP Inc., the Trust and the Existing Securityholders (the “Securityholders’ Agreement”). These agreements will provide for the board of directors of GP Inc. to be composed of eight members. Initially, two members of the board will be designated by New NSULC and New Management NSULC and five members of the board will be designated by the Trust. The Chief Executive Officer of GP Inc. will be the eighth member of GP Inc.’s board of directors. The initial trustees of the Fund will be designated by the Trust as its representatives on the GP Inc. board of directors. The required quorum for meetings of GP Inc.’s board of directors will consist of five directors, at least one of whom must be a nominee of New NSULC and New Management NSULC.

New Management NSULC and New NSULC will be entitled to designate two of the members of the board of directors of GP Inc. so long as the Existing Securityholders own, directly or indirectly, at least a 15% limited partnership interest in Holding LP.

To the extent that New NSULC and New Management NSULC are no longer entitled to designate a member of the board of directors of GP Inc., the number of directors that may be designated by the Trust will increase correspondingly.

The term of office for each director of GP Inc. will survive until he or she resigns or is replaced at a meeting of shareholders of GP Inc., subject to the requirements of the Securityholders’ Agreement. The party entitled to direct the appointment of a director can require the removal or replacement of members of the board of directors that it designates at any time, at its sole discretion.

Committees of the Board of Directors of GP Inc.

The board of directors of GP Inc. will have a compensation and corporate governance committee.

Compensation and Corporate Governance Committee

The compensation and corporate governance committee will review and make recommendations to the board of directors concerning the appointment, hiring, compensation, benefits and termination of senior executive officers and all other significant employees of Spinrite. The committee will annually review the Chief Executive Officer’s goals and objectives for the upcoming year and provide an appraisal of the Chief Executive Officer’s performance. The committee will make recommendations concerning the remuneration of the board of directors. The committee will also administer and make recommendations regarding the operation of the Fund’s long term incentive plan (the “LTIP”) and other bonus compensation. The committee will be responsible for developing GP Inc.’s approach to corporate governance issues, advising the board of directors in filling vacancies on the board of directors and periodically reviewing the composition and effectiveness of the board of directors and the contribution of individual directors. On Closing, all members of this committee will be directors who are independent of management.

Long-Term Incentive Plan

The officers of GP Inc. and key employees of Spinrite will be eligible to participate in the LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance Spinrite’s ability to attract, retain and motivate key personnel and reward officers and key employees for significant performance that results in Spinrite exceeding its per Unit distributable cash targets. Pursuant to the LTIP, Spinrite will set aside a pool of funds based upon the amount, if any, by which Spinrite’s distributable cash per Unit exceeds certain defined distributable cash targets. A corporate trustee, hired to assist in the purchase of Units under the LTIP, will provide for either cash payments or the purchase of Units in the market with this pool of funds.

The LTIP will be administered by the management of Spinrite. The compensation and corporate governance committee, on the recommendation of the management of Spinrite, will determine: (i) those

individuals who will participate in the LTIP; (ii) the level of participation of each participant; and (iii) the time or times when LTIP awards will be paid to each participant.

Initially, the LTIP will provide for awards that may be earned based on the amount by which distributable cash per annum per Unit exceeds a base threshold per annum equal to the distribution target. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

<u>Percentage by which Distributable Cash Per Fund Unit Exceeds the Base Threshold⁽¹⁾</u>	<u>Maximum Proportion of Distributable Cash Available for LTIP Payments</u>
5% or less	nil
over 5% to 15%	10% of any excess over 5% to 15%
over 15%	20% of any excess over 15%

(1) Annualized for fiscal periods of less than 12 months.

The base threshold will be subject to adjustment by the compensation and corporate governance committee. For purposes of the LTIP, distributable cash will be calculated in a manner consistent with the definition of EBITDA set forth in this prospectus. See “Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures”.

The LTIP may not be amended or terminated for a period of one year following Closing, except amendments made with the consent of the affected participants, technical or administrative amendments or in certain other circumstances.

Insurance Coverage for the Fund and Related Entities and Indemnification

The Fund will obtain or cause to be obtained a policy of insurance for the trustees of the Fund and the trustees, directors and officers of the Fund’s subsidiaries. Subject to the terms and conditions of the insurance policy, the aggregate limit of liability applicable to the insured trustees, directors and officers under the policy will be \$20 million inclusive of defence costs. Under the policy, each entity will have reimbursement coverage to the extent that it has indemnified the trustees, directors and officers in excess of a deductible of \$250,000 for each loss. The policy will include securities claims coverage and insurance against any legal obligation to pay on account of any securities claims brought. The total limit of liability will be shared between the Fund and its subsidiaries and their respective trustees, directors and officers so that the limit of liability will not be exclusive to any one of the entities or their respective trustees, directors and officers.

The constating documents of each of the Fund’s subsidiaries also provide for the indemnification of its respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. The Declaration of Trust of the Fund also provides for the indemnification of its trustees from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees, subject to certain usual limitations.

EXECUTIVE COMPENSATION

The following tables provide a summary of the compensation of the Chief Executive Officer of Spinrite and each of the four other most highly-compensated individuals who will serve as executive officers of Spinrite:

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Other Annual Compensation (\$)⁽⁵⁾</u>	<u>All Other Compensation (\$)</u>
Dario Margeve President and Chief Executive Officer ⁽¹⁾	2004	500,000	—	—	—
Robert Hay President and Chief Executive Officer ⁽²⁾	2004	540,000	—	—	—
Ryan Newell Chief Financial Officer	2004	250,000	262,500	—	—
Richard Brown Vice President, Sales and Marketing ⁽³⁾	2004	220,000	231,000	—	—
John Verwey Vice President, Manufacturing ⁽⁴⁾	2004	100,000	105,000	—	—

(1) Mr. Margeve was appointed President and Chief Executive Officer on August 1, 2004. The amount disclosed represents his annual salary in effect at the date of filing.

(2) Mr. Hay resigned as President and Chief Executive Officer on July 31, 2004. Mr. Hay has an employment agreement that expires July 31, 2005 at an annual base salary of \$240,000.

(3) Mr. Brown's base salary was increased to \$250,000 in December 2004.

(4) Mr. Verwey's base salary was increased to \$120,000 in November 2004.

(5) The value of perquisites and benefits for each Named Executive Officer, unless otherwise specified, is less than the lesser of \$50,000 and 10% of that person's total annual base compensation and bonuses.

Management Arrangements

The management arrangements described below are part of the Reorganization which will occur prior to Closing and are being provided by the Existing Securityholders and accordingly will have no impact on distributable cash per Unit or any other dilutive impact on Unitholders. Since these arrangements will be pre-funded on Closing, any financial impact of such arrangements will be added back to EBITDA for the purposes of determining distributable cash payable to Unitholders and for the purposes of determining whether the Subordination End Date has occurred as described under "Principal Agreements — Liquidity Agreement" and "Description of Holding LP — Units".

As part of the Reorganization which will occur prior to Closing, Holding LP will enter into three-year time-based arrangements with each of Richard Brown, Ryan Newell, Frank Janssen, John Verwey and Catherine Blythe (collectively, the "Canadian Management Employees"). Each Canadian Management Employee will be granted Subordinated Holding LP Units on a notional basis, the aggregate value of which will be approximately \$2,024,825. On Closing, and in each of the subsequent three years, each Canadian Management Employee will be issued actual Subordinated Holding LP Units equal to one quarter of the number of notional Subordinated Holding LP Units granted to such Canadian Management Employee. Holding LP will also place approximately \$2,024,825 in escrow at Closing to fund a special bonus to the Canadian Management Employees, one quarter of which will be paid on Closing and the remainder of which will be paid over the following three years. In addition, each Canadian Management Employee will be entitled to an annual bonus equal to the prior year's notional distributions on the notional number of Subordinated Holding LP Units held. Holding LP will also grant the Canadian Management Employees Ordinary Holding LP Units with an aggregate value of approximately \$3,064,391 as well as additional Subordinated Holding LP Units with an aggregate value of approximately \$985,299. Each Canadian Management Employee will transfer all Subordinated Holding LP Units and Ordinary Holding LP Units so received to the employee's management corporation. The Canadian Management

Employees will be entitled to sell (through their respective management corporations) to the Trust all or any portion of their Ordinary LP Units in connection with the Offering.

As part of the Reorganization which will occur prior to Closing, Holding LP will enter into three-year time-based arrangements with Dario Margve. Mr. Margve will be granted Subordinated Holding LP Units on a notional basis, the value of which will be approximately \$2,024,834. On Closing, and in each of the three subsequent years, Mr. Margve will be issued actual Subordinated Holding LP Units equal to one quarter of the number of notional Subordinated LP Units granted to him. Holding LP will also place approximately \$2,024,834 in escrow to fund the granting of a special bonus to Mr. Margve, one quarter of which will be paid on Closing and the remainder of which will be paid over the following three years. In addition, Mr. Margve will be entitled to an annual bonus equal to the prior year's notional distributions on the notional number of Subordinated Holding LP Units held. Holding LP will also grant Mr. Margve additional Subordinated Holding LP Units with a value of approximately \$985,294. In addition, Holding LP will pay a bonus of approximately \$612,878 to Mr. Margve on Closing and will place approximately \$2,451,496 in escrow at Closing to fund the granting of monthly bonuses to Mr. Margve for a 32 month period. Mr. Margve will transfer all Subordinated Holding LP Units received by him to his management corporation.

As part of the Reorganization which will occur prior to Closing, Holding LP will enter into arrangements with Thomas Fitzpatrick pursuant to which Mr. Fitzpatrick will be granted Ordinary Holding LP Units with a value of approximately \$1,149,140 as well as Subordinated Holding LP Units with a value of approximately \$369,485. Mr. Fitzpatrick will transfer all Subordinated Holding LP Units and Ordinary Holding LP Units received by him to his management corporation. Mr. Fitzpatrick intends to sell (through his management corporation) to the Trust all of his Ordinary Holding LP Units in connection with the Offering.

SUMMARY OF DISTRIBUTABLE CASH OF THE FUND

The following summary has been prepared by management on the basis of the information contained in this prospectus, more recent financial information available to management and management's estimate of the amount of expenses and expenditures to be incurred by the Fund and its subsidiaries including Spinrite (collectively, the "Fund and its subsidiaries"). This analysis is not a forecast or a projection of future results. The actual results of operations of the Fund and its subsidiaries for any period, whether before or after Closing, will likely vary from the amounts set forth in the following analysis, and those variations may be material.

The Fund views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. As the Fund will distribute substantially all of its cash on an ongoing basis (after providing for certain amounts described below) and since EBITDA and Adjusted EBITDA are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, the Fund believes that, in addition to net earnings or loss, Adjusted EBITDA is a useful supplemental measure from which to make adjustments to determine its distributable cash.

Management believes that, upon completion of the Offering and the transactions described under the heading "Reorganization and Acquisition", the Fund and its subsidiaries will incur interest expenses, general and administrative costs and taxes and will make certain capital expenditures that will differ from those contained in the historical financial statements or in the *pro forma* consolidated financial statements that are included elsewhere in this prospectus. Although management does not have firm commitments for additional expenses and costs listed below and, accordingly, the complete financial effects of all of these additional expenses and costs cannot be objectively determined, management believes that the following represents a

reasonable estimate of what distributable cash would have been had the Fund been in existence for the 52-weeks ended September 25, 2004:

	52-weeks ended September 25, 2004
	(unaudited) (in thousands, except per Unit data)
Sales	\$105,025
Gross Profit	40,893
Sales, general and administrative expenses	12,007
EBITDA ⁽¹⁾	32,047
Adjusted EBITDA ⁽²⁾	31,794
Management believes that the following adjustments should be made to determine distributable cash:	
Foreign exchange adjustment ⁽³⁾	(2,374)
Adjustment to annualize sales prices and cost increases during the year ⁽⁴⁾	1,488
Third party interest expense ⁽⁵⁾	(3,194)
Taxes ⁽⁶⁾	(600)
Additional general, administrative and other costs ⁽⁷⁾	(1,000)
Maintenance capital expenditures	(750)
Estimated distributable cash	<u>\$ 25,364</u>
Estimated distributable cash per Unit ⁽⁸⁾	<u>\$ 1.00</u>

(1) EBITDA represents gross profit (\$40,893), less sales, general and administrative expenses (\$12,007), plus foreign exchange gain (\$1,537), plus depreciation and amortization (\$1,624).

(2) See “General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures”. Adjusted EBITDA is EBITDA adjusted to remove non-recurring items, which for the above period consisted primarily of non-recurring management fees (\$700), discretionary shareholder remuneration and expenses (\$316), non-recurring royalty payments (\$350) offset by foreign exchange translation gains on debt and other instruments (\$1,619). EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Reconciliation of Net Income to Adjusted EBITDA”.

(3) Approximately 60% of Spinrite’s sales and most of its raw material and equipment purchases are denominated in U.S. dollars. After taking into account these natural hedges, Spinrite is exposed to U.S. dollar fluctuations on approximately 42% of its U.S. sales. Spinrite intends to hedge 100% of this exposure for at least the next two years. The adjustment represents the net impact of U.S. dollar fluctuations for the 52-week period ended September 25, 2004 if no hedging (apart from natural hedges) was undertaken based on a spot rate of U.S.\$1.00 = Cdn\$1.20.

(4) Management believes that the adjustments are necessary to capture the impact on the 52-week period ended September 25, 2004 of: (i) price increases on the majority of Spinrite’s products that were announced on July 1, 2004 and took effect on September 1, 2004, and (ii) raw material price increases principally relating to acrylic which has been affected by the rise in petroleum prices and increased labour costs.

(5) Represents estimated interest expense based on borrowings of \$47,691 under the proposed term credit facility and an average annual draw under the proposed \$20,000 revolving credit facility of approximately \$3,000. Assumes funds had been drawn on September 28, 2003 at an average interest rate of 6.3%.

(6) Represents incremental foreign, federal and provincial income and capital tax in respect of a Canadian subsidiary of Spinrite through which sales to the U.S. will be made.

(7) Subsequent to the Offering, management estimates the Fund will incur additional general and administrative costs on a continuing basis relating to requirements for ongoing financial disclosure, investor relations, trustee fees, trustee, director and officer insurance and other related expenses.

(8) Assumes that the Fund has issued additional Units to fund the exercise in full of the liquidity right and that the Subordinated Holding LP Units to be issued in the manner described under “Management, Trustees and Directors — Management Arrangements” have been issued in full.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information of Spinrite. The information is derived from the audited consolidated financial statements of Spinrite for the 43-weeks ended January 24, 2004 and the audited consolidated financial statements of Spinrite for the 9-weeks ended March 27, 2004 and the years ended March 31, 2003, 2002, 2001 and 2000 and the unaudited consolidated financial statements for the 26-weeks ended September 25, 2004 and September 27, 2003. This information should be read in conjunction with the historical financial statements of Spinrite and the *pro forma* financial statements of the Fund and the respective notes thereto that are included elsewhere in this prospectus.

	26-weeks ended		52-weeks ended	Year Ended				
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004 ⁽³⁾	March 27, 2004	March 31, 2003	March 31, 2002	March 31, 2001	March 31, 2000
	(unaudited)	(unaudited)	(unaudited)	(<i>pro forma</i>) ⁽¹⁾	(audited)	(audited)	(audited)	(audited)
Income Statement Data:								
			(in thousands)					
Craft Yarn Sales	\$ 55,906	\$28,384	\$102,632	\$75,110	\$55,946	\$55,378	\$55,180	\$56,105
Commercial Yarn Sales	1,130	2,882	2,393	4,145	7,046	7,822	9,035	10,266
Total Sales	\$ 57,036	\$31,266	\$105,025	\$79,255	\$62,992	\$63,200	\$64,215	\$66,371
Gross profit	22,841	10,510	40,893	28,562	18,166	12,404	18,645	18,447
Gross profit (as a percentage of sales)	40.0%	33.6%	38.9%	36.0%	28.8%	19.6%	29.0%	27.8%
Sales, general and administrative expenses	6,935	4,911	12,007	9,983	10,106	9,153	13,251	10,922
EBITDA	18,776	6,296	32,047	19,567	9,153	3,973	6,565	8,266
Adjusted EBITDA ⁽²⁾	\$ 17,411	\$ 6,805	\$ 31,794	\$21,188	\$10,699	\$ 3,226	\$ 9,453	\$10,625
Net Income	14,568	3,457	23,552	12,441	4,805	1,475	3,178	4,135
Balance Sheet Data:								
Total Assets	\$106,480	\$42,738	\$106,480	\$95,509	\$39,895	\$43,347	\$36,366	\$36,415
Total long-term debt	37,989	5,896	37,989	41,886	6,310	7,139	138	186

- (1) Compiled from the audited financial statements for the 43-week period ended January 24, 2004 which coincided with the recapitalization of Spinrite as described more fully under the heading “Management’s Discussion and Analysis — Recent Events” and the audited financial statements for the 9-week period ended March 27, 2004, each of which appear elsewhere in this prospectus.
- (2) Adjusted EBITDA is EBITDA adjusted to remove certain items that management believes will not recur namely, non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees and non-cash foreign exchange translation gains (losses) on debt and other instruments. See “Management’s Discussion and Analysis” for a discussion of non-recurring items. See “Reconciliation of Net Income to Adjusted EBITDA”. EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “General Matters — Definition of EBITDA and Adjusted EBITDA and Non-GAAP Measures”.
- (3) The amounts in the 52-weeks ended September 25, 2004 column above were calculated by adding the corresponding amount for the year ended March 27, 2004 to the corresponding amount for the 26-weeks ended September 25, 2004 and then deducting the corresponding amount for the 26-weeks ended September 27, 2003.

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

Since the Fund will distribute substantially all of its cash on an ongoing basis, management believes that EBITDA is an important measure in evaluating the performance of the Fund and in determining whether to invest in the Units. However, EBITDA is not a recognized earnings measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as an indicator of the Fund's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Adjusted EBITDA is EBITDA after removing the effects of non-recurring items. Non-recurring items are transactions or events which are unusual in the context of the craft yarn manufacturing and marketing business and are not expected to recur within the foreseeable future. Adjusted EBITDA is not a recognized measure under GAAP and the qualifications outlined above with respect to EBITDA apply equally to Adjusted EBITDA. The Adjusted EBITDA of Spinrite is equal to Spinrite's income before undernoted items and income taxes for the periods set out in Spinrite's financial statements contained in this prospectus. See "Audited Consolidated Financial Statements of Spinrite — Statement of Operations and Undistributed Income/Retained Earnings". The following table reconciles EBITDA and Adjusted EBITDA of Spinrite on a consolidated basis to net income, based on the audited and unaudited historical financial information.

	26-weeks ended		52-weeks ended	52-weeks ended				
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004 ⁽²⁾	March 27, 2004 ⁽¹⁾	March 31, 2003	March 31, 2002	March 31, 2001	March 31, 2000
	(in thousands)							
Cash flow from operating activities before changes in assets and liabilities	\$14,651	\$4,207	\$24,769	\$14,325	\$ 6,607	\$ 3,019	\$4,332	\$ 5,257
Items not involving cash:								
Deferred promissory note interest	(336)	—	(449)	(113)	—	—	—	—
Unrealized gain (loss) on foreign exchange	1,300	—	1,015	(285)	—	(234)	(125)	(112)
Future income taxes	—	—	(168)	(168)	(234)	(234)	(125)	(112)
Gain on sale of capital assets	—	—	9	9	—	—	—	—
Depreciation and amortization	(1,047)	(750)	(1,624)	(1,327)	(1,568)	(1,310)	(1,029)	(1,010)
Net Income	\$14,568	\$3,457	\$23,552	\$12,441	\$ 4,805	\$ 1,475	\$3,178	\$ 4,135
Add back:								
Taxes	1,300	1,912	4,167	4,779	2,302	585	1,918	2,721
Interest	1,861	177	2,704	1,020	478	603	440	400
Amortization	1,047	750	1,624	1,327	1,568	1,310	1,029	1,010
Shareholder remuneration and expenses	120	360	316	556	1,396	(1,080)	2,684	2,353
Foreign exchange loss (gain) on translation of USD debt and other instruments	(2,085)	—	(1,619)	466	—	—	—	—
Non-recurring management fees	600	—	700	100	—	—	—	—
Non-recurring royalty payments	—	149	350	499	150	333	204	6
Adjusted EBITDA	\$17,411	\$6,805	\$31,794	\$21,188	\$10,699	\$ 3,226	\$9,453	\$10,625

- (1) Compiled from the audited financial statements for the 43-week period ended January 24, 2004 which coincided with the recapitalization of Spinrite as described more fully under the heading "Management's Discussion and Analysis — Recent Events" and the audited financial statements for the 9-week period ended March 27, 2004, each of which appearing elsewhere in this prospectus.
- (2) The amounts in the 52-weeks ended September 25, 2004 column above were calculated by adding the corresponding amount for the year ended March 27, 2004 to the corresponding amount for the 26-weeks ended September 25, 2004 and then deducting the corresponding amount for the 26-weeks ended September 27, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis is a review of the results of operations and the liquidity and capital resources of Spinrite. It should be read in conjunction with the historical financial statements of Spinrite and notes thereto that are included elsewhere in this prospectus.

On January 24, 2004, Spinrite was recapitalized (see "Recent Events"). As such, any results prior to January 24, 2004 are those of the predecessor corporation.

Significant Developments

Spinrite is a leading supplier in the North American craft yarn market. Over the last five fiscal years, Spinrite has grown its sales from \$66.4 million to \$79.3 million and Adjusted EBITDA has increased from \$10.6 million to \$21.2 million. Over the same period, the composition of Spinrite's sales has shifted with an increase in craft yarn revenues and a decline in commercial yarn revenues. Also, Spinrite has made significant operational improvements, particularly in fiscal 2002.

Shift to Craft Yarn Business

Historically, Spinrite's sales consisted of both craft and commercial yarns. Commercial yarns are primarily used in the production of apparel and provided Spinrite with lower gross margins than craft yarns. Over the past several years, many North American apparel manufacturers have moved their production facilities offshore to capture labour savings. While yarn spinning is not particularly labour intensive, many North American commercial yarn spinners have moved their facilities offshore to be in close proximity to their apparel manufacturing customer base. As a result of these market factors, Spinrite experienced declines in commercial yarn sales and in fiscal 2003, Spinrite made a strategic decision to wind down its commercial yarn business. Spinrite's commercial yarn sales as a percentage of total sales declined from approximately 27% to approximately 5% from 1998 to 2004.

2002 Plant Integration and Consolidation

In the early 1990's, in response to a declining commercial market, Spinrite embarked on a strategy of focusing on its craft yarn business and acquiring craft yarn brands and manufacturing assets. Throughout the 1990's, Spinrite management was successful in acquiring leading brands, however, the acquisitions were not fully integrated into Spinrite's operations. In fiscal 2002, Spinrite initiated a plan to fully integrate these acquisitions which included reconfiguring its plant layout to improve work flow and consolidating seven separate warehouse locations and approximately 100 storage trailers into a newly-constructed distribution centre (the "2002 Plant Integration and Consolidation"). While management's plan was ultimately successful, Spinrite experienced certain difficulties in its 2002 Plant Integration and Consolidation which resulted in operational inefficiencies and a temporary inability to fulfill a number of significant orders on a timely basis. From fiscal 2001 to 2002, Spinrite experienced a \$1.6 million decline in gross margin as a result of its inability to fill orders on a timely basis. In addition, gross margin decreased by \$3.5 million due to operational inefficiencies.

In fiscal 2003, following the successful completion of its 2002 Plant Integration and Consolidation, Spinrite experienced a \$1.5 million increase in gross margin as a result of its ability to service customers. In addition, gross margin increased by \$4.5 million due to operational improvements. More importantly, Spinrite was able to focus on its core competencies, including the development, production and sale of value-added fancy yarns. Through strong product development and the operational capabilities to deliver its products reliably, Spinrite gained market share, particularly in the U.S. At the same time, industry growth began to shift from low margin basic yarns to high margin value-added fancy yarns. Spinrite's gross margins increased as a greater percentage of its sales transitioned from basic yarns to value-added fancy yarns.

In fiscal 2004, the craft yarn industry enjoyed above average growth and Spinrite continued to increase sales, particularly in the higher margin value-added fancy yarn segment. Spinrite's gross margins continued to strengthen from the change in sales mix.

Recent Events

On January 24, 2004, the Existing Securityholders formed Spinrite to acquire the assets of Spinrite Inc., the predecessor of Spinrite (the “Predecessor”) from the Predecessor’s owner (the “Predecessor Acquisition”). The Predecessor Acquisition was financed in part by subordinated mezzanine debt and senior and revolving debt in the aggregate amount of \$48.0 million. In conjunction with the Predecessor Acquisition, an affiliate of a limited partner entered into a management services agreement with Spinrite under which Spinrite pays a quarterly fee. This agreement and those fees will be terminated upon completion of the Offering.

In August 2004, a new Chief Executive Officer was appointed.

Key Factors Affecting the Business

The health of the North American economy and specifically the craft industry is an important determinant of Spinrite’s profitability and cash flows from operations.

Spinrite’s products are manufactured using various synthetic and natural fibres such as acrylic and cotton. The fibres are sourced and traded throughout the world and are subject to price volatility due to both supply and demand factors, as well as currency fluctuations since they are generally priced in U.S. dollars. Consistent with past and current practices within the industry, Spinrite manages its exposure to fibre price volatility by passing a substantial portion of the price volatility through to customers. Spinrite normally adjusts its prices annually.

A substantial portion of Spinrite’s revenues and expenses are denominated in U.S. dollars. Any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period results in a non-cash foreign exchange loss or gain on the translation of Spinrite’s cash flow available for distribution. Spinrite uses forward contracts to mitigate foreign currency risk. See “Hedging Policy” below.

A significant portion of Spinrite’s revenue growth in fiscal 2005 is attributable to a relative few number of customers. Although Spinrite does not foresee any material changes, any change in buying decisions or in the financial condition of these customers could have an adverse effect on Spinrite’s business.

Critical Accounting Policies

The preparation of financial statements, in accordance with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales Revenue

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

Certain customer rebates, markdown adjustments and other discounts are recorded as deductions from sales. These amounts are recorded based on signed customer agreements where applicable. In cases where no agreement exists or where the amounts are not specified in the agreement, estimates are made based on annualized sales volumes and actual experience.

Inventories

Raw materials are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on the first in, first out basis. Due to the nature of Spinrite’s business, specifically trends affecting the life cycles of specific yarns, estimates and judgements are inherent in the determination of the net realizable value of inventories. While management has applied judgement based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Rates and bases of depreciation applied to amortize the cost less estimated salvage value of property, plant and equipment over their estimated lives are as follows:

Buildings	4% - 10%, declining balance
Machinery and equipment	10% - 20%, declining balance
Office equipment	20%, declining balance
Motor vehicles	30%, declining balance
Computer equipment	30%, declining balance

Deferred financing charges

Deferred financing charges are recorded at cost and are being amortized on a straight-line basis over five years, the term of the loan to which they relate.

Goodwill

Goodwill representing the excess of the purchase price over fair value of the net identifiable assets of acquired businesses is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

Other intangible assets

The intangible assets that are classified as the Patons license agreement and brand names are considered to have indefinite useful lives and are recorded at cost. Intangible assets classified as customer relationships are recorded at cost and amortized on a straight-line basis over an estimated useful life of 15 years. All intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

Changes in Accounting Policies including Initial Adoption

Effective April 1, 2002, Spinrite adopted the liability method of accounting for income taxes in accordance with the provisions of the CICA Handbook Section 3465. The change in accounting policy was applied retroactively. Prior to April 1, 2002, Spinrite used the deferral method of recording income taxes. The deferral method focused on the income statement with deferred taxes being recognized for temporary differences arising through earnings.

Effective January 25, 2004, Spinrite adopted the new CICA Handbook Section 3062, Goodwill and Other Intangible Assets. As a result of this section, Spinrite no longer amortizes goodwill and indefinite life intangible assets.

Effective January 25, 2004, Spinrite prospectively applied the accounting recommendations outlined in CICA Accounting Guideline 13, "Hedging relationships" whereby hedge accounting may only be applied if certain conditions are met. As a result of not currently meeting these conditions, Spinrite measures its derivative financial instruments at fair value with changes in fair value at each balance sheet date recorded in income as a gain or loss on foreign exchange. Prior to January 25, 2004, the CICA guideline did not apply.

Effective January 25, 2004, Spinrite prospectively adopted the new CICA Handbook Section 3063, Impairment of Long-Lived Assets. As a result, long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, with a corresponding impairment loss recorded, if necessary.

Financial Instruments and Other Instruments

Spinrite is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. Spinrite uses forward contracts to minimize its exposure to foreign exchange rate volatility. See “Hedging Policy” below.

(a) Credit risk

Spinrite provides credit to its customers in the normal course of operations. It carries out, on a continuing basis, credit checks on its customers and maintains appropriate credit limits to mitigate credit risk. In addition, Spinrite maintains provisions for contingent credit losses. Approximately 68% of Spinrite’s accounts receivable were from five major customers as at September 25, 2004.

(b) Interest rate risk

Spinrite is exposed to interest rate risk on its credit facility. To mitigate this risk, Spinrite has negotiated a fixed rate on its 3-year non-revolving facility that will be in place following Closing of the Offering.

(c) Currency risk

Spinrite is exposed to foreign exchange risk as a portion of its sales are denominated in U.S. dollars. This risk is partially offset by U.S. dollar purchases and the utilization of forward exchange contracts. See “Hedging Policy” below.

Hedging Policy

Approximately 60% of Spinrite’s sales are denominated in U.S. dollars and most of Spinrite’s raw material and equipment purchases are denominated in U.S. dollars. In January 2004, Spinrite transferred its term debt and subordinated debt into U.S. dollars to increase its natural hedge. Upon Closing, Spinrite’s debt will be denominated in Canadian dollars.

Spinrite’s annual exposure to U.S. dollar fluctuations is approximately US\$25.0 million, after consideration of all natural hedge relationships. This represents approximately 42% of U.S. dollar sales. Historically, Spinrite has entered into forward foreign exchange contracts to mitigate potential adverse changes resulting from fluctuations in the U.S. /Canadian dollar foreign exchange rate. The contracts are signed each month, equal approximately 75% of budgeted net U.S. dollar cash flows and are purchased one year in advance. Upon Closing of the Offering, Spinrite plans on changing its policy to hedge 100% of its exposure for at least the next two years.

From an accounting standpoint, Spinrite does not currently meet the criteria to apply hedge accounting.

Acquisition

On completion of the Offering, the Fund will indirectly acquire Spinrite from the Existing Securityholders and will refinance its existing credit facilities. See “Reorganization and Acquisition” and “Credit Facility”. Consequently, the trends discussed below relating to historical interest and income tax expense, shareholder remuneration, and principal repayments associated with existing credit facilities are not indicative of future trends.

Operating Results

Twenty-six weeks ended September 25, 2004 compared to twenty-six weeks ended September 27, 2003

Sales

Sales of \$57.0 million in the 26-weeks ended September 25, 2004 increased by \$25.7 million, or 82.1%, compared to \$31.3 million in the 26-weeks ended September 27, 2003. This increase was attributable to growth in U.S. market share and overall market growth, particularly in the affordable value-added fancy yarn category. In addition, Spinrite’s strategy of marketing the Patons brand exclusively to national craft chain stores and independent outlets as an alternative to those brands available in national mass merchandisers continues to be

successful. Patons sales in the 26-weeks ended September 25, 2004 increased by \$12.1 million, or 242.8%, from the 26-weeks ended September 27, 2003.

Two customers accounted for \$16.9 million, or 65.8%, of the overall sales growth.

Gross profit

Gross profit of \$22.8 million in the 26-weeks ended September 25, 2004 increased by \$12.3 million, or 117.1%, compared to \$10.5 million in the 26-weeks ended September 27, 2003 as a result of increased sales during the period and increased gross profit margin. An improvement in gross profit margin from 33.6% to 40.0% was principally achieved as a result of the transition in sales mix towards high margin value-added fancy yarns, driven by Spinrite's strong product development strategy.

Sales, general and administrative expenses

Sales, general and administrative expenses of \$6.9 million increased by \$2.0 million, or 40.8%, in the 26-weeks ended September 25, 2004 compared to \$4.9 million for the 26-weeks ended September 27, 2003. The increase in operating expenses was due to an increase of: \$0.7 million in amortization of intangible assets and financing fees, \$0.4 million in professional fees relating to operational reporting improvements and other matters; \$0.6 million in non-recurring management fees paid to an affiliate of Spinrite; and \$0.3 million in sales salaries, commissions, and distribution wages associated with higher sales volumes.

Non-recurring management fees

Non-recurring management fees of \$0.6 million were incurred in the 26-weeks ended September 25, 2004 in accordance with a management services agreement entered into with an affiliate of Spinrite. No such fees were incurred in the 26-weeks ended September 27, 2003.

Foreign exchange gain on translation of U.S. dollar debt and other instruments

In conjunction with the recapitalization that occurred in connection with the Predecessor Acquisition, Spinrite denominated its term and mezzanine loans in U.S. dollars. Spinrite incurred a gain on translation of U.S. dollar debt of \$1.3 million for the 26-weeks ended September 25, 2004. There was no U.S. dollar debt during the 26-weeks ended September 27, 2003.

Spinrite adjusts the value of its unrealized U.S. dollar forward contracts on a monthly basis to reflect the exchange rate in effect at that time. Spinrite recorded an unrealized gain on U.S. forward contracts of \$0.8 million for the 26-weeks ended September 25, 2004. Spinrite did not adjust the value of its unrealized U.S. dollar forward contracts during the 26-weeks ended September 27, 2003.

Non-recurring shareholder remuneration and other expenses

Prior to the Predecessor Acquisition, the Predecessor made certain salary and bonus payments to shareholders. In addition, discretionary expenditures were made by the shareholders that will not be made subsequent to the Offering. Non-recurring shareholder remuneration and expenses of \$0.1 million were incurred in the 26-weeks ended September 25, 2004 compared to \$0.4 million in the 26-weeks ended September 27, 2003.

Non-recurring royalty fees

Spinrite signed a license agreement in 2000 for the use of the Patons trademark in North America. The agreement specified royalty fees on a sliding scale for the first 5 years of the agreement. Beginning September 1, 2004, the maximum annual royalty fees were reduced to \$0.2 million for the duration of the agreement (to perpetuity at Spinrite's option). Accordingly, any fees expensed in excess of \$0.2 million have been added back to arrive at Adjusted EBITDA. No such add-back is necessary for the 26-weeks ended September 25, 2004 compared to \$0.1 million in the 26-weeks ended September 27, 2003.

Adjusted EBITDA

Adjusted EBITDA of \$17.4 million in the 26-weeks ended September 25, 2004 increased by \$10.6 million, or 155.9%, from \$6.8 million in the 26-weeks ended September 27, 2003.

Amortization

Amortization was \$1.0 million for the 26-weeks ended September 25, 2004 compared to \$0.8 million for the 26-weeks ended September 27, 2003. Amortization includes amortization of plant, property and equipment, intangibles, deferred financing fees and other assets.

Interest

Interest expense increased by \$1.7 million to \$1.9 million for the 26-weeks ended September 25, 2004 compared to \$0.2 million for the 26-weeks ended September 27, 2003. The increase in interest was due to the larger credit facility implemented as part of the recapitalization in January 2004.

Income tax expense

Spinrite is a partnership and therefore is not subject to Canadian corporate income tax at normal manufacturing and processing rates. However, various factors dictate that Spinrite is liable for U.S. tax. The provision for income tax for the 26-weeks ended September 25, 2004 was \$1.3 million. The provision for income tax for the 26-weeks ended September 27, 2003 was \$1.9 million, or 35.6% of net earnings before taxes. The 2003 effective tax rate for the Predecessor approximates normal corporate income tax levels for a Canadian manufacturer.

Net income

As a result of the changes in revenue and expenses described herein, net income increased by \$11.1 million in the 26-weeks ended September 25, 2004 to \$14.6 million from \$3.5 million in the 26-weeks ended September 27, 2003.

Fifty-two weeks ended March 27, 2004 compared to year ended March 31, 2003

Amounts noted for the 52-weeks ended March 27, 2004 are compiled from the audited financial statements for the 43-weeks ended January 24, 2004 and the audited financial statements for the 9-weeks ended March 27, 2004 as compiled in note 2 of the *pro forma* consolidated financial statements contained in this prospectus.

Sales

Sales for the 52-weeks ended March 27, 2004 were \$79.3 million representing an increase of \$16.3 million, or 25.9%, over sales of \$63.0 million in the year ended March 31, 2003. Craft yarn sales increased \$19.2 million, or 34.3%, driven by strong product introductions and market share growth in the U.S. In addition, national mass merchandisers and craft chain stores continued to expand their number of retail store outlets, increasing Spinrite's distribution. Spinrite's strategy of marketing the Patons brand exclusively to national craft chain stores and independent outlets as an alternative to those brands available in national mass merchandisers continues to be successful. Commercial yarn sales decreased \$2.9 million, or 41.2%, as Spinrite continued to exit the commercial yarn business. See "Significant Developments — Shift to Craft Yarn Business".

Gross profit

Gross profit for the 52-weeks ended March 27, 2004 was \$28.6 million, up \$10.4 million, or 57.1%, from gross profit of \$18.2 million in the year ended March 31, 2003. Gross profit margin for the 52-weeks ended March 27, 2004 increased to 36.0% compared to 28.8% in the prior year. The increase in gross profit margin was primarily attributable to a shift in sales mix from basic yarns to affordable value-added fancy yarns while also containing production costs.

Sales, general and administrative expenses

Sales, general and administrative expenses of \$10.0 million for the 52-weeks ended March 27, 2004 was relatively unchanged from \$10.1 million in the year ended March 31, 2003.

Non-recurring management fees

Non-recurring management fees of \$0.1 million were incurred in the 52-weeks ended March 27, 2004 in accordance with a management services agreement signed with an affiliate of Spinrite. No such fees were incurred in the year ended March 31, 2003.

Foreign exchange loss on translation of U.S. dollar debt

Foreign exchange losses of \$0.5 million were recognized in the 52-weeks ended March 27, 2004 on translation of U.S. dollar debt. There was no U.S. dollar debt in 2003.

Non-recurring shareholder remuneration and expenses

Non-recurring shareholder remuneration and expenses were \$0.6 million in the 52-weeks ended March 27, 2004 and \$1.4 million in the year ended March 31, 2003.

Non-recurring royalty fees

Non-recurring royalty fees were \$0.5 million in the 52-weeks ended March 27, 2004 and \$0.2 million in the year ended March 31, 2003.

Adjusted EBITDA

Adjusted EBITDA of \$21.2 million for the 52-weeks ended March 27, 2004 increased by \$10.5 million, or 98.1%, from \$10.7 million in the year ended March 31, 2003.

Amortization

Amortization was \$1.3 million in the 52-weeks ended March 27, 2004 compared to \$1.6 million in the prior year, representing a decrease of \$0.3 million.

Interest

For the 52-weeks ended March 27, 2004, interest expense increased \$0.5 million to \$1.0 million from \$0.5 million in the year ended March 31, 2003.

Income tax expense

The effective income tax rate for the 52-weeks ended March 27, 2004 decreased to 27.8% from 32.4% in the year ended March 31, 2003. Income taxes were lower in the 52-weeks ended March 27, 2004 as a result of the change in taxpayer status from corporation to partnership.

Net income

As a result of the changes in revenue and expenses described herein, net income increased by \$7.6 million in the 52-weeks ended March 27, 2004 to \$12.4 million from \$4.8 million in the year ended March 31, 2003.

Year Ended March 31, 2003 Compared to Year Ended March 31, 2002

Sales

Sales of \$63.0 million in the year ended March 31, 2003 decreased by \$0.2 million, or 0.3%, from \$63.2 million in the year ended March 31, 2002. Spinrite was able to recover most of the lost craft yarn sales resulting from its inability to meet customer demands in 2002 by drastically reducing customer lead times on order fulfillment, increasing order fill rates and offering customers new and exciting yarns. Also, the yarn

category started showing signs of increased growth late in 2003. The increase in craft yarn sales was offset by a decrease in commercial yarn sales of \$0.8 million or 9.9%.

Gross profit

Gross profit of \$18.2 million in the year ended March 31, 2003 increased by \$5.8 million, or 46.8%, from \$12.4 million in the year ended March 31, 2002. Gross profit margin was 28.8%, up from 19.6% in 2002 due to measures taken by Spinrite to correct the operating issues encountered in 2002. See “Significant Developments — 2002 Plant Integration and Consolidation”. Gross profit margin was also favourably impacted by increased sales of value-added fancy yarns with significantly higher margins.

Sales, general and administrative expenses

Sales, general and administrative expenses of \$10.1 million in the year ended March 31, 2003 increased by \$0.9 million, or 9.8%, from \$9.2 million in the year ended March 31, 2002. The net increase was due to: (1) an increase of \$2.7 million in shareholder bonuses, most of which were non-recurring; (2) a decrease of \$0.9 million in sales and marketing expenses from reductions in the sales force and discretionary advertising; (3) a decrease of \$0.5 million in distribution expenses from lower facility costs and personnel reductions; and (4) a reduction of \$0.3 million in bad debts expense. The reduction in sales force was part of a revised sales strategy to assign many of Spinrite’s small accounts to independent distributors, allowing fewer Spinrite personnel to focus on major accounts. Lower distribution facility and personnel costs were a result of the consolidation of distribution facilities in 2002.

Non-recurring shareholder remuneration and expenses

Non-recurring shareholder remuneration and expenses of \$1.4 million in the year ended March 31, 2003 increased \$2.5 million from a recovery of \$1.1 million in the year ended March 31, 2002. The bonus recovery in 2002 was the result of the shareholder declining a bonus that had been declared in 2001.

Non-recurring royalty fees

Non-recurring royalty fees relating to the Patons trademark of \$0.2 million in the year ended March 31, 2003 decreased \$0.1 million from \$0.3 million in the year ended March 31, 2002.

Adjusted EBITDA

Adjusted EBITDA of \$10.7 million in the year ended March 31, 2003 increased by \$7.5 million, or 234.4%, from \$3.2 million in the year ended March 31, 2002.

Amortization

Amortization was \$1.6 million in the year ended March 31, 2003 compared to \$1.3 million in the year ended March 31, 2002.

Interest

Interest expense decreased \$0.1 million in the year ended March 31, 2003 to \$0.5 million from \$0.6 million in the year ended March 31, 2002.

Income tax expense

Income taxes of \$2.3 million in the year ended March 31, 2003 increased \$1.8 million from \$0.5 million in the year ended March 31, 2002.

Net income

As a result of the changes in revenue and expenses described herein, net income increased by \$3.3 million in the year ended March 31, 2003 to \$4.8 million from \$1.5 million in the year ended March 31, 2002.

Year Ended March 31, 2002 Compared to Year Ended March 31, 2001

Sales

Revenue for the year ended March 31, 2002 was \$63.2 million representing a decrease of \$1.0 million, or 1.6%, over revenue of \$64.2 million in the year ended March 31, 2001. Sales growth in craft yarns was inhibited by our inability to ship product in light of the circumstances described earlier which led to short shipments to Spinrite's customer base. See "Significant Developments — 2002 Plant Integration and Consolidation". Commercial yarn sales of \$7.8 million for the year ended March 31, 2002 decreased \$1.2 million, or 13.3%, from \$9.0 million in the year ended March 31, 2001 as the North American commercial yarn market continued to deteriorate.

Gross profit

Gross profit of \$12.4 million for the year ended March 31, 2002 decreased \$6.2 million, or 33.3%, from gross profit of \$18.6 million for the year ended March 31, 2001. Approximately \$5.1 million of this decrease related to our inability to ship product (\$1.6 million) and operational inefficiencies (\$3.5 million) described in "Significant Developments — 2002 Plant Integration and Consolidation". Operational inefficiencies resulted in excess labour and outsourcing costs.

Sales, general and administrative expenses

Sales, general and administrative expenses decreased \$4.1 million, or 30.8%, from \$13.3 million for the year ended March 31, 2001 to \$9.2 million for the year ended March 31, 2002. The decrease was primarily due to a shareholder bonus of \$1.8 million originally declared at March 31, 2001, but subsequently declined by the shareholder in 2002 due to the decline in profitability. The impact on sales, general and administrative expenses, year over year, was \$3.6 million.

Non-recurring shareholder remuneration and expenses

Non-recurring shareholder remuneration and expenses recovered was \$1.1 million for the year ended March 31, 2002 compared to remuneration and expenses paid of \$2.7 million for the year ended March 31, 2001.

Non-recurring royalty fees

Non-recurring royalty fees related to the Patons trademark were \$0.3 million in the year ended March 31, 2002 compared to \$0.2 million for the year ended March 31, 2001.

Adjusted EBITDA

Adjusted EBITDA of \$3.2 million in the year ended March 31, 2002 decreased by \$6.3 million, or 66.3%, from \$9.5 million in the year ended March 31, 2001.

Amortization

Amortization of \$1.3 million in the year ended March 31, 2002 increased \$0.3 million compared to \$1.0 million in the year ended March 31, 2001.

Interest

For the year ended March 31, 2002, interest expense was \$0.6 million compared to \$0.4 million in the year ended March 31, 2001.

Income tax expense

Income taxes decreased by \$1.3 million to \$0.6 million in the year ended March 31, 2002 compared to \$1.9 million in the year ended March 31, 2001.

Net income

As a result of the changes in revenue and expenses described herein, net income decreased by \$1.7 million in the year ended March 31, 2002 to \$1.5 million from \$3.2 million in the year ended March 31, 2001.

Year ended March 31, 2001 Compared to Year Ended March 31, 2000

Sales

Sales of \$64.2 million in the year ended March 31, 2001 decreased \$2.2 million, or 3.3% from \$66.4 million in the year ended March 31, 2000. Sales of craft yarns were relatively constant as management efforts were focused on beginning the operational improvements described in “Significant Developments — 2002 Plant Integration and Consolidation” above. Sales of commercial yarns declined \$1.2 million under continued price pressure from overseas suppliers.

Gross profit

Gross profit of \$18.6 million for the year ended March 31, 2001 increased \$0.2 million, or 1.1% from \$18.4 million in the year ended March 31, 2000. Gross profit margin of 29.0% increased from 27.8% as a result of the sales mix shift between craft and commercial yarns. Margins on craft yarns are normally 10-15% above those of commercial yarn sales.

Sales, general and administrative expenses

Sales, general and administrative expenses of \$13.3 million for the year ended March 31, 2001 increased \$2.4 million, or 22.0%, from \$10.9 million in the year ended March 31, 2000. The increase was due to: (1) an increase of \$1.2 million in distribution wages, facility costs and other expenses as Spinrite continued to expand the number of temporary storage sites (see “Significant Developments — 2002 Plant Integration and Consolidation”); (2) an increase of \$0.7 million in shareholder bonuses; and (3) an increase in sales and marketing expenses of \$0.5 million.

Non-recurring shareholder remuneration and expenses

Non-recurring shareholder remuneration and expenses were \$2.7 million in the year ended March 31, 2001 compared to \$2.4 million in the year ended March 31, 2000.

Non-recurring royalty fees

Non-recurring royalty fees related to the Patons trademark were \$0.2 million in the year ended March 31, 2001. Non-recurring royalty fees in the year ended March 31, 2000 were insignificant.

Adjusted EBITDA

Adjusted EBITDA of \$9.5 million in the year ended March 31, 2001 decreased by \$1.1 million, or 10.4%, from \$10.6 million in the year ended March 31, 2000.

Amortization

Amortization of \$1.0 million in the year ended March 31, 2001 was unchanged from the prior year.

Interest

Interest expense of \$0.4 million in the year ended March 31, 2001 was unchanged from the prior year.

Income tax expense

Income taxes of \$1.9 million in the year ended March 31, 2001 decreased \$0.8 million from \$2.7 million in the year ended March 31, 2000.

Net income

As a result of the changes in revenue and expenses described herein, net income decreased by \$0.9 million in the year ended March 31, 2001 to \$3.2 million from \$4.1 million in the year ended March 31, 2000.

Liquidity and Capital Resources

Cash Flow From Operations

During the 26-weeks ended September 25, 2004, Spinrite generated cash flow from operating activities of \$7.1 million. Operating income during the period was \$14.6 million, funding an outflow of \$7.5 million due to non-cash working capital changes driven by sales growth. The non-cash working capital changes included payment of bonuses to executives for the 52-weeks ended March 27, 2004 of \$0.8 million. \$2.9 million was paid in debt service obligations in the 26-weeks ended September 25, 2004, \$0.4 million for capital expenditures, \$1.9 million to the Predecessor relating to the January 2004 recapitalization, and distributions to partners of \$1.8 million to fund tax liabilities.

During the 52-weeks ended March 27, 2004, Spinrite generated cash flow from operating activities of \$10.6 million. Operating income contributed \$14.3 million to cash flow, funding an outflow of \$3.7 million due to non-cash working capital changes, mainly accounts receivable.

Management estimates that over the next five years annual capital expenditures will be approximately \$1.8 million consisting of expansion expenditure of \$1.05 million and maintenance expenditures of \$0.75 million. Anticipated expenditures include ventilation equipment to increase employee productivity, expansion of fancy yarn production lines to accommodate anticipated growth, and dispensing and supply equipment in the dyeing area to generate materials and labour cost savings while producing a more consistent product. Approximately \$4.4 million of expansion capital expenditures will be pre-funded on Closing of the Offering by the Existing Securityholders.

The Fund's principal sources of liquidity will be cash provided by operations, together with the New Credit Facility.

Management believes that on Closing sufficient working capital will be available to Spinrite.

Financing

Concurrent with Closing, Spinrite intends to repay its existing credit facilities and enter into a new credit facility with a group of Canadian chartered banks (the "New Credit Facility"). This facility will be a senior credit facility which it is anticipated will be up to \$67.7 million (or the U.S. dollar equivalent). The New Credit Facility will be comprised of: (1) a \$47.7 million term facility, maturing 3 years from Closing, to be used to repay existing debt and for such other purposes as agreed to between Spinrite and the lenders and (2) a \$20 million revolving facility for operating purposes, maturing one year from Closing. Approximately \$7.0 million to \$12.0 million of the revolving facility will represent documentary letters of credit for the purchase of imported goods.

Spinrite intends to repay all of its existing credit facilities in full with the proceeds of the Offering and the New Credit Facility, including the current revolving credit facility, term loans and mezzanine loans. As at September 25, 2004, approximately \$38.0 million was outstanding under the existing credit facilities. Upon repayment of the existing credit facilities, the security in favour of the lenders under the existing credit facilities will be released and discharged and new security will be put in place in favour of the lenders under the credit facilities as described above.

Risks and Uncertainties

See "Risk Factors" for a discussion of the risks affecting Spinrite's business.

Outlook

Many of Spinrite's sales mix and operational efficiency initiatives that started in fiscal 2002 have been completed. Therefore, management of Spinrite does not expect future earnings growth rates to increase at the same rate as in the recent past, but rather to track more closely with sales growth.

Management of Spinrite believes that, following the transactions contemplated by this prospectus, the New Credit Facility and ongoing cash flow from operations will be sufficient to allow Spinrite to meet ongoing requirements for capital expenditures, investments in working capital and distributions. However, Spinrite's needs may change, and in such an event, Spinrite's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Spinrite's control.

USE OF PROCEEDS

The net proceeds from the Offering, after deducting fees payable to the Underwriters and the estimated expenses of this Offering is estimated to be \$188,244,560. As described below, the Fund will use the net proceeds of the Offering, together with the New Credit Facility, to indirectly acquire 80% of the securities of Spinrite and to pre-fund \$4.4 million of future expansion capital expenditures of Spinrite.

REORGANIZATION AND ACQUISITION

Reorganization

Prior to Closing, a reorganization of the ownership of Spinrite will occur (the "Reorganization"). The Reorganization will include the following: (a) Holding LP will acquire all of the limited partnership units of Spinrite held by NSULC, Management NSULC and the Management Corporations; (b) in return for their limited partnership units of Spinrite (i) NSULC and Management NSULC will receive ordinary units of Holding LP (the "Ordinary Holding LP Units"); (ii) the Management Corporations will receive Ordinary Holding LP Units and subordinated units of Holding LP (the "Subordinated Holding LP Units"); and (iii) NSULC and Management NSULC will also receive cash from Holding LP which will be used to retire debt and return capital in respect of their debt and shares owned by Delaware LP and Spinrite Management LP, respectively; (c) Delaware LP will establish New NSULC and, using the cash received from NSULC, will subscribe for, and be issued, shares and debt of New NSULC; (d) Spinrite Management LP will establish New Management NSULC and, using the cash received from Management NSULC, will subscribe for, and be issued, shares and debt of New Management NSULC; (e) New NSULC will subscribe for, and be issued, Subordinated Holding LP Units; and (f) New Management NSULC will subscribe for, and be issued, Subordinated Holding LP Units. After giving effect to the Reorganization, Holding LP will own all of the limited partnership units of Spinrite, NSULC and Management NSULC and the Management Corporations will own Ordinary Holding LP Units representing 80% of the partnership units in Holding LP, New NSULC, New Management NSULC and the Management Corporations will own Subordinated Holding LP Units representing 20% of the partnership units in Holding LP and NSULC will own all of the shares of GP Inc. As part of the Reorganization, the Spinrite management arrangements outlined under "Executive Compensation — Management Arrangements" will be implemented.

Acquisition

On Closing, the Fund will issue 20,291,200 Units pursuant to the Offering and immediately thereafter the following transactions will take place:

- The Fund will use approximately \$18,824,456 of the net proceeds of the Offering to subscribe for Trust Units and the balance to subscribe for Series 1 Trust Notes having an aggregate principal amount of approximately \$169,420,104 and bearing interest at the rate of 3% per annum;
- The Trust will subscribe for 1 common share in the capital of Newco (representing 100% of Newco's issued and outstanding shares) for approximately \$15,235,932 and make a loan to Newco of approximately \$137,123,389, evidenced by a promissory note (the "Newco Note");

- Newco will purchase all the shares of NSULC for approximately \$147,316,330 from Delaware LP and all the shares of Management NSULC for approximately \$5,042,991 from Spinrite Management LP;
- The Trust will purchase all of the Ordinary Holding LP Units held by Management Corporations for an aggregate purchase price of approximately \$35,885,239;
- NSULC and Management NSULC will be wound up into Newco with the result that Newco will own the Ordinary Holding LP Units owned by NSULC and Management NSULC and the shares of GP Inc. owned by NSULC;
- Newco will transfer all of the Ordinary Holding LP Units and the common shares in GP Inc. to the Trust in repayment of the Newco Note and as a return of capital in respect of the common shares of Newco;
- Delaware LP will subscribe for, and be issued, additional common shares and debt of New NSULC;
- New NSULC will subscribe for, and be issued, approximately \$9,518,962 of Subordinated Holding LP Units;
- Spinrite Management LP will subscribe for, and be issued, additional common shares and debt of New Management NSULC; and
- New Management NSULC will subscribe for, and be issued, approximately \$325,928 of Subordinated Holding LP Units.

Following Closing and completion of the above transactions, the Fund will hold all of the Trust Units and the Trust Notes. The Trust will, in turn hold all of the Ordinary Holding LP Units, representing 80% of the total outstanding Holding LP Units as well as all of the common shares of GP Inc. The Existing Securityholders will directly and indirectly hold all of the Subordinated Holding LP Units representing approximately 20% of the Holding LP Units and Holding LP will hold all the limited partnership interests in Spinrite (the “LP Units”).

Retained Interest

Upon completion of the Offering, the Existing Securityholders will directly and indirectly own 5,072,800 Subordinated Holding LP Units, representing approximately 20% of the Holding LP Units. After the Subordination End Date (as defined herein), the Management Corporations will be entitled (subject to compliance with the New Credit Facility) to require the Trust to acquire all or a portion of their Subordinated Holding LP Units for Units of the Fund or cash. Delaware LP and Spinrite Management LP will have the right (subject to compliance with the New Credit Facility) to sell their debt and shares of New NSULC and New Management NSULC to Holding LP or, at the Fund’s option, to the Fund through a direct or indirect wholly owned subsidiary of the Trust, for cash at a purchase price equal to the fair market value of such interest. See “Principal Agreement — Liquidity Agreement”.

Distributions to holders of the Subordinated Holding LP Units will be subordinated in favour of distributions on Ordinary Holding LP Units (which will be held indirectly by the Fund) until the Subordination End Date.

The “Subordination End Date” is the earliest date on which both of the following conditions are satisfied:

- (a) The Fund has earned EBITDA (after adding back any amounts that are expensed but that are pre-funded as described under “Executive Compensation — Management Arrangements”) for the immediately preceding fiscal year (based on audited consolidated financial statements of the Fund) commencing with the financial year ended December 31, 2006, of at least \$29.9 million for such fiscal year; and
- (b) yearly cash distributions of at least \$1.00 per Unit and per Subordinated Holding LP Unit have been paid by the Fund or Holding LP as applicable, for each of the two most recent fiscal years or annualized in the case of 2005.

During the subordination period, distributions will only be paid on the Subordinated Holding LP Units at the end of a fiscal quarter to the extent that: (i) the Fund has paid average monthly distributions of at least \$0.08333 per Unit to Unitholders during that quarter, and (ii) any deficiency in such distributions to Unitholders during the preceding three quarters has been satisfied. If these targets are not satisfied, any deficiency will be

borne by the holders of the Subordinated Holding LP Units, distributions on which will be reduced to the extent necessary to support the continued payment of distributions on the Units and any applicable deficiency in such distributions. See “Description of Holding LP — Units”.

PRINCIPAL AGREEMENTS

Acquisition Agreement

The Fund, the Trust, Holding LP, Newco and the Existing Securityholders will enter into an acquisition agreement (the “Acquisition Agreement”) pursuant to which the Fund will indirectly acquire the Ordinary Holding LP Units held by Delaware LP (through New NSULC), Spinrite Management LP (through New Management NSULC) and the Management Corporations. Upon completion of the transactions contemplated by the Acquisition Agreement, the Fund will indirectly hold all the Ordinary Holding LP Units representing 80% of the outstanding Holding LP Units and the Existing Securityholders will indirectly own all of the Subordinated Holding LP Units representing approximately 20% of the outstanding Holding LP Units. The completion of the transactions contemplated by the Acquisition Agreement will be conditional on, among other things, the Offering having been completed. This summary is qualified in its entirety by reference to the provisions of the Acquisition Agreement, which contains a complete description of the representations, warranties, indemnities and related limitations. See “Material Contracts”.

The Acquisition Agreement contains customary representations and warranties and related indemnities from the Existing Securityholders in favour of the Fund, the Trust and Newco as to various matters, including a representation that, to their actual knowledge, this prospectus constitutes full, true and plain disclosure of all material facts and does not contain any misrepresentation and that there have been no claims of misrepresentation by the Existing Securityholders under the purchase agreement pursuant to which Spinrite was acquired. The Acquisition Agreement also contains customary representations and warranties and related indemnities from Spinrite and Holding LP in favour of the Fund, the Trust and Newco as to various matters, including customary business representations and warranties that this prospectus contains full, true and plain disclosure of all material facts relating to the business of Spinrite.

Generally, the representations and warranties of the Existing Securityholders of Spinrite and Holding LP survive the Closing for a period of one year, except for certain limited representations and warranties, which survive without limitation of time, and the “no misrepresentation” warranty and indemnity which survives for a period of 90 days after the expiration of the statutory limitation period under applicable securities legislation.

All of the Existing Securityholders have severally indemnified the Fund, the Trust and Newco in respect of breaches of their respective representations and warranties. The maximum liability of each Existing Securityholder under its indemnity in (a) the Acquisition Agreement will not exceed 100% of the net cash received by it, and (b) the underwriting agreement among the Fund, the Trust, GP Inc., Holding LP, the Underwriters, Spinrite and certain of the Existing Securityholders dated January 28, 2005 (the “Underwriting Agreement”) will not exceed 100% of the net cash received by Delaware LP, with any amount received under the Acquisition Agreement netted against any claims under the Underwriting Agreement. The maximum liability of the other Existing Securityholders in the Acquisition Agreement will not exceed 100% of the net cash received by such Existing Securityholders. Claims must, in the aggregate, be for an amount of at least \$1,000,000 before they may be made against the Existing Securityholders and Holding LP and Spinrite.

Purchasers under this prospectus will not have a direct statutory right of action against any of the Existing Securityholders. The purchasers’ sole remedy against the indemnifying Existing Securityholders will be Spinrite exercising its rights under the Acquisition Agreement to claim for indemnification in respect of a breach of the representations and warranties in that agreement by such Existing Securityholders subject to the limitations discussed in the preceding paragraph. As these Existing Securityholders hold separate financial interests in Spinrite, any recourse against them must be pursued individually. Furthermore, following Closing the Existing Securityholders will have no assets other than their retained interest (which at Closing Spinrite believes would be worth approximately \$50.7 million). As a result, there can be no assurance of recovery by Spinrite from all of those Existing Securityholders for breaches of their representations and warranties.

Liquidity Agreement

On the Closing, the Fund, the Trust, GP Inc., the Existing Securityholders and Holding LP will enter into a liquidity agreement (the “Liquidity Agreement”). The Liquidity Agreement will give the Existing Securityholders the right to exchange their interest in Holding LP for Units or cash, as described below (the “Liquidity Right”).

Pursuant to the Liquidity Agreement, the Management Corporations will have the right to require the Trust to purchase their Subordinated Holding LP Units for cash or Units. The Trust would fund this acquisition by issuing additional Trust Units and Trust Notes to the Fund in exchange for cash or Units. It is expected that the Fund will issue Units to the public in order to fund the Trust’s requirement to deliver cash.

Pursuant to the Liquidity Agreement, Delaware LP and Spinrite Management LP will have the right to require Holding LP to purchase their common shares and debt in New NSULC and New Management NSULC, respectively, for cash. In the event that this right is exercised, the Fund will have the overriding right to require that the shares and debt of New NSULC and New Management NSULC be acquired by it through a direct or indirect wholly owned subsidiary of the Trust rather than by Holding LP. Consequently, if Delaware LP or Spinrite Management LP exercises such right, the Fund through a direct or indirect wholly owned subsidiary of the Trust will be required to acquire the shares and debt of New NSULC or New Management NSULC. The purchase price for the debt and common shares of New NSULC and New Management NSULC will be equal to the fair market value thereof determined by an independent valuator hired by Holding LP. The Fund intends to fund such purchase (or enable a wholly owned subsidiary of the Trust to fund such purchase) by issuing additional Units to the public. The Fund has the right to veto the exercise of the Liquidity Right if, having regard to the state of the financial markets and its ability to fund the payment required, it determines that the exercise of the Liquidity Right at that time would have a material adverse effect on Unitholders. Upon exercise of such veto, the Liquidity Right could not then be exercised for a period of six months. This veto right may only be exercised by the Fund on three occasions. The Underwriters’ commissions in connection with such an offering will be paid by Delaware LP and Spinrite Management LP. All other expenses incurred in connection with such an offering will be paid by the Fund or one of its subsidiary entities.

The Liquidity Right cannot be exercised prior to the Subordination End Date except as described below. After December 30, 2009, the Management Corporations may exercise their Liquidity Rights even if the Subordination End Date has not occurred, provided that the number of Units or the cash equivalent value thereof received will be adjusted in accordance with the following formula:

$$A/B \times C$$

Where:

- A = the average quarterly cash distributions paid on the Subordinated Holding LP Units for the 12-month period ending on the last day of the fiscal quarter immediately preceding such time;
- B = the amount of \$0.25 per Subordinated Holding LP Unit, being the target average quarterly distributions payable on the Subordinated Holding LP Units; and
- C = the number of Subordinated Holding LP Units being transferred in exchange for Units by the holders of Subordinated Holding LP Units at that time;

provided that the Subordinated Holding LP Units may not in any event be exchanged for Units or the cash equivalent value thereof on more than a one-for-one basis.

After December 31, 2009, Delaware LP and Spinrite Management LP will have the right, even if the Subordination End Date has not occurred, to sell their shares and debt of New NSULC and New Management NSULC, respectively, at a purchase price equal to the fair market value of such interests subject to a discount factor equal to the quotient A/B where A and B are as defined above.

The Existing Securityholders may not exercise their Liquidity Rights prior to the Subordination End Date if Spinrite has borrowed to pay distributions on the Subordinated Holdings LP Units during the relevant 12-month period.

Securityholders' Agreement

Concurrent with the Closing, New NSULC, New Management NSULC, the Management Corporations, the Fund, the Trust, GP Inc. and Holding LP will enter into the Securityholders' Agreement in respect of GP Inc. and Holding LP.

Management

The Securityholders' Agreement will provide for the composition of the board of directors of GP Inc. and its committees as described under "Management, Trustees and Directors — Governance of Holding LP". The party entitled to direct the appointment of a director can require the removal or replacement of members of the board of directors that it designated at any time at its sole discretion.

Partnership Interests

Except as described under "Description of the Fund — Take-Over Bids", any transfer of Holding LP Units will require the prior written approval of GP Inc. Notwithstanding the foregoing, any permitted transferee of Holding LP Units must agree to be bound by the Holding LP Partnership Agreement and the Securityholders' Agreement and will assume the benefits and obligations of the transferring party thereunder.

Restrictions on Authority of GP Inc.

The authority of GP Inc. will be limited in certain respects under the Securityholders' Agreement. For so long as the Existing Securityholders own, directly or indirectly, at least 20% of the outstanding Holding LP Units, GP Inc. will be prohibited from causing or permitting Holding LP or its subsidiaries to engage in certain material transactions without the approval of one of the directors appointed by those parties. These material transactions include:

- changing the size of the board of directors;
- the sale, assignment, lease, exchange or other disposition of substantially all of the assets of Holding LP or any of its subsidiaries (otherwise than in connection with an internal reorganization);
- any amalgamation, arrangement or other merger of Holding LP or any of its subsidiaries with any other entity (otherwise than in connection with an internal reorganization);
- the acquisition by Holding LP or any of its subsidiaries of any material assets or any interest in another business;
- the issuance by Holding LP or any of its subsidiaries of additional Holding LP Units or other equity or equity-linked securities;
- the incurrence of indebtedness by Holding LP or any of its subsidiaries, other than indebtedness in the types and amounts contemplated under the New Credit Facility or a material amendment to the terms of the New Credit Facility;
- any change to the constating documents of Holding LP or any of its subsidiaries;
- the voluntary dissolution of Holding LP or any of its subsidiaries or the winding-up of its affairs; and
- any change in the auditors of Holding LP or any of its subsidiaries.

The Securityholders' Agreement will also provide that any modification of GP Inc.'s employment agreements with its Named Executive Officers from time to time will be presented for approval by the board of directors of GP Inc. following a review and recommendation by the compensation and governance committee.

Pursuant to the Securityholders' Agreement, the Fund and the Trust will agree that any material amendment to certain provisions of the constating documents of the Fund or the Trust which may be prejudicial to the Existing Securityholder will be subject to the prior approval of Delaware LP and Spinrite Management LP

so long as the Existing Securityholders own, directly or indirectly, at least 20% of the outstanding Holding LP Units.

Amendment and Termination

The Securityholders' Agreement will provide that it can only be amended, modified or waived with the approval of GP Inc., the Trust, Delaware LP or Spinrite Management LP (such approval, in the case of the Trust, to be given by a majority of its trustees), so long as the Existing Securityholders, directly or indirectly own at least 15% of the outstanding Holding LP Units. The Securityholders' Agreement will terminate upon the Existing Securityholders owning, directly or indirectly, less than 15% of the Holding LP Units. The Partnership Agreement will remain in effect notwithstanding any termination of the Securityholders' Agreement.

CREDIT FACILITY

Concurrent with Closing, Spinrite intends to repay its existing credit facilities and enter into the New Credit Facility with a group of Canadian chartered banks (the "Lenders"). The New Credit Facility will be a senior credit facility of up to an aggregate amount of \$67.7 million (or the U.S. dollar equivalent). The New Credit Facility will be comprised of: (1) a term facility, up to an aggregate amount of up to \$47.7 million, maturing 3 years from Closing, to be used to repay existing debt and for general operating requirements; and (2) a revolving facility for operating purposes, up to an aggregate amount of up to \$20.0 million, maturing 364 days from Closing. The New Credit Facility will be secured by security interests over substantially all of the assets of Spinrite and GP Inc., guaranteed by Holding LP and secured by a pledge by Holding LP of its ownership interest in Spinrite, guaranteed by the Trust and secured by a pledge by the Trust of its ownership interests in Holding LP and GP Inc. and guaranteed by GP Inc. and secured by a pledge by GP Inc. of its general partnership interests in Holding LP and Spinrite. The New Credit Facility will be subject to customary representations, warranties, covenants, events of default and other terms and conditions, including limits on additional indebtedness and security without the consent of the Lenders, and provisions restricting distributions or payment of interest by Spinrite to Holdings LP in the event of a default or an event of default. The terms of the New Credit Facility will be subject to change from time to time. The New Credit Facility is expected to be in place on Closing, with the term facility fully drawn and nothing is expected to be drawn under the revolving facility.

Spinrite intends to repay all of its existing credit facilities in full with the New Credit Facility, including the current revolving credit facility (the "Current Facility"), term loans and mezzanine loans. As at September 25, 2004, approximately \$38.0 million was outstanding under the existing credit facilities. Upon repayment of the existing credit facility, the security in favour of the Lenders under the existing credit facility will be released and discharged and the security for the Lenders will be put in place as described above.

DESCRIPTION OF THE FUND

Declaration of Trust

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, which summary is not intended to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions. See "Material Contracts".

Activities of the Fund

The Declaration of Trust provides that the Fund is restricted to:

- acquiring, investing in, holding, transferring, disposing of and otherwise dealing with investments in debt and/or equity securities of the Trust, Holding LP and Spinrite, as well as other corporations, partnerships, trusts and other persons conducting business in the craft yarn industry;

- temporarily holding cash and short-term investments in interest bearing accounts, short-term government debt or investment-grade corporate debt for the purposes of the Fund's activities including paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption or repurchase of any Units or other securities of the Fund, and making distributions to Unitholders;
- issuing Units and other securities of the Fund, including instalment receipts, securities convertible into, or exchangeable or exercisable for Units or other securities of the Fund or other rights, warrants, receipts or options convertible into or exchangeable or exercisable for Units or other securities of the Fund for the purposes contemplated in the Declaration of Trust;
- issuing debt securities or otherwise borrowing and pledging, mortgaging, charging, granting a security interest in or otherwise encumbering the assets of the Fund as security;
- guaranteeing the payment of any indebtedness, liability or obligation of the Trust or of another wholly owned direct or indirect subsidiary or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;
- disposing of the assets of the Fund;
- issuing or redeeming rights and Units under any incentive plan or Unitholder rights plan adopted by the Fund;
- repurchasing or redeeming securities issued by the Fund;
- satisfying the obligations, liabilities and indebtedness of the Fund; and
- undertaking such other activities, or taking such actions, as are related to or in connection with the foregoing or as are contemplated by the Declaration of Trust or as are approved by the trustees from time to time;

provided that the Fund will not undertake any activity, take any action, fail to take any action or make any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act or result in the Units being treated as "foreign property" for purposes of the Tax Act.

It is intended that at all times the Fund will qualify as a "mutual fund trust" for purposes of the Tax Act and that its Units will not constitute "foreign property" for purposes of the Tax Act. In furtherance of that intention, the trustees are required to use their reasonable commercial efforts to ensure that the Fund maintains its status as a "mutual fund trust" for purposes of the Tax Act and that the Units do not constitute "foreign property" for purposes of the Tax Act.

Units

An unlimited number of Units may be issued under the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. The Units issued in connection with the Offering are not subject to future calls or assessments, and entitle the holder to one vote for each Unit held at all meetings of Unitholders. In determining the Unitholders who are entitled to receive notice of and to vote or act at any meeting of Unitholders, the trustees may fix a date not more than 60 days and not less than 21 days prior to the date of the meeting as a record date. Except as set out under "Redemption Right" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

No certificates will be issued for fractional Units and fractional Units will not entitle the holders thereof to vote. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, does not carry on or intend to carry on the business of a trust company.

Issuance of Units

The Declaration of Trust provides that the Units or rights to acquire Units may be issued at those times, to those persons, for that consideration and on the terms and conditions the trustees determine, including pursuant to any Unitholder rights plan, or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that, unless the trustees determine otherwise, immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated so that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate (if any) representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. However, if amounts so distributed represent income, then non-resident holders will be subject to withholding tax thereon and the consolidation will not result in those non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificate (if any) representing their pre-consolidation Units in exchange for a certificate representing their post-consolidation Units.

Trustees

The Fund will have a minimum of three trustees and a maximum of ten trustees, a majority of whom must be residents of Canada within the meaning of the Tax Act.

Upon Closing, the trustees of the Fund will be James R. Fleck, Robert T.E. Gillespie, Gary J. Lukassen, Anthony G. Miller and George S. Taylor (all of whom are also trustees of the Trust and directors of GP Inc.). See “Management, Trustees and Directors” for the principal occupations of the trustees. Trustees will be appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting, subject to their earlier resignation, removal or disqualification.

The Declaration of Trust provides that, subject to its terms and conditions, the trustees may, in respect of the trust assets, and the investments and affairs of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The trustees are to supervise the activities and manage the affairs of the Fund. The trustees are responsible for, among other things:

- maintaining records and providing reports to Unitholders;
- investing funds held by the Fund;
- making distributions from the Fund to Unitholders;
- making payments of the redemption or repurchase price of Units;
- acting for, voting on behalf of and representing the Fund as a holder of securities of the Trust; and
- voting in favour of the Fund’s nominees to serve as trustees of the Trust and directors of GP Inc.

In order to fulfil their obligations to ensure the Fund maintains its status as a “mutual fund trust”, the trustees will have the right to require Unitholders to sell Units, to require Unitholders to provide evidence of their status as residents or non-residents of Canada, to suspend the voting rights and/or distribution rights attaching to Units held by Unitholders who refuse to comply with a notice requiring them to sell Units and to sell, on behalf of such Unitholders, their Units and to pay to them only the net proceeds of such sales.

The trustees will have the right to approve the adoption of a Unitholder rights plan if the trustees determine in good faith that the action is appropriate. That Unitholder rights plan will be effective as at the date of the adoption and will terminate six months from the date of its adoption, unless ratified and confirmed by the Unitholders in accordance with the Declaration of Trust.

Any one or more of the trustees may resign upon 30 days’ written notice to the Fund (provided that the number of remaining trustees would be sufficient to constitute a quorum) and may be removed by a resolution

passed by a majority of the Unitholders. The vacancy created by the resignation or removal may be filled at the same meeting of Unitholders, failing which it may be filled by the remaining trustees.

A quorum of the trustees, being a majority of the trustees then holding office, may fill a vacancy in the trustees, except a vacancy resulting from an increase in the number of trustees beyond the limit described below or from a failure of the Unitholders to elect the required number of trustees. In the absence of a quorum of trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of trustees, the trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the trustees fail to call that meeting or if there are no trustees then in office, any Unitholder may call the meeting. The trustees may, between annual meetings of Unitholders, appoint one or more additional trustees to serve until the next annual meeting of Unitholders, but the number of additional trustees may not at any time exceed one-third of the number of trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that the trustees will act honestly and in good faith with a view to the best interests of the Fund and the Unitholders and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each trustee will be entitled to indemnification from the Fund in respect of the exercise of the trustee's powers and the discharge of the trustee's duties provided that the trustee acted honestly and in good faith with a view to the best interests of the Fund and all the Unitholders and exercised the degree of care, diligence and skill required by the Declaration of the Trust or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, provided that the trustee had reasonable grounds for believing that his/her conduct was lawful.

Distributions

The Fund intends to make distributions of its available cash to Unitholders to the maximum extent possible. The amount of cash to be distributed monthly per Unit to the Unitholders will be equal to a *pro rata* share of all amounts received by the Fund for and in respect of the distribution period, including interest and principal repayments on the Trust Notes and the distributions received by the Fund on or in respect of Trust Units owned by the Fund, less:

- administrative expenses and other obligations of the Fund;
- satisfaction of any debt service obligations (principal and interest) on indebtedness of the Fund;
- amounts which may be paid by the Fund in connection with any cash redemptions or repurchases of Units; and
- any amount that the trustees may reasonably consider to be necessary to provide for the payment of any liability, costs or expense, including any tax liability of the Fund, that has been or is reasonably expected to be incurred in the activities and operations of the Fund and for reasonable reserves.

Monthly distributions are to be paid to Unitholders of record on the last business day of each month and will be paid within 15 days following each month end. The initial cash distribution for the period from Closing to February 28, 2005 is estimated to be \$0.0625 per Unit (assuming that Closing occurs on February 8, 2005) and is expected to be paid on or before March 15, 2005, to Unitholders of record on February 28, 2005.

The Fund may make additional distributions in excess of the monthly distributions during the year, as the trustees may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for income taxes under Part I of the Tax Act in such year and Unitholders will have a right to enforce payment of such distribution on December 31. Where cash of the Fund is applied to fund redemptions of Units or is otherwise unavailable for cash distribution, to the extent necessary to ensure that the Fund does not have any such income tax liability, distributions will be paid to Unitholders in the form of additional Units. Those additional Units are expected to be issued under or pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable

securities regulatory authorities or a prospectus and will be consolidated immediately following their issuance. See “Issuance of Units” above.

Holders of Units who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. The Fund will withhold from monthly distributions all amounts required to be withheld by law, whether such distributions are in the form of cash, additional Units or otherwise. In the event of a distribution in the form of additional Units, the trustees may sell such Units to pay such withholding taxes and to pay all of the trustees’ reasonable expenses with regard thereto. Any such sale will be made on any stock exchange or other market on which the Units are listed or traded. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

Redemption Right

Units are redeemable at any time on demand by the Unitholders. As the Units will be issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer or other participant in the depository system administered by the Canadian Depository for Securities Limited (“CDS”) who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. As at the close of business on the date the redemption notice is received, all rights to and under the Units tendered for redemption will be surrendered and the holder will be entitled to receive a price per Unit (the “Redemption Price”) equal to the lesser of:

- 90% of the “market price” of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not then listed on a stock exchange, the principal market on which the Units are quoted for trading) during the ten consecutive trading day period ending on the trading day immediately after the date on which the Units were surrendered for redemption (the “Redemption Date”); and
- 100% of the “closing market price” of the Units on the principal market on which the Units are quoted for trading on the date that the Units were surrendered for redemption.

For the purposes of this calculation, “market price” will be an amount equal to the average of the closing price during the applicable trading period of the Units for each of the trading days on which there was a closing price, provided that:

- if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the “market price” will be an amount equal to the average of the highest and lowest prices for each of the trading days on which there was a trade; and
- if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the “market price” will be the average of the following prices established for each of the ten trading days:
 - (i) the average of the last bid and last asking prices of the Units for each day there was no trading;
 - (ii) the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and
 - (iii) the average of the highest and lowest prices of the Units for each day that there was trading if the exchange or market provides only the highest and lowest prices of Units traded on a particular day.

The “closing market price” for the purpose of the foregoing calculation will be:

- an amount equal to the closing price of the Units if there was a trade on that day and the exchange or market provides a closing price;
- an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or

- the average of the last bid and last asking prices of the Units if there was no trading on that day.

The total Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month will not exceed \$50,000, provided that the trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or quoted on another market which the trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period ending on the trading day immediately prior to the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then for each Unit tendered for redemption shall, subject to any applicable regulatory approvals, be redeemed by way of a distribution *in specie* of the assets of the Fund which will generally be equal to a *pro rata* number of securities of the Trust (calculated on a fully diluted basis and net of the Unitholder's net *pro rata* share of the aggregate unpaid liabilities of the Fund) held by the Fund. In such event, the Unitholder's *pro rata* share of Trust Units and Series 1 Trust Notes will be redeemed by the Trust in consideration of Series 2 Trust Notes and Series 3 Trust Notes, respectively, as provided in the declaration of trust creating the Trust (the "Trust Declaration of Trust") and the note indenture governing the Trust Notes (the "Trust Note Indenture"). Such Series 2 Trust Notes and Series 3 Trust Notes will be distributed *in specie* by the Fund to the redeeming Unitholder in lieu of the net *pro rata* share of Trust Units and Series 1 Trust Notes, respectively. Series 2 Trust Notes and Series 3 Trust Notes will be issued only in integral multiples of \$100. Where the principal amount of Series 2 Trust Notes or Series 3 Trust Notes to be received by a Unitholder includes a multiple of less than \$100, the number will be rounded to the next lowest integral multiple of \$100. The Fund shall be entitled to all interest paid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution *in specie*. Where the Fund makes a distribution *in specie* of a *pro rata* number of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of the Series 1 Trust Notes and Trust Units and the exchange and distribution of such securities to the Unitholder on the redemption of Units. See "Certain Canadian Federal Income Tax Considerations".

Despite the foregoing, in the event the Fund has granted security on any of its assets (including, if applicable, Trust Units and Trust Notes) then, in the event of *in specie* distributions, such assets may be distributed directly or indirectly (including through another entity) in such manner as is considered appropriate by the trustees so as to preserve such security interest while giving redeeming Unitholders, directly or indirectly, the *pro rata* interests to which they are entitled.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Securities of the Trust that may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such securities and such securities may be subject to resale restrictions under applicable securities laws or security interests in favour of secured creditors of the Fund and its affiliates. Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time. See "Certain Canadian Federal Income Tax Considerations".

Repurchase of Units by the Fund

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities laws and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases may constitute an “issuer bid” under applicable Canadian securities laws and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

Meetings of Unitholders will be called and held annually for the election of trustees and the appointment of auditors of the Fund. The Declaration of Trust provides that the Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of trustees of the Fund;
- the election or removal of nominees of the Fund to serve as trustees of the Trust or directors of GP Inc. (except filling casual vacancies);
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Declaration of Trust (except as described below under “Amendments to the Declaration of Trust”);
- any amalgamation, merger, consolidation, arrangement or other business combination except in conjunction with an internal reorganization;
- the termination of the Fund;
- the sale, lease, exchange or other distribution or disposition of all or substantially all of the assets of the Fund (other than in connection with an *in specie* redemption of Units by the Fund);
- the exercise of certain voting rights attached to the securities of the Trust held by the Fund (see “Exercise of Certain Voting Rights Attached to Securities of the Trust” below);
- ratification of any Unitholder rights plan, distribution reinvestment plan, Unit purchase plan, Unit option plan or other compensation plan contemplated by the Declaration of Trust requiring Unitholder approval under applicable laws, regulations or stock exchange rules;
- the dissolution or winding-up of the Fund prior to the end of its term; and
- any other matters that the trustees may determine or as may be properly brought before a meeting including any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Unitholders for approval.

No other action taken by Unitholders or any other resolution of the Unitholders at any meeting will in any way bind the trustees.

A resolution relating to the following matters must be passed by a simple majority of the votes cast by Unitholders: (1) electing or removing trustees of the Fund, (2) electing or removing nominees of the Fund to serve as trustees of the Trust and directors of GP Inc., (3) appointing or removing the auditors of the Fund, (4) appointing an inspector, (5) with respect to the exercise of certain voting rights attached to the securities of the Trust, (6) ratifying any Unitholder rights plan, distribution reinvestment plan, Unit purchase plan, Unit option plan or other compensation plan contemplated by the Declaration of Trust requiring Unitholder approval under applicable laws, regulations or stock exchange rules, and (7) where applicable, any matter required by securities law, stock exchange rules or other laws or regulations to be submitted to Unitholders for approval. The balance of the foregoing matters must be passed by special resolution requiring two-thirds approval.

A special meeting of Unitholders may be convened at any time and for any purpose by the trustees and must be convened, if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders of record may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy holder need not be a Unitholder. Two persons present in person either holding personally or representing as proxies in total at least 10% of the votes attached to all outstanding Units will constitute a quorum for the transaction of business at all meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the Units. This 49% limitation will be applied with respect to the issued and outstanding Units on both a non-diluted basis and a fully-diluted basis. The trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the trustees become aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of more than 49% of the Units then outstanding are, or may be, non-residents of Canada or that such a situation is imminent, the trustees may make a public announcement thereof and shall not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a declaration that the person is not a non-resident of Canada. If, notwithstanding the foregoing, the trustees, in their sole discretion, determine that more than 49% of the Units are held by non-residents, the trustees may send a notice to non-resident Unitholders chosen in inverse order to the order of acquisition or registration or in such other manner as the trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 30 days. If the persons receiving such notice have not sold the specified number of Units or provided the trustees with satisfactory evidence that they are not non-residents of Canada within such period, the trustees may, on behalf of such persons, sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected Unitholders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Amendments to the Declaration of Trust

Subject to limited exceptions, the Declaration of Trust may be amended or altered from time to time by the trustees with the consent of Unitholders by special resolution requiring two-thirds approval.

The trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the trustees or over the Fund;
- which, in the opinion of counsel to the trustees, provide additional protection or benefits for Unitholders;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the trustees, are necessary or desirable and not prejudicial to the Unitholders;
- which, in the opinion of the trustees, are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the trustees or the Fund; and
- for the purposes of ensuring that the Fund continues to qualify as a “mutual fund trust” under the Tax Act.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on December 8, 2004. On a date selected by the trustees which is not more than two years prior to the expiry of the term of the Fund, the trustees are obligated to commence to wind up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Unitholders may by special resolution require the trustees to commence to wind up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the trustees will give notice to the Unitholders, which notice will designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the trustees will proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for that purpose will, subject to any direction to the contrary in respect of a termination authorized by a special resolution of the Unitholders, sell and convert into money the interest in Trust Units and Trust Notes and all other assets comprising the Fund assets in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the trustees will distribute the remaining part of the proceeds of the sale of the interest in Trust Units and Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the trustees are unable to sell all or any of the foregoing assets or other assets which comprise part of the Fund assets by the date set for termination, the trustees may distribute the remaining interest in the Trust Units and Trust Notes or other assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals. Despite the foregoing, in the event the Fund has granted security on any of its assets (including, if applicable, Trust Units and Trust Notes) then, in the event of *in specie* distributions, such assets may be distributed directly or indirectly (including through another entity) in such manner as is considered appropriate by the trustees so as to preserve such security interest while giving redeeming Unitholders, directly or indirectly, the *pro rata* interests to which they are entitled.

Take-over Bids

The Declaration of Trust and the Holding LP Partnership Agreement contain provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the aggregate of the Units and Subordinated Holding LP Units on a fully diluted basis (other than Units and Subordinated Holding LP Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units and Subordinated Holding LP Units held by the holders thereof who did not accept the take-over bid on the terms offered by the offeror.

Exercise of Certain Voting Rights Attached to Securities of the Trust

The interests in the Trust held from time to time by the Fund may be voted by the trustees, provided that, if the Unitholders pass a resolution appointing or removing nominees of the Fund to serve as trustees of the Trust or directors of GP Inc., the interests in the Trust held or controlled by the Fund will be voted to cause the election or removal of those nominees.

The Declaration of Trust provides that the Fund will not vote the interests in the Trust held from time to time by the Fund to authorize, among other things:

- any sale, lease, exchange or other disposition or distribution of, or any interests in, all or substantially all of the assets of the Trust, GP Inc., Holding LP or Spinrite except in conjunction with an internal reorganization or *bona fide* pledges, mortgages, charges, security interests or other encumbrances in connection with permitted guarantees or in the ordinary course of business;
- any amalgamation, arrangement, merger, combination or capital reorganization of the Trust, GP Inc., Holding LP or Spinrite with any other entity, except in conjunction with an internal reorganization;

- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes to the Fund that are identical in all material respects to the Trust Notes issued in conjunction with the Offering;
- the winding-up or dissolution of any of the Trust, Holding LP, Spinrite or GP Inc. prior to the end of the term of the Fund, except in conjunction with an internal reorganization;
- any material amendment to the constating documents of any of the Trust, Holding LP, Spinrite or GP Inc. to change the authorized capital of those entities or to effect any other change in a manner which may be prejudicial to the Fund or the Unitholders;
- any other matter that, under the Trust Declaration of Trust, requires or permits the approval of the holders of Units by special resolution; or
- any action by an affiliate of the Fund that would result in the Units constituting foreign property for the purposes of the Tax Act;

without the authorization of the Unitholders by special resolution passed by a two-thirds majority.

Information and Reports

The Fund will furnish to Unitholders, in accordance with applicable securities laws, all financial statements of the Fund and Spinrite (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial and territorial legislation.

Prior to each meeting of the Unitholders, the trustees of the Fund will provide to the Unitholders (along with notice of the meeting) all information as is required by applicable law and by the Declaration of Trust to be provided to Unitholders.

Spinrite has undertaken to provide the Fund with a report of any material change that occurs in its business and with quarterly and annual financial statements accompanied by management's discussion and analysis for the period covered by such financial statements, in each case, in form and content that Spinrite would be required to file with the Ontario Securities Commission as if it were a reporting issuer under Ontario securities laws. All of those reports and financial statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements under applicable securities laws relating to reporting of material changes in its affairs and the filing and delivery to securityholders of financial statements as required under applicable securities laws.

In addition, Spinrite has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and to the Fund that, following Closing and for so long as the Fund is a reporting issuer under applicable securities laws, they will together:

- issue a press release and deliver to the Fund for filing a material change report in respect of any material change in its business, operations or capital;
- provide to the Fund the information that would be required to be included in an annual information form or any other report or document required to be filed with the securities commissions or other securities regulatory authorities as if they were reporting issuers in each of the provinces and territories of Canada; and
- to the extent that the Fund does not prepare financial statements including its results of operations, deliver to the Fund quarterly unaudited and annual audited financial statements together with corresponding management's discussion and analysis for those periods for filing with the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and delivery to the Fund's registered and beneficial Unitholders in accordance with applicable securities laws.

Such releases, forms, reports and statements, in each case, shall be in the form and content that Spinrite would be required to file with the Ontario Securities Commission as if it were a reporting issuer under Ontario

securities laws. The quarterly unaudited and annual audited financial statements of Spinrite will be delivered by the Fund to its Unitholders concurrently with the financial statements of the Fund for the corresponding period.

In future interim and annual filings, the Fund will include relevant information and discussions comparing the Fund's business with the predecessor Spinrite. The Fund and Spinrite believe that comparative financial information relating to revenue, cost of revenue and sales, general and administrative expenses are appropriate to include in the operating results of the Fund. The information will be provided on a comparative basis in future interim and annual management discussion and analysis.

The chief executive officer and chief financial officer of GP Inc. will perform functions similar to a chief executive officer and chief financial officer in respect of the Fund. As such the chief executive officer and chief financial officer of GP Inc. will execute the certificates required to be filed pursuant to Multilateral Instrument 52-109 — "Certification of Disclosure in Issuers' Annual and Interim Filings".

Trustees of the Fund will be required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units of the Fund.

In addition, Holding LP and GP Inc. have undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and to the Fund that, following Closing and for so long as the Fund is a reporting issuer under applicable securities laws, they will together:

- require each of their directors and senior officers to provide the securities commissions or other securities regulatory authorities in each of the provinces of Canada with an undertaking agreeing that he or she will file in respect of the Fund pursuant to applicable insider reporting requirements as if he or she were an insider of the Fund, reports of transactions in Units of the Fund; and
- require each present and each future principal shareholder or partner (other than the Trust) and each director or officer of each present or future principal shareholder or partner to provide the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada with an undertaking agreeing that he, she or it will file in respect of the Fund pursuant to applicable insider reporting requirements as if he, she or it were an insider of the Fund, reports of transactions in Units of the Fund.

In addition, the Fund has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada that following Closing and for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- treat Holding LP and GP Inc. as subsidiaries of the Fund; however, if generally accepted accounting principles prohibit the consolidation of financial information of Holding LP and GP Inc., the Fund will provide Unitholders with separate financial statements for Holding LP and GP Inc. (and any of its significant business interests), for as long as Holding LP and GP Inc. (and any of its significant business interests) represents a significant asset of the Fund and Holding LP and GP Inc. will undertake to the Fund to provide it with such separate financial statements;
- take the appropriate measures to require each person who would be an insider of Holding LP and GP Inc., if Holding LP and GP Inc. were a reporting issuer, to file insider reports about trades in securities of the Fund (including securities which are exchangeable into Units of the Fund); and
- annually certify that it has complied with this undertaking, and file the certificate on the System for Electronic Document Analysis and Retrieval (SEDAR) concurrently with the filing of its annual financial statements.

Book-Entry Only System

Registration of interests in and transfers of the Units will be made only through a book-based system administered by CDS. On Closing, the trustees will deliver to CDS one or more certificates representing the total number of Units subscribed for under this Offering. Units must be purchased, transferred and surrendered for redemption through a participant in the CDS depository service. All rights of Unitholders must be exercised through, and all payments or other property to which the Unitholder is entitled will be made or delivered by

CDS or the CDS participant through which the Unitholder holds the Units. Upon a purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge Units or otherwise take action with respect to the Unitholder's interest in Units (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the book-entry only system, in which case certificates for the Units in fully registered form would be issued to beneficial owners of those Units or their nominees.

Conflicts of Interest Restrictions and Provisions

The Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Declaration of Trust contains provisions, similar to those contained in the *Business Corporations Act* (Ontario), that require each trustee and officer of the Fund's subsidiary to disclose to the Fund any direct interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the subsidiary, and require each such trustee or officer of the Fund's subsidiary to refrain from voting on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to: (1) his or her remuneration as a trustee or officer of the Fund's subsidiary, as applicable; (2) insurance or indemnity; or (3) a contract or transaction with an affiliate of the Fund.

DESCRIPTION OF THE TRUST

The Trust Declaration of Trust contains provisions substantially similar to those of the Declaration of Trust. The principal differences between the Trust Declaration of Trust and the Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the respective texts of the Trust Declaration of Trust and the Declaration of Trust.

General

The Trust is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust. It is a limited purpose trust and its activities are restricted to, among other things:

- acquiring, investing in, holding, transferring, disposing of or otherwise dealing with investments in debt and/or equity securities, and/or assets of Spinrite, Holding LP and GP Inc. and/or their affiliates, as well as other corporations, partnerships, trusts or other persons conducting business in the craft yarn industry and such other investments as the trustees of the Trust may determine;
- temporarily holding cash and short-term investments in interest bearing accounts, short-term government debt or investment grade corporate debt for the purposes of the Trust's activities, including making investments or paying the expenses and liabilities of the Trust, paying amounts owing by the Trust in connection with the Trust Notes or the redemption of any Trust Units, and making distributions to holders of Trust Units;
- issuing Trust Units and rights to acquire Trust Units including installment receipts, subscription receipts and other securities (including debt) convertible into or exchangeable for Trust Units as contemplated in the Trust Declaration of Trust;
- issuing debt securities, including Trust Notes, or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering the assets of the Trust as security;
- disposing of assets of the Trust;
- repurchasing and redeeming securities issued by the Trust;

- guaranteeing the obligations of Holding LP, or any affiliate of the Trust or Holding LP, pursuant to any good faith debt for borrowed money incurred by Spinrite or the affiliate, as the case may be, and pledging, mortgaging, charging, granting a security interest in or otherwise encumbering the assets of the Trust, including securities held by the Trust as security for such guarantee;
- satisfying the obligations, liabilities and indebtedness of the Trust; and
- undertaking such other activities, or taking such actions, as are related to or in connection with the foregoing or as are contemplated by the Trust Declaration of Trust or as may be approved by the Trust's trustees from time to time;

provided that the Trust shall not undertake any activity, take any action, or make any investment that would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act, or result in the Units constituting "foreign property" for the purposes of the Tax Act.

As at the date of this prospectus, the Trust does not intend to hold securities of any entities other than Holding LP and GP Inc. or in connection with its short-term cash management.

Trustees/Governance

The Trust Declaration of Trust provides that the Trust will have a minimum of three and a maximum of ten trustees, a majority of whom must be residents of Canada within the meaning of the Tax Act.

The Trust's trustees will be the persons who serve as the trustees of the Fund (initially, James R. Fleck, Robert T.E. Gillespie, Gary J. Lukassen, Anthony G. Miller and George S. Taylor).

The Trust Declaration of Trust provides that, subject to its terms and conditions, the Trust's trustees may, in respect of the assets of the Trust and investments and affairs of the Trust, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The Trust's trustees are to supervise the activities and manage the affairs of the Trust. The Trust's trustees will be responsible for, among other things:

- acting for, voting on behalf of and representing the Trust as a shareholder of GP Inc. and as a unitholder of Holding LP;
- maintaining records and providing reports to holders of Trust Units;
- supervising the activities and managing the investments and affairs of the Trust;
- making distributions from the Trust to holders of Trust Units and payments of interest and principal on the Trust Notes;
- making payments of the redemption or repurchase price for Trust Units and Trust Notes; and
- voting in favour of the Trust's nominees to serve as directors of GP Inc.

The Trust's trustees will not receive any compensation for acting as trustees of the Trust.

Redemption Right

The Trust Units will be redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust's trustees, together with the certificates for the Trust Units representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption will be equal to:

$$\frac{(A \times B) - C + D}{E}$$

Where:

- A = the cash redemption price per Unit of the Fund calculated as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units (a “Trust Unitholder”);
- B = the aggregate number of Units of the Fund outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder;
- C = the aggregate unpaid principal amount and accrued interest thereon of any indebtedness held by or owed to the Fund (including the Trust Notes), and the fair market value of any other assets or investments held by the Fund (other than Trust Units, Trust Notes or any other indebtedness of the Trust held by or owed to the Fund) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder;
- D = the aggregate unpaid principal of any indebtedness and any accrued liabilities of the Fund (prior to the redemption of Units of the Fund for such date) as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units; and
- E = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder.

The Trust’s trustees will also be entitled to call for redemption, at any time, all or part of the outstanding Trust Units registered in the name of the holders thereof other than the Fund at the same redemption price as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust’s trustees approved the redemption of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust’s trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such aggregate amount of Series 2 Trust Notes as is equal to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$100, with the balance of any such aggregate redemption price not paid in Series 2 Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Series 2 Trust Notes as the Trust’s trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100.

Distributions

The Trust intends to make monthly cash distributions of its distributable cash to the Fund. The amount of cash to be distributed monthly per Trust Unit to the Trust Unitholders will be equal to a *pro rata* share of distributions on or in respect of its Ordinary Holding LP Units owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust received in or in respect of such period, less amounts which are paid, payable, incurred or provided for in such period in connection with:

- satisfaction of any debt service obligations (principal and interest) on the Trust Notes and other indebtedness, if any;
- satisfaction of its other liabilities and expense obligations (including tax liabilities);
- satisfaction of any cash redemptions or repurchases of Trust Units or repayment of Trust Notes; and
- satisfaction of other amounts in the discretion of the trustees of the Trust.

Such distributions will be payable to holders of record of Trust Units on the last business day of each month and will be paid within 15 days following each calendar month-end and are intended to be received by the Fund prior to its related cash distribution to Unitholders.

The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year.

If the Trust's trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Trust Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's trustees to be available for the payment of such distribution. The value of each Trust Unit so issued will be the redemption price thereof.

Any Trust Units transferred to Unitholders pursuant to a distribution *in specie* may be subject to resale and transfer restrictions and cannot be resold or transferred except as permitted by applicable securities law.

Trust Notes

The following is a summary of the material attributes and characteristics of the Trust Notes that will be issued under the Trust Note Indenture. This summary is qualified in its entirety by reference to the provisions of the Trust Note Indenture. See "Material Contracts".

Three series of Trust Notes will initially be authorized for issuance under the Trust Note Indenture. On Closing, only Series 1 Trust Notes in the principal amount of approximately \$169,420,104 will be issued and outstanding, all of which will be held by the Fund. Series 2 Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price for the Trust Units, as the Trust's trustees may decide or, in certain circumstances, be obliged to issue. Series 3 Trust Notes will be reserved by the Trust to be issued exclusively as full or partial payment of the redemption price for Series 1 Trust Notes in the event of an *in specie* payment of the redemption price for Units redeemed by Unitholders of the Fund.

Trust Notes will be issuable in Canadian currency. Trust Notes are issuable in denominations of \$100 and integral multiples of \$100. No fractional Trust Notes will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number.

Interest and Maturity

The Series 1 Trust Notes to be issued at Closing will be payable on demand, will mature on the 10th anniversary of the date of issuance and will bear interest at a rate of 3% per annum, payable within 15 days of the end of each calendar month that such Series 1 Trust Notes are outstanding. Each Series 2 Trust Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and will bear interest at a market rate to be determined by the Trust's trustees at the time of issuance thereof, payable within 15 days of the end of each calendar month that such Series 2 Trust Note is outstanding. Each Series 3 Trust Note will mature on the same date as the Series 1 Trust Notes in respect of which such Series 3 Trust Notes were issued and will bear interest at a market rate to be determined by the Trust's trustees at the time of issuance thereof, payable within 15 days of the end of each calendar month that such Series 3 Trust Note is outstanding.

Payment upon Maturity

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Trust Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

Redemption

The Trust Notes will be redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon, payable in cash or, in the case of a redemption of Series 1 Trust Notes on an *in specie* payment of the redemption price for Units, in Series 3 Trust Notes) at the option of the Trust prior to maturity.

Subordination

Payment of the principal amount and interest on the Trust Notes will be subordinated in right of payment to the prior payment in full of, the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which will be defined as all indebtedness, liabilities and obligations of the Trust, including guarantees granted by the Trust, which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Trust Note Indenture. The Trust Note Indenture provides that upon any distribution of the assets of the Trust in the event of any insolvency, bankruptcy, dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

The Trust Notes will be unsecured debt obligations of the Trust.

Default

The Trust Note Indenture will provide that any of the following shall constitute an event of default:

- default in repayment of the principal amount of the Trust Notes when the same becomes due and payable and the continuation of such default for a period of 60 days;
- default in payment of any interest under any of the Trust Notes when such interest becomes due and payable and continuation of such default for a period of 30 days;
- default in the observance or performance of any other covenant or condition of the Trust Note Indenture and continuance of such default for a period of 30 days after notice in writing has been given to the Trust specifying such default and requiring the Trust to rectify the same;
- certain events of bankruptcy, insolvency, dissolution, liquidation, reorganization or other similar proceedings relative to the Trust and its subsidiaries; and
- the occurrence of an event of default under any indebtedness of the Trust having an outstanding principal amount of \$1,000,000 or more that has caused the creditor or holder of such indebtedness to accelerate payment thereof provided such indebtedness has not been discharged in full or such acceleration has not been rescinded in 30 days.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public.

Unit Certificates

As Trust Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Trust Units will not be made through the book-entry system administered by CDS. Rather, holders of Trust Units will be entitled to receive certificates therefor.

Meetings of Holders of Trust Units

Meetings of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust's trustees may determine or as may properly be brought before the meeting.

DESCRIPTION OF HOLDING LP

General

Holding LP is a limited partnership established under the laws of the Province of Manitoba for the purpose of acquiring, investing, holding, transferring, disposing of or otherwise dealing with investments in debt and/or equity securities and/or assets of Spinrite, its successors, assigns and/or affiliates, as well as other corporations, partnerships, trusts and other persons conducting business in the craft yarn manufacturing and marketing

business, and such other investment as the board of directors of GP Inc. may determine and to own, operate, lease assets and property in connection therewith, including the business currently carried on by Spinrite. The following is a summary of the material attributes and characteristics of the Holding LP Units and certain provisions of the Holding LP Partnership Agreement, which summary is not intended to be complete. Reference is made to the Holding LP Partnership Agreement and the full text of its provisions for a complete description of the Holding LP Units. See “Material Contracts”.

General Partner

The general partner of Holding LP is GP Inc. See “Description of GP Inc.”.

Units

Holding LP is entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as may be determined by GP Inc. Immediately following the Closing, Holding LP will have outstanding a general partnership interest held by GP Inc., 20,291,200 Ordinary Holding LP Units held by the Trust and 5,072,800 Subordinated Holding LP Units held directly or indirectly by the Existing Securityholders. These Subordinated Holding LP Units will represent a 20% interest in Holding LP.

The Ordinary Holding LP Units and the Subordinated Holding LP Units will have economic and voting rights that are equivalent in all material respects, except that distributions on the Subordinated Holding LP Units will be subject to the subordination arrangements described below until the Subordination End Date.

The “Subordination End Date” is the date on which both of the following conditions are satisfied:

- (a) the Fund has earned EBITDA (after adding back any amounts that are expensed but that are pre-funded as described under “Executive Compensation — Management Arrangements”) for the immediately preceding fiscal year (based on audited consolidated financial statements of the Fund) of at least 29.9 million for such fiscal year commencing with the financial year ended December 31, 2006, and
- (b) yearly cash distributions of at least \$1.00 per Unit and per Subordinated Holding LP Unit have been paid by the Fund and Holding LP as applicable, for each of the two most recent fiscal years or annualized for 2005.

Prior to the Subordination End Date, distributions on the Holding LP Units will be made in the following priority (after funding of cash redemptions and repurchases of Units, if any and expenses of the Trust and the Fund):

1. holders of Ordinary Holding LP Units will be entitled to receive monthly cash distributions such that each holder of Ordinary Holding LP Units will receive a distribution of \$0.08333 per unit for such month or, if there is insufficient available cash to make distributions in such amount, such lesser amount as is available, on a proportionate basis;
2. at the end of each fiscal quarter of Holding LP, including the fiscal quarter ending on the fiscal year end, available cash will be distributed in the following order of priority:
 - first, in payment of the monthly cash distribution to the holders of Ordinary Holding LP Units as described above, for the month then ended;
 - second, proportionately to the holders of Ordinary Holding LP Units, to the extent that monthly per unit distributions in respect of the 12-month period then ended were not made or were made in amounts less than \$0.08333 per unit, the amount of any such deficiency;
 - third, to holders of Subordinated Holding LP Units in a per unit amount of \$0.25 or, if there is insufficient available cash to make distributions in such amount, such lesser amount as is available, on a proportionate basis;
 - fourth, proportionately to the holders of Subordinated Holding LP Units, to the extent only that per unit distributions in respect of any fiscal quarter(s) during the 12-month period then ended were not made or

were made in amounts less than \$0.25 per Subordinated Holding LP Unit, the amount of such deficiency; and

- fifth, to the extent of any excess, proportionately to the holders of Ordinary Holding LP Units and Subordinated Holding LP Units, such that aggregate per unit distributions on the Ordinary Holding LP Units and Subordinated Holding LP Units are the same.

For the purposes of these subordination provisions, distributions on the Ordinary Holding LP Units will be cumulative, such that the amount of any deficiency will accumulate for a period of 12 months. Payments of deficiencies in distributions on the Ordinary Holding LP Units will be made in priority to distributions on the Subordinated Holding LP Units. Any accumulated deficiency on the Ordinary Holding LP Units not satisfied by a distribution within 12 months of the date it arose will cease to be payable.

Notwithstanding the foregoing, until the Subordination End Date, the directors of the GP Inc. will, if they determine, based on trends or developments in the business or operations of the partnership then in effect or reasonably foreseeable, that there is a reasonable likelihood that there will be insufficient available cash in a month within the next 12-month period to make distributions on the Units of at least \$0.08333 per Unit, suspend distribution to holders of Subordinated Holding LP Units to the extent determined necessary.

After the Subordination End Date, the terms and conditions of the Subordinated Holding LP Units will essentially be identical in all material respects to Ordinary Holding LP Units and further distribution to holders of Subordinated Holding LP Units will be made monthly on a proportionate basis.

Distributions

Holding LP will adopt a policy to distribute its available distributable cash to the maximum extent possible. Such distributions will be made to partners of record holding Holding LP Units of their share of distributable cash as set out below. Distributions will be made on the Holding LP Units within 15 days of the end of each month, and subject to the subordination arrangements, on the Subordinated Holding LP Units within 15 days of the end of each fiscal quarter (until the Subordination End Date, following which they will be paid monthly) and are intended to be received by the Trust prior to its related payments and distributions to the Fund. Distributions will be paid to the limited partners of record on the last day of the period in respect of which the distribution is to be paid. Holding LP may, in addition, make a distribution at any other time, subject to certain limitations to preserve the subordination arrangements described above.

Distributable cash will represent, in general, all of Holding LP's available cash, after:

- satisfaction of its administrative expenses and other obligations;
- satisfaction of its debt service obligations (principal and interest) on any indebtedness of Holding LP; and
- any other amounts that Holding LP may consider reasonably necessary to provide for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities and operations of Holding LP and for reasonable reserves.

Allocation of Net Income and Losses

The income or loss of Holding LP for each fiscal year will be allocated to GP Inc., as general partner, and to the limited partners as to 0.01% and 99.99%, respectively. The income for tax purposes of Holding LP for a particular fiscal year will be allocated to each partner by multiplying the total income allocated to the partners by a fraction, the numerator of which is the total sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by Holding LP to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Holding LP to that partner.

If, with respect to a given fiscal year, no cash distribution is made by Holding LP to its partners, or Holding LP has a loss for tax purposes, one-twelfth of the income or loss, as the case may be, for tax purposes of Holding LP for that fiscal year will be allocated to GP Inc., as general partner, and the limited partners at the end of each month ending in that fiscal year, as to 0.01% and 99.99%, respectively, and to each limited partner

in the proportion that the number of Holding LP Units held at each of those dates by that limited partner is of the total number of Holding LP Units issued and outstanding at each of those dates.

Income and loss of Holding LP for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

The fiscal year end of Holding LP will be December 31.

Reimbursement of GP Inc.

Holding LP will reimburse GP Inc. for all direct costs and expenses incurred in the performance of its duties under the Holding LP Partnership Agreement on behalf of Holding LP.

Limited Liability

Holding LP will operate in a manner as to ensure to the greatest extent possible the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of GP Inc. in performing its duties and obligations under the Holding LP Partnership Agreement, GP Inc. will indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Holding LP Partnership Agreement. However, since GP Inc. has no significant assets or financial resources, this indemnity may have nominal value.

Transfer of Holding LP Units

A Holding LP Unit is assignable subject to compliance with applicable law and the Holding LP Partnership Agreement. No transferee of a Holding LP Unit has the right to become a substituted partner unless: (i) the transferring partner executes an instrument setting forth the intention of such partner that the transferee become a partner in its place; (ii) the transferring partner and the transferee execute such other instruments as GP Inc. may deem necessary to effect the admission of the transferee to the partnership, including an adoption by the transferee of the provisions of the Holding LP Partnership Agreement; and (iii) GP Inc. has consented to such admission to the partnership, which consent may be withheld by the general partner in its sole discretion.

Restrictions on Authority of GP Inc.

The authority of GP Inc. will be limited in certain respects under the Holding LP Partnership Agreement and Securityholders' Agreement. See "Management, Trustees and Directors — Governance of Holding LP".

Restrictions Respecting Amendment

The Holding LP Partnership Agreement may only be amended with the consent of a majority of the holders of the Holding LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding a majority of the Holding LP Units entitled to vote at a duly constituted meeting. Notwithstanding the foregoing:

- no amendment can be made to the Holding LP Partnership Agreement altering the ability of the limited partners to remove GP Inc. involuntarily, changing the liability of any limited partner, allowing any limited partner to exercise control over the business of Holding LP, changing the right of a partner to vote at any meeting, reducing the percentage of income allocable to limited partners to below 99.99% or changing Holding LP from a limited partnership to a general partnership, in each case, without the unanimous written consent of the partners;
- no amendment can be made to the Holding LP Partnership Agreement which would adversely affect the rights and obligations of any particular partner without similarly affecting the rights and obligations of all other partners; and
- no amendment which would adversely affect the rights and obligations of GP Inc., as general partner, may be made without its consent.

The foregoing approval requirements are subject to additional restrictions on, or conditions to the approval of, amendments to the Holding LP Partnership Agreement pursuant to the Declaration of Trust and Trust Declaration of Trust. In particular, (i) any change to the subordination provisions attached to the Subordinated Holding LP Units (including a change to the EBITDA target and the distribution target) requires the prior approval of a majority the votes cast by the unitholders, excluding any Units directly or indirectly owned by a holder of Subordinated Holding LP Units or its affiliates and associates and (ii) the approval or authorization by GP Inc. or Holding LP of any action that would result in the Units of the Fund constituting foreign property for the purposes of the Tax Act requires the prior approval of Unitholders by a special resolution.

Meetings

Meetings of the limited partners may be called by GP Inc. or the limited partners for any matters on which the limited partners may vote. Upon receipt of a written request, either in person or by registered mail, stating the purpose of the meeting, GP Inc. shall provide all limited partners, within ten days after receipt of such request, notification of a meeting and the purpose of such meeting. The presence in person or by proxy of a majority in interest of the limited partners shall constitute a quorum at all meetings of the limited partners, provided that where there is no such quorum, holders of a majority in interest of such limited partners present or represented at such meetings may adjourn the meeting from time to time without further notification, until a quorum has been obtained.

DESCRIPTION OF SPINRITE

General

Spinrite is a limited partnership established under the laws of the Province of Manitoba to invest in, conduct business or own and operate property and assets in the craft yarn manufacturing and marketing business. The following is a summary of the material attributes and characteristics of the LP Units and certain provisions of the partnership agreement among GP Inc. and Holding LP (the “Partnership Agreement”), which summary is not intended to be complete. Reference is made to the Partnership Agreement and the full text of its provisions for a complete description of the LP Units. See “Material Contracts”.

General Partner

The general partner of Spinrite is GP Inc. See “Description of GP Inc.”.

Units

Spinrite will be entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as may be determined by GP Inc. Initially, Spinrite will have issued and outstanding limited partnership interests, consisting of LP Units and the general limited partnership units issued to GP Inc.

Distributions

Spinrite will distribute its available cash to the maximum extent possible. Such distributions will be made to partners of record holding LP Units of their share of distributable cash as set out below. Distributions will be made on the LP Units within 15 days of the end of each month and are intended to be received by the Trust prior to its related distributions to the Fund. Distributions will be paid to the limited partners of record on the last day of the period in respect of which the distribution is to be paid. Spinrite may, in addition, make a distribution at any other time.

Distributable cash will represent, in general, all of Spinrite’s available cash, after:

- satisfaction of its administrative expenses and other obligations;
- satisfaction of its debt service obligations (principal and interest) on any indebtedness of Spinrite;
- satisfaction of its obligations under the LTIP, if any; and

- any other amounts that Spinrite may consider reasonably necessary to provide for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities and operations of Spinrite and for reasonable reserves including for working capital, capital expenditures and reserves established for the purpose of stabilizing, within any year, the monthly distributions to the holders of LP Units.

Allocation of Net Income and Losses

The income or loss of Spinrite for each fiscal year will be allocated to GP Inc. and to the limited partners as to 0.01% and 99.99%, respectively. The income for tax purposes of Spinrite for a particular fiscal year will be allocated to each partner by multiplying the total income allocated to the partners by a fraction, the numerator of which is the total sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by Spinrite to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Spinrite to that partner.

If, with respect to a given fiscal year, no cash distribution is made by Spinrite to its partners, or Spinrite has a loss for tax purposes, one-twelfth of the income or loss, as the case may be, for tax purposes of Spinrite for that fiscal year will be allocated to GP Inc. and the limited partners at the end of each month ending in that fiscal year, as to 0.01% and 99.99%, respectively, and to each limited partner in the proportion that the number of LP Units held at each of those dates by that limited partner is of the total number of LP Units issued and outstanding at each of those dates.

Income and loss of Spinrite for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

The fiscal year end of Spinrite is currently March 31. Spinrite intends to apply for permission to change its next fiscal year end to a date on or prior to the date of the Reorganization and to change its following and subsequent fiscal year ends to December 31.

Reimbursement of GP Inc.

Spinrite will reimburse GP Inc. for all direct costs and expenses incurred in the performance of its duties under the Partnership Agreement on behalf of Spinrite.

Limited Liability

Spinrite will operate in a manner as to ensure to the greatest extent possible the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of GP Inc. in performing its duties and obligations under the Partnership Agreement, GP Inc. will indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Partnership Agreement. However, since GP Inc. has no significant assets or financial resources, this indemnity may have nominal value.

Transfer of LP Units

An LP Unit is assignable subject to compliance with applicable law, the Partnership Agreement and the New Credit Facility. Each partner has a right of first refusal in respect of any LP Unit proposed to be transferred. No transferee of a LP Unit has the right to become a substituted partner unless: (i) the transferring partner executes an instrument setting forth the intention of such partner that the transferee become a partner in its place; (ii) the transferring partner and the transferee execute such other instruments as the general partner may deem necessary to effect the admission of the transferee to the partnership, including an adoption by the transferee of the provisions of the Partnership Agreement; (iii) a reasonable transfer fee is paid to Spinrite; and (iv) the general partner has consented to such admission to the partnership, which consent may be withheld by the general partner in its sole discretion.

Restrictions on Authority of GP Inc.

The authority of GP Inc. will be limited in certain respects under the Partnership Agreement. GP Inc. will be prohibited, without the prior approval of the limited partner(s) given by special resolution, from dissolving Spinrite or selling, exchanging or otherwise disposing of all or substantially all of the assets of Spinrite except in connection with a pledge or mortgage of assets in the ordinary course of business.

Restrictions Respecting Amendment

The Partnership Agreement may only be amended with the consent of a majority of the holders of the LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding a majority of the LP Units entitled to vote at a duly constituted meeting. Notwithstanding the foregoing:

- no amendment can be made to the Partnership Agreement altering the ability of the limited partners to remove GP Inc. involuntarily, changing the liability of any limited partner, allowing any limited partner to exercise control over the business of Spinrite, changing the right of a partner to vote at any meeting, reducing the percentage of income allocable to limited partners to below 99.99% or changing Spinrite from a limited partnership to a general partnership, in each case, without the unanimous written consent of the partners;
- no amendment can be made to the Partnership Agreement which would adversely affect the rights and obligations of any particular partner without similarly affecting the rights and obligations of all other partners; and
- no amendment which would adversely affect the rights and obligations of GP Inc., as general partner, may be made without its consent.

The foregoing approval requirements are subject to additional restrictions on, or conditions to the approval of, amendments to the Partnership Agreement pursuant to the Declaration of Trust and Trust Declaration of Trust. In particular, the approval or authorization by GP Inc. or Spinrite of any action that would result in the Units of the Fund constituting foreign property for the purposes of the Tax Act requires the prior approval of Unitholders by a special resolution.

DESCRIPTION OF GP INC.

General

GP Inc. is a corporation established under the laws of Nova Scotia to act as the general partner of Spinrite and Holding LP.

Functions and Powers of GP Inc.

GP Inc. has the authority to manage the business and affairs of Spinrite and Holding LP, to make all decisions regarding the business of Spinrite and Holding LP and to bind Spinrite and Holding LP in respect of any such decision subject to the provisions of the Holding LP Partnership Agreement, the Partnership Agreement (together with the Holding LP Partnership Agreement, the “Partnership Agreements”) and the Securityholders’ Agreement. GP Inc. will be required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Spinrite and Holding LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power vested in GP Inc. to manage the business and affairs of Spinrite and Holding LP will include all authority necessary or incidental to carry out the objects, purposes and business of Spinrite and Holding LP, including the ability to engage agents to assist GP Inc. to carry out its management obligations and administrative functions in respect of Spinrite and Holding LP and its business.

The Partnership Agreements provide that all material transactions and agreements involving Spinrite and Holding LP (other than the agreements entered into in connection with the formation of Spinrite and Holding LP or the Offering) must be approved by the board of directors of GP Inc. In addition, the Partnership Agreements impose limits on the authority of GP Inc. to cause Spinrite and Holding LP or any of its subsidiaries to engage in certain material transactions.

Withdrawal or Removal of GP Inc.

GP Inc. may not be removed as general partner of Spinrite and Holding LP unless:

- the shareholders or directors of GP Inc. pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of GP Inc., or GP Inc. commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the Partnership Agreements; or
- a special resolution of the shareholders of GP Inc. approving such removal has been passed and a successor general partner agrees to act as general partner under the Partnership Agreements.

If GP Inc. withdraws or is removed as the general partner of Spinrite or Holding LP for any reason, a successor general partner of Spinrite or Holding LP, as applicable, may be appointed only if: (i) such successor has been approved by a special resolution of the shareholders of GP Inc., (ii) the successor general partner has the same relative ownership and board composition as GP Inc. and (iii) such successor enters into the Securityholders' Agreement.

CONSOLIDATED CAPITALIZATION

The following table sets out the consolidated capitalization of the Fund both before and after giving effect to the Offering.

Designation	Authorized	As at January 28, 2005	As at January 28, 2005, after giving effect to the Offering
Units ⁽¹⁾	Unlimited	\$10.00	\$188,244,560

(1) The Fund was initially settled on December 8, 2004 with \$10.00.

PRINCIPAL SECURITYHOLDERS

The following table shows the name of each person or company who, as at January 28, 2005, owned of record, or who, to the knowledge of the Fund, owned beneficially, directly or indirectly, more than 10% of the securities of the Fund or Holding LP Units:

Name	Number of securities owned	Number of Holding LP Units owned after the Offering	Type of ownership	Percentage of Holding LP Units owned before the Offering	Percentage of Holding LP Units owned after the Offering
Delaware LP	—	3,507,396 Subordinated Holding LP Units	indirect	—	13.84%

PLAN OF DISTRIBUTION

The Fund, the Underwriters, GP Inc., Spinrite and certain of the Existing Securityholders have entered into an Underwriting Agreement dated January 28, 2005. Under the Underwriting Agreement and subject to its terms and conditions, the Fund has agreed to sell and the Underwriters have agreed to purchase on Closing, being February 8, 2005 or any later date as may be agreed upon by the parties but not later than February 28, 2005 all but not less than all of the offered Units at a price of \$10.00 per Unit (the "Offering Price"), payable against delivery of a global unit certificate representing the offered Units. In consideration for their services in connection with this Offering, the Fund has agreed to pay the Underwriters a fee of 5.75% of the total gross proceeds of the Offering.

The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all offered Units that they have obliged themselves to purchase if any of the offered Units are purchased under the Underwriting Agreement.

There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under the prospectus. Accordingly, the terms of distribution, including, the Offering Price of the Units was determined by negotiation between the Fund, certain of the Existing Securityholders and the Underwriters. The TSX has conditionally approved the listing of the Units under the symbol “SNF.UN”. Listing is subject to the Fund fulfilling all of the requirements of the TSX on or before April 22, 2005, including the distribution of the Units to a minimum number of public Unitholders.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

During a period ending 180 days from Closing, the Fund and certain of the Existing Securityholders will not, directly or indirectly, offer, sell or issue for sale or resale any Units or financial instruments or securities convertible into, or exercisable or exchangeable for, Units, or agree to, or announce, any such offer, sale or issuance.

The Fund, Spinrite, GP Inc. and the Existing Security holders have agreed to indemnify the Underwriters and their affiliates, directors, officers, employees and agents against certain liabilities, including without restriction, civil liabilities under Canadian provincial securities legislation or to contribute to any payments the Underwriters may be required to make in respect thereof.

The Units have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the “U.S. Securities Act”) and, subject to certain exemptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell the Units within the United States except to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) or to institutional accredited investors.

In addition, until 40 days after Closing, an offer or sale of Units within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Pursuant to policy statements of the Ontario Securities Commission and L’Autorité des marchés financiers, the Underwriters may not, throughout the period of distribution, bid for or purchase Units. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, Units. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces of Market Regulation Services Inc. relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with the Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Units at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

RELATIONSHIP BETWEEN THE FUND AND CERTAIN UNDERWRITERS

In connection with the Offering, the Fund may be considered a “connected issuer” to Scotia Capital Inc. under applicable securities laws. A Canadian chartered bank which is an affiliate of Scotia Capital Inc. (the “Affiliated Bank”) is a lender to Spinrite under the Current Facility, which is secured by substantially all of the assets of Spinrite. Under the terms of the Current Facility, the consent of the Affiliated Bank is a prerequisite to the completion of the transaction set out under “Reorganization and Acquisition”. As at September 25, 2004, a total of approximately \$38 million was outstanding under the Current Facility. As at the date of this prospectus, Spinrite is in compliance with the terms and conditions of the Current Facility. The Current Facility is expected to be repaid and replaced by the New Credit Facility, which the Affiliated Bank is expected to provide. See “Credit Facility”. The decision of Scotia Capital Inc. to participate in the Offering was made independently of the Affiliated Bank, and the Offering was not required or suggested by the Affiliated Bank. The terms, structuring and pricing of the Offering were determined solely by negotiation among the Fund, certain of the Existing Securityholders and the Underwriters. The Affiliated Bank did not play any role in those determinations or decisions. Other than as described above, none of the Underwriters or their affiliates will

receive any benefit from the Offering, except for the Underwriters' respective portions of the underwriting commissions payable by the Fund.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Torys LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Underwriters, the following is, as of the date of this prospectus, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to a Unitholder who acquires Units pursuant to this Offering and who, for purposes of the Tax Act and at all relevant times, is resident in Canada, and deals at arm's length and is not affiliated with the Fund and holds the Units as capital property. Generally, the Units would be considered to be capital property to a Unitholder provided that the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have Units treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to a Unitholder that is a financial institution (as defined in the Tax Act for purposes of the mark-to-market rules), a specified financial institution or a Unitholder an interest in which is a tax shelter investment (all as defined in the Tax Act).

This summary is based upon the facts set out in the prospectus and certificates of the Fund, the Trust, Holding LP, Spinrite and the Underwriters as to certain factual matters, provisions of the Tax Act and the regulations under the Tax Act in force at the date of this prospectus and counsels' understanding of the current published administrative and assessing practices of the Canada Revenue Agency (the "CRA") and takes into account all specific proposals to amend the Tax Act and the regulations under the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus ("Tax Proposals"). There can be no assurance that the Tax Proposals will be implemented in their current form or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in this prospectus.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in the Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the holder's particular circumstances, including the province or territory or provinces or territories in which the holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective holder of Units. Investors should consult their own tax advisors for advice with respect to the tax consequences of an investment in the Units based on their particular circumstances.

Status of the Fund

Mutual Fund Trust

This summary is based on the assumption that the Fund qualifies as a "mutual fund trust" as defined in the Tax Act on completion of the Offering, and will continuously qualify as a mutual fund trust at all relevant times. This summary also assumes that the Fund will elect within the prescribed time to be deemed to be a mutual fund trust from the date it is established. If the Fund were not to qualify as a mutual fund trust, the income tax considerations described below would, in some respects, be materially different.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents

and partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. A partnership will only qualify as a Canadian partnership at a particular time if all its members at that time are resident in Canada. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion which did not include these proposed changes. It is counsels' understanding that the Department of Finance has suspended implementation of the proposed changes pending further consultation with interested parties.

Qualified Investment

The Units will be qualified investments for Plans, subject to the specific provisions of any particular Plan. If the Fund ceases to qualify as a mutual fund trust, the Units will cease to be qualified investments for those Plans.

Securities of the Trust received as a result of a redemption of Units may not be a qualified investment for a Plan which could give rise to adverse consequences to the Plan or the annuitant under the Plan. Accordingly, Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

Under the Budget Proposals, certain investors, including registered pension funds or plans and pension corporations, would be liable for a penalty tax if they held restricted investment property or units of a business income trust in excess of the limits described in the Budget Proposals. On May 18, 2004, the Minister of Finance announced that the implementation of the Budget Proposals is suspended pending further consultation with interested parties, following which further legislative proposals will be announced.

Foreign Property

Based in part on certificates of the Fund, the Trust, Holding LP and Spinrite as to factual matters, the Units, if issued on the date hereof, would not constitute foreign property for Plans (other than registered education savings plans), registered pension plans or other persons subject to tax under Part XI of the Tax Act. Trusts governed by registered education savings plans are not subject to the foreign property rules.

Taxation of the Fund

The taxation year of the Fund is the calendar year. In each taxation year, the Fund will be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the year to Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the Fund or if the Unitholder is entitled in that year to enforce payment of the amount. Counsel has been advised that the Fund intends to make sufficient distributions in each year of its net income for tax purposes and net realized taxable capital gains so that the Fund will generally not be liable in that year for income tax under Part I of the Tax Act.

The Fund will include in its income for each taxation year all interest on the Trust Notes that accrues to the Fund to the end of the year, or that becomes receivable or is received by it before the end of the year, except to the extent that interest was included in computing its income for a preceding taxation year. In addition, the Fund will include in its income such amount of the Trust's income as became payable in the year to the Fund as a distribution on the Trust Units. The Fund will not be subject to tax on any amount received as a payment of principal in respect of Trust Notes or any amount received as a return of capital from the Trust (provided that the capital returned, if any, does not exceed the cost amount of the Trust Units held by the Fund).

A distribution by the Fund of securities of the Trust upon a redemption of Units will be treated as a disposition by the Fund of the securities so distributed for proceeds of disposition equal to their fair market value. The Fund's proceeds from the disposition of the Trust Notes will be reduced by any accrued but unpaid interest in respect of those Trust Notes, which interest will generally be included in the Fund's income in the year of disposition to the extent it was not included in the Fund's income in a previous year. The Fund will realize a capital gain (or a capital loss) to the extent that the proceeds from the disposition exceed (or are less than) the adjusted cost base of the relevant property and any reasonable costs of disposition. Any such income or capital gain will be treated as having been designated and paid to the redeeming Unitholder so that the Fund will not be taxable on such income or capital gain.

In computing its income, the Fund may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. The Fund may also deduct from its income for the year a portion of the reasonable expenses, if any, incurred by the Fund to issue Units in connection with this Offering. The portion of such issue expenses deductible by the Fund in a taxation year is 20% of such issue expenses, pro-rated where the Fund's taxation year is less than 365 days.

Under the Declaration of Trust, an amount equal to all of the income of the Fund for each year (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any net capital gain realized by the Fund in the year (but excluding any income or capital gain realized by the Fund in connection with a distribution *in specie* of securities of the Trust on a redemption of Units which are designated by the Fund to a redeeming Unitholder), net of the Fund's deductions and expenses, will be payable in the year to Unitholders by way of cash distributions, subject to the exceptions described below. Where cash of the Fund is applied to fund redemptions of Units or is otherwise unavailable for cash distributions, distributions will be paid to Unitholders in the form of additional Units. Income of the Fund payable to Unitholders, whether in cash, additional Units or otherwise, will generally be deductible by the Fund in computing its income. Losses incurred by the Fund cannot be allocated to Unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

The Fund will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based on the redemption of Units during the year (the "capital gains refund"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the Fund's tax liability for that taxation year arising as a result of the distribution of securities of the Trust on the redemption of Units. The Declaration of Trust provides that the taxable portion of any capital gain realized by the Fund as a result of that redemption may, at the discretion of the trustees, be treated as paid to, and designated as a taxable capital gain of, the redeeming Unitholders. Any amount so designated must be included in the income of the redeeming Unitholders and will be deductible by the Fund.

Taxation of the Trust

The taxation year of the Trust is the calendar year. In each taxation year, the Trust will be subject to tax under Part I of the Tax Act on its income determined under the Tax Act for the year, which will include its allocated share of the taxable income of Holding LP for the financial period of Holding LP ending on or before the year end of the Trust, and dividends, if any, or other distributions of an income nature received on the shares in GP Inc. held by the Trust. In computing its income, the Trust may deduct amounts paid or payable or deemed to be paid or payable in such year to the Fund, as well as expenses incurred to earn such income, provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. Counsel has been advised that the Trust intends to make distributions in each year to the Fund in an amount sufficient to ensure that the Trust will generally not be liable for tax under Part I of the Tax Act.

Taxation of Holding LP

Holding LP is not subject to tax under the Tax Act. Generally, each partner of Holding LP is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of Holding LP (as provided in the Holding LP Partnership Agreement) for the fiscal year of Holding LP ending in, or concurrently with, the partner's taxation year, whether or not any of that income is distributed to the partner in the taxation year. For this purpose, the income or loss of Holding LP will be computed for each fiscal year as if Holding LP were a separate person resident in Canada. In computing the income or loss of Holding LP, Holding LP will include its share of the income or loss of Spinrite and may claim deductions in respect of reasonable administrative costs and other expenses incurred by Holding LP for the purpose of earning income, subject to the detailed provisions of the Tax Act.

Generally, distributions to a partner in excess of the partner's share of the income of Holding LP for a fiscal year will be treated as a return of capital, which will not be included in the partner's income but will reduce the partner's adjusted cost base of its units in Holding LP. If, as a result, a partner's adjusted cost base of its units of Holding LP at the end of a fiscal year of Holding LP would otherwise be a negative amount, such partner will be

deemed to realize a capital gain in such amount, and its adjusted cost base of its units in Holding LP will be nil immediately thereafter. If Holding LP were to incur losses for tax purposes, the ability of a partner to deduct its share of such losses may be limited by certain rules under the Tax Act.

Taxation of Spinrite

Spinrite is not subject to tax under the Tax Act. Generally, each partner of Spinrite is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of Spinrite (as provided in the Partnership Agreement) for the fiscal year of Spinrite ending in, or concurrently with, the partner's taxation year, whether or not any of that income is distributed to the partner in the taxation year. For this purpose, the income or loss of Spinrite will be computed for each fiscal year as if Spinrite were a separate person resident in Canada. In computing the income or loss of Spinrite, deductions may be claimed in respect of reasonable administrative costs and other expenses incurred by Spinrite for the purpose of earning income, subject to the detailed provisions of the Tax Act.

Generally, distributions to a partner in excess of the partner's share of the income of Spinrite for a fiscal year will be treated as a return of capital, which will not be included in the partner's income but will reduce the partner's adjusted cost base of its units in Spinrite. If, as a result, a partner's adjusted cost base of its units of Spinrite at the end of a fiscal year of Spinrite would otherwise be a negative amount, such partner will be deemed to realize a capital gain in such amount, and its adjusted cost base of its units in Spinrite will be nil immediately thereafter. If Spinrite were to incur losses for tax purposes, the ability of a partner to deduct its share of such losses may be limited by certain rules under the Tax Act.

Taxation of Unitholders

Fund Distributions

A Unitholder will generally be required to include in income for a particular taxation year the portion of the net income of the Fund for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in the particular taxation year, whether that amount is received in cash, additional Units or otherwise.

Provided that appropriate designations are made by the Fund, that portion of its taxable dividends received from taxable Canadian corporations, if any, net realized taxable capital gains, and foreign source income earned or deemed to have been earned by the Fund, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated in respect of foreign source income earned, or deemed to have been earned, by the Fund, Unitholders may be entitled to claim a foreign tax credit for foreign taxes paid by, or deemed to have been paid by, the Fund. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit provisions will be applicable in respect of Unitholders who are individuals, the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts), and the deduction in computing taxable income will be available to Unitholders that are corporations.

A Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for a 6 $\frac{2}{3}$ % refundable tax on its "aggregate investment income" for the year, including all income distributions (other than amounts designated as taxable dividends) and net taxable capital gains.

The non-taxable portion of any net realized capital gains of the Fund that is paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of the Fund that is paid or payable to a Unitholder in that year will not generally be included in the Unitholder's income for the year; however, where such an amount is paid or payable to a Unitholder (other than as proceeds in respect of the redemption of Units), the Unitholder will be required to reduce the adjusted cost base of the Units by that amount. Where reductions to a Unitholder's adjusted cost base of Units for a year would result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the Unitholder in that year and the Unitholder's adjusted cost base of the Units will be zero at the start of the next year.

The cost to a Unitholder of additional Units received in lieu of a cash distribution of income will be the amount of income distributed by the issue of those Units. For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that acquisition. A consolidation of Units of the Fund will not be considered to result in a disposition of Units by Unitholders. The aggregate adjusted cost base to a Unitholder of all of the Unitholder's Units of the Fund will not change as a result of a consolidation of Units; however, the adjusted cost base per Unit will increase.

Dispositions of Units

On the disposition or deemed disposition of a Unit whether on a redemption or otherwise, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition on a redemption will not include an amount payable by the Fund that is otherwise required to be included in the Unitholder's income, including any income or capital gain realized by the Fund as a result of a redemption which has been designated by the Fund to the redeeming Unitholder. Any such capital gain or loss will be subject to the general rules relating to the taxation of capital gains described below.

Where the redemption proceeds of Units are paid by the transfer of securities of the Trust by the Fund to the redeeming Unitholder, the proceeds of disposition to the Unitholder of the Units will be equal to the fair market value of the securities of the Trust so transferred, less any income or capital gain realized by the Fund in connection with such redemption which has been designated by the Fund to the redeeming Unitholder. Where the Fund has allocated such income or capital gain to a redeeming Unitholder, the Unitholder will be required to include in income any such income and the taxable portion of such capital gain so allocated.

The cost of any securities of the Trust transferred by the Fund to a Unitholder upon a redemption of Units will be equal to the fair market value of those securities at the time of the transfer less any accrued interest on the Trust Notes. The Unitholder will thereafter be required to include in income interest on any Trust Notes so acquired in accordance with the provisions of the Tax Act, and may deduct in computing its income for the year in which such distribution occurred, any accrued but unpaid interest in respect of such Trust Notes to the extent that such amount was included as interest in computing its income for the year.

Capital Gains and Capital Losses

One half of any capital gain realized by a Unitholder and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income as a taxable capital gain. One half of any capital loss realized by a Unitholder may generally be deducted only from taxable capital gains realized or considered to be realized by the Unitholder, subject to and in accordance with the provisions of the Tax Act.

A Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on its "aggregate investment income" for the year, which will include an amount in respect of taxable capital gains.

Where a Unitholder that is a corporation or trust (other than a mutual fund trust) disposes of a Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends previously designated by the Fund to the Unitholder except to the extent that a loss on a previous disposition of a Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

Budget Proposals

The Budget Proposals propose to subject a "designated taxpayer" to a penalty tax in respect of each month ending after 2004 where, at the end of that month, the designated taxpayer holds "restricted investment property" and, in general terms, the cost amount to the designated taxpayer of all such property exceeds 1% of the cost amount to it of all of its properties. The monthly tax will be 1% of such excess. For this purpose, restricted investment property includes units and debt of a "business income trust" (other than an "exempt

trust”) and interests in (or debts of) partnerships, trusts, mutual fund corporations, investment corporations or mortgage investment corporations (each as defined in the Tax Act) where the cost amount to such entity of all of its restricted investment property exceeds 1% of the cost amount to it of all of its properties.

The Budget Proposals also propose to subject a designated taxpayer to a penalty tax in respect of each month ending after 2004 where, in general terms, at the end of that month the designated taxpayer, and entities with which it does not deal at arm’s length, collectively hold units of any class of a business income trust with a fair market value in excess of 5% of the fair market value of all units of such class. The monthly tax payable by a particular designated taxpayer will be 1% of its share (as determined under the Budget Proposals) of the excess holding of units by the designated taxpayer and such non-arm’s length entities.

For the purposes of these Budget Proposals, a “designated taxpayer” includes registered pension plans and funds and pension corporations (but does not include trusts governed by a registered retirement savings plan, a registered retirement income fund, a deferred profit sharing plan or a registered education savings plan).

The Fund will be a “business income trust” other than an exempt trust and the Units will constitute “restricted investment property”. Prospective purchasers who are designated taxpayers or entities an interest in (or debt of which) may become a restricted investment property as a result of holding Units should consult their own tax advisors regarding the potential application of the Budget Proposals as a result of an acquisition of Units.

On May 18, 2004, the Minister of Finance announced that the implementation of the Budget Proposals is suspended pending further consultation with interested parties, following which further legislative proposals will be announced.

Alternative Minimum Tax

In general terms, net income of the Fund paid or payable to a Unitholder who is an individual that is designated as taxable dividends or as net realized taxable capital gains and capital gains realized on the disposition of Units may increase the Unitholder’s liability for alternative minimum tax.

RISK FACTORS

An investment in the Units offered under this prospectus involves a number of risks. In addition to the other information contained in this prospectus, prospective purchasers should give careful consideration to the following factors.

Risks Related to the Business and the Industry

Recent Sales and Profit Increases may be tied to Cyclical Trends

Spinrite’s recent sales and margin increases are attributable in part to popularity of knitted garments and products that currently are fashionable and prevalent in the ready-to-wear and home furnishing markets. A significant portion of Spinrite’s sales and Adjusted EBITDA in the past have typically been dependant upon new and high fashion yarns. Fashion trends and consumer tastes can change rapidly. Spinrite’s success in this area is largely dependent on its ability to gauge consumer preferences, manage its inventory and deliver merchandise in a timely fashion to satisfy consumer trends. If trends in the ready-to-wear and home furnishing markets shift away from knitted products, Spinrite may experience a decline in sales and profits which may have a material adverse effect on Spinrite’s business, financial condition, future prospects and results of operations.

Ability to Maintain and Manage Growth

Spinrite's revenue and profitability have grown significantly over the last five years and a principal component of Spinrite's strategy is to continue to increase its overall market share and profitability. Spinrite's future operating results will depend on a number of factors, including its ability to continue to successfully execute the strategic initiatives outlined under "Business of Spinrite — Corporate Strategy". Spinrite's past results and growth may not be indicative of its prospects and there can be no assurance that Spinrite will sustain or grow profitability in future periods.

In addition, continued growth by Spinrite may require additional employees and increase the scope of its operating and financial systems. This may increase the level of operating complexity and the level of responsibility of management. Spinrite may be unable to attract and retain qualified management and employees, and its existing operating and financial systems may not be adequate to support future growth. There can be no assurance that Spinrite will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Competition

A significant portion of Spinrite's revenue and profitability is generated in the valued-added fancy segment of the market where Spinrite possesses a strong brand portfolio. Most of Spinrite's main competitors have not historically participated in this segment of the market. While Spinrite currently has an advantage over most of its competitors in the value-added fancy segment of the market, there can be no assurance that Spinrite will continue to maintain its current market share if Spinrite's competitors choose to focus on this segment of the market. In addition, some of Spinrite's competitors have greater economic resources than Spinrite and are well established suppliers to many of the same customers that Spinrite serves. There can be no assurance that Spinrite will be able to successfully compete against its competitors or that such competition will not have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Dependence on Key Customers

Historically, a majority of Spinrite's revenues have been generated through sales to a relatively small number of customers. For example, in the 52 weeks ended September 25, 2004 approximately 55% of Spinrite's gross sales were to its top five customers and no single customer accounted for greater than 17% of gross revenues. The termination by one or all of such customers of their relationship with Spinrite or the decision by one of these customers to reduce the amount of shelf space dedicated to craft yarns could have a material adverse effect upon its business, financial condition, future prospects and results of operations.

Lack of Written Customer and Supplier Agreements

Historically, Spinrite has not entered into written agreements with its customers or its suppliers. As a result, customers or suppliers may, without notice or penalty, terminate their relationship with Spinrite at any time. In addition, even if customers or suppliers should decide to continue their relationship with Spinrite, there can be no guarantee that customers will purchase or suppliers will supply the same amount of product as in the past, or that such purchase or supply, as the case may be, will be on similar terms. Any loss of a significant customer or a significant supplier, or a change in the terms of the relationship with a significant customer or a significant supplier, could have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Inventory Management

Many of Spinrite's suppliers require advance notice of Spinrite's requirements in order to supply products in the quantities required by Spinrite to conduct its business. Furthermore, most of Spinrite's suppliers are located in Europe and Asia which extends lead times and presents further risks of delays. Spinrite does not have return policies with its suppliers. As a result of the long lag period between ordering supplies and selling inventory, Spinrite is exposed to the potential risks of a shift in demand or that inventory may become out-dated prior to it being sold. Spinrite intends to carefully manage its inventory of supplies so as to minimize any chance

of obsolescence; however, to the extent that obsolescence occurs and Spinrite is unable to return obsolete supplies to the manufacturers of such supplies, this may have a material adverse effect on Spinrite's business, financial condition, liquidity, future prospects and results of operations.

Raw Material Price Volatility

Various raw materials are used in the products manufactured by Spinrite, and such raw materials may be subject to economic or seasonal cyclicalities and wide price variation. In particular, the primary raw material used in Spinrite's business is acrylic fibre, which is petroleum-based. Petroleum is sourced and traded throughout the world and is subject to extensive pricing volatility. An increase in the price of petroleum may have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations. Consistent with past and current practices within the industry, Spinrite manages its exposure to raw material price volatility by passing through to customers, most, if not all, of the price volatility. However, there can be no assurance that the industry dynamics will allow Spinrite to continue to reduce its exposure by passing through raw material price increases to its customers.

Risks of Acquisitions and the Failure to Integrate Acquired Businesses

Spinrite's business strategy contemplates acquisitions of other needlecraft manufacturers that are economically and strategically justified. While Spinrite has historically acquired businesses and successfully integrated their operations, there can be no assurance that Spinrite will be able to identify attractive acquisition candidates in the future, or that it will succeed in acquiring additional target companies at attractive prices, financing such acquisitions, or effectively managing the integration of acquired businesses. If the expected synergies from those transactions do not materialize or Spinrite fails to successfully integrate any new businesses into its existing businesses, Spinrite's business, financial condition, future prospects and results of operations could be materially adversely impacted. In addition, to the extent that businesses acquired by Spinrite failed to comply with or otherwise violated applicable laws, Spinrite, as a successor owner, may be financially responsible for these violations. The discovery of any material liabilities could have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Spinrite may be required to raise additional capital in the future if it decides to make additional acquisitions. The availability of future borrowings and access to capital markets for financing depends on prevailing market conditions and the acceptability of financing terms offered to Spinrite. There can be no assurance that future borrowings or equity financing will be available to Spinrite, or available on acceptable terms, in an amount sufficient to fund Spinrite's needs.

In connection with the acquisition of Spinrite by the Fund, or other acquisitions, there may be liabilities that Spinrite failed or was unable to discover in its due diligence prior to the consummation of the acquisition. In particular, to the extent that prior owners of businesses failed to comply with or otherwise violated applicable laws, Spinrite, as a successor owner, may be financially responsible for these violations. The discovery of any material liabilities could have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Reliance on Key Personnel

The success of Spinrite's operations depends on the abilities, experience and efforts of its senior management, key sales and support personnel. While Spinrite has entered into confidentiality and non-compete agreements with some of its key employees, should any of its key employees be unable or unwilling to continue his or her employment, the business, financial condition, future prospects and results of operations of Spinrite could be materially adversely affected. Spinrite's success will depend largely on its continuing ability to attract, develop and retain skilled employees in all areas of its business.

Government Intervention

Spinrite relies on certain aspects of the North American Free Trade Agreement ("NAFTA") for conducting business in the United States. Furthermore, some of Spinrite's raw materials are subject to duties and quotas upon entry to North America. Any changes to NAFTA or the duty and/or quota rates on goods delivered to

Spinrite could have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Exchange Rate Fluctuations

A portion of Spinrite's sales are generated in U.S. dollars, but a materially smaller proportion of its expenses are denominated in U.S. dollars. To the extent that the Canadian dollar strengthens significantly against the U.S. dollar, U.S. dollar sales revenue will negatively impact returns. To mitigate the effects of exchange rate fluctuation, management has implemented a hedging strategy of purchasing forward foreign exchange contracts. To the extent that Spinrite does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Interest Rates

A portion of Spinrite's credit facility is subject to floating interest rates and, therefore, is subject to fluctuations in interest rates. As Spinrite's business grows, this exposure is expected to increase. Interest rate fluctuations are beyond Spinrite's control and there can be no assurance that interest rate fluctuations will not have a material adverse effect on Spinrite's business financial condition, future prospects and results of operations. Spinrite intends to enter into hedging transactions to mitigate these risks, but there can be no assurance that any hedging strategy will, if entered into, be successful.

Uninsured and Underinsured Losses

Spinrite maintains insurance policies with insurers in amounts and with coverages and deductibles that it believes are reasonable and prudent. Spinrite maintains comprehensive property, casualty and liability insurance with coverages and amounts that it believes are sufficient to repair or replace any assets physically damaged or destroyed, resultant business interruption losses or extra expenses sustained, and to cover claims with respect to bodily injury or property damage arising out of assets or operations. However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of Spinrite. To the extent Spinrite has uninsured and underinsured losses, it may have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Environment, Health and Safety Requirements and Related Considerations

Spinrite's operations are subject to a broad range of federal, provincial, state and local laws and regulations as well as permits and other approvals relating to the protection of the environment and workers' health and safety governing, among other things, air emissions, water discharges, non-hazardous and hazardous waste (including waste-water), the storage, handling, transportation and distribution of dangerous goods, contaminants and hazardous materials such as chemicals, remediation of releases and historical contamination and workers' health and safety in the United States and Canada (the "Environment, Health and Safety Requirements"). As a result of Spinrite's operations, it may be involved from time to time in administrative and judicial proceedings and inquiries relating to Environment, Health and Safety Requirements. Future proceedings or inquiries could have a material adverse effect on Spinrite's business, financial condition and results of operations.

Changes to existing Environment, Health and Safety Requirements and to the enforcement thereof or the adoption of new Environment, Health and Safety Requirements in the future might, individually or in the aggregate, have a material adverse effect on Spinrite's financial condition or operating results. In addition, the discovery of unknown environmental or workers' health and safety issues at facilities owned, operated or used by Spinrite, including the responsibility to remediate contaminants whether or not the contamination was caused by Spinrite, could require expenditures which may have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Operating Hazards

Spinrite's revenues are dependent on the continued operation of its facilities. The operation of facilities involves some risks, including the failure or substandard performance of equipment, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. The operations of Spinrite are also subject to various hazards incidental to the production, use, handling, processing, storage and transportation of certain hazardous materials, including industrial chemicals. These hazards can cause fatal personal injury, severe damage to and destruction of property and equipment and environmental damage. There can be no assurance that as a result of past or future operations, there will not be claims of injury by employees or members of the public due to exposure, or alleged exposure, to these materials. Furthermore, Spinrite also has exposure to future claims with respect to workplace exposure, workers' compensation and other matters, arising from events both prior to and after the Acquisition. There can be no assurance as to the actual amount of these liabilities or the timing of them. The occurrence of material operational problems, including but not limited to the above events, may have a material adverse effect on Spinrite's business, financial condition, future prospects and results of operations.

Product Liability

Difficulties in product design, performance and reliability could result in lost revenue, delays in customer acceptance of Spinrite's products and lawsuits and would be detrimental to Spinrite's market reputation. Spinrite's products and the products incorporated from third parties are not error free. Undetected errors or performance problems arise from time to time. Spinrite may not be able to successfully complete the development of planned or future products in a timely manner or to adequately address product defects, which could harm Spinrite's business and prospects. In addition, product defects may expose Spinrite to product liability claims, for which it may not have sufficient product liability insurance. A successful suit against Spinrite could have a material adverse effect on its business, financial condition, future prospects and results of operations.

Risk of Future Legal Proceedings

Spinrite may be affected by litigation and other proceedings common in the industry, such as actions against Spinrite for product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business which could have a material adverse effect on its business, financial condition, future prospects and results of operations.

Risks Related to the Structure of the Fund and this Offering

Dependence on Spinrite

The Fund is an unincorporated, open-ended limited purpose trust which will be entirely dependent on the operations and assets of Spinrite through the indirect ownership interests. Cash distributions to Unitholders will be dependent on the ability of the Trust to pay the interest obligations under the Trust Notes and distribution on the Trust Units which in turn is dependent on the ability of Spinrite to pay distributions on the LP Units. Although the Fund intends to distribute the interest and distribution income received by the Fund less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Spinrite and amounts paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, sustainability of margins, capital expenditures and compliance with restrictive covenants under the New Credit Facility.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units. If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Certain Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects. There can also be no assurance that taxation authorities will accept other tax

positions adopted by the Fund, including its determination of the amounts of federal and provincial income and capital taxes and interest expense, which could adversely affect the amount of distributable cash.

The Department of Finance has indicated that it will continue to evaluate the development of the income trust market as part of its ongoing monitoring and assessment of Canadian financial markets and the Canadian tax system. Accordingly, changes in this area, in addition to those tabled in the Budget, are possible. Such changes could result in the income tax considerations described under the heading “Certain Canadian Federal Income Tax Considerations” being materially different in certain respects.

On October 31, 2003, the Department of Finance released, for public comment, proposed amendments to the Tax Act that relate to the deductibility of interest and other expenses for income tax purposes for taxation years commencing after 2004. In general, the proposed amendments may deny the realization of losses in respect of a business or property if there is no reasonable expectation that the business or property will produce a cumulative profit over the period that the business can reasonably be expected to be carried on or the property can reasonably be expected to be held. The Fund believes that it is reasonable to expect that it, the Trust Holding LP and Spinrite will realize a cumulative profit from their respective businesses and properties.

Interest on the Trust Notes accrues at the Fund level for Canadian federal income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund’s taxable income to zero. Where interest payments on the Trust Notes are due but not paid in whole or in part, the Declaration of Trust provides that additional Units will be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their income in circumstances when they do not directly receive a cash distribution.

There can be no assurance that the Units will continue to be qualified investments for Plans or that the Units will continue not to be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property. See “Certain Canadian Federal Income Tax Considerations” and “General Matters — Eligibility for Investment”. In particular, if the Fund ceases to be a mutual fund trust, the Units may become foreign property.

The Fund’s indirect acquisition of Ordinary Holding LP Units involves a number of internal reorganization transactions as described under “Reorganization and Acquisition”. No advance income tax ruling has been or will be sought in respect of these transactions. In the opinion of counsel, these transactions should not result in any material income tax payable by the Fund or its subsidiaries. There can be no assurance, however, that the CRA or another tax authority will not take a contrary view. In the event the CRA or another tax authority were successful in any such challenge, taxes of a material amount would be payable which would materially affect the amount of distributable cash available to the Fund and distributions payable to Unitholders.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust’s property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents and partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion which did not include these proposed changes. It is counsel’s understanding that the Department of Finance has suspended implementation of the proposed changes pending further consultation with interested parties.

Leverage and Restrictive Covenants

At Closing or as soon as practicable thereafter, Spinrite (and/or its affiliates) expect to enter into the New Credit Facility. See “Credit Facility”. The degree to which Spinrite (and/or its affiliates) is leveraged could have important consequences to the holders of the Units, including: (1) the ability of Spinrite (and/or its affiliates) to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (2) a significant portion of Spinrite’s (and/or its affiliates’) cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations and to pay distributions; (3) certain of the borrowings under the New Credit Facility will be at variable rates of interest, which exposes Spinrite (and/or its affiliates) to the risk of increased interest rates; and (4) Spinrite (and/or its affiliates) may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of distributable cash to interest rate variations.

The ability of Spinrite and the Trust to make distributions or make other payments or advances will be subject to applicable law and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the New Credit Facility). The New Credit Facility will contain numerous restrictive covenants, including covenants that limit the discretion of Spinrite’s management with respect to certain business matters. These covenants will place significant restrictions on, among other things, the ability of Spinrite to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the New Credit Facility will contain a number of financial covenants that require Spinrite (and/or its affiliates) to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the New Credit Facility could result in a default which, if not cured or waived, could result in a termination of distributions by Spinrite and permit acceleration of the relevant indebtedness. If the indebtedness under the New Credit Facility, including any hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Spinrite would be sufficient to repay in full that indebtedness. See “Credit Facility”.

Nature of Units

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of Spinrite and should not be viewed by investors as units, or debt of either the Trust or Spinrite. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The Units represent a fractional interest in the Fund. The Fund’s primary assets will be its interest in the Trust. The price per Unit is a function of anticipated distributable cash of the Fund, which may change.

The Units are not deposits within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Absence of Prior Public Market

Prior to this Offering, there has been no public market for the Units. The Offering Price has been determined by negotiation between the Fund, certain of the Existing Securityholders and the Underwriters based on several factors and may bear no relationship to the price at which the Units will trade in the public market subsequent to this Offering. See “Plan of Distribution”.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the trustees may distribute the Trust Units or Trust Notes of the Trust directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Units or Trust Notes. In addition, neither the Trust Units nor the Trust Notes are expected to be freely tradable or listed on any stock exchange. See “Description of the Fund — Term of the

Fund”. Securities of the Trust so distributed may not be qualified investments for Plans, depending upon the circumstances at the time.

Potential Dilution

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the trustees without the approval of Unitholders. See “Description of the Fund — Units”.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable despite such statement in the Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize that risk wherever possible.

Under limited partnership legislation, a limited partner taking part in the management of a limited partnership is potentially responsible for partnership liabilities as a general partner. In light of the fact that the investment of the Fund in Spinrite is being held through the Trust and the management of Spinrite is being conducted through, GP Inc., a corporate entity, management believes that the possibility of any such liability to Unitholders is remote.

Enforcement of Indemnities

Some of the proceeds of this Offering will be used to purchase the interests in Spinrite owned by a number of Existing Securityholders including members of management. In light of the fact that the Existing Securityholders represent separate financial interests in Spinrite, the obligations of these parties are not joint and several. Accordingly, any recourse of the Fund against the Existing Securityholders would need to be undertaken against each such party individually.

Restrictions on Potential Growth

The payout by Spinrite of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Spinrite and its cash flow.

Liquidity Rights

Delaware LP and Spinrite Management LP will be entitled, following the Subordination End Date, to sell their common share and debt interests in New NSULC and New Management NSULC, respectively, to Holding LP and receive a cash purchase price equal to the fair market value thereof determined by an independent valuator. Upon exercise of such rights, the Fund would have the overriding right to require Delaware LP and Spinrite Management LP to sell their interests in New NSULC and New Management NSULC, respectively, to it through an indirect wholly owned subsidiary of the Trust rather than to Holding LP. It is intended that the Fund would exercise this overriding right and that such payment would likely be funded through an offering of a representative number of units by the Fund. There can be no assurance that such offering will not be dilutive to Unitholders which would result if the fair market value is determined to be greater than the proceeds received by the Fund on such offering. However, this risk is mitigated by the fact that the Fund has the right to veto an exercise by the Existing Securityholders of their Liquidity Right as described under “Principal Agreements — Liquidity Right”.

PROMOTER

GP Inc. has taken the initiative in organizing the business and affairs of the Fund and accordingly may be considered to be a promoter of the Fund within the meaning of applicable securities legislation. For more information regarding GP Inc.'s relationship to the Fund and its affiliated entities, see "Reorganization and Acquisition".

LEGAL PROCEEDINGS

There currently are no outstanding material legal proceedings to which the Fund or any of its subsidiaries is party or of which any of Spinrite's properties is the subject matter, nor is the Fund aware of any such material threatened or contemplated proceedings.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Fund are Deloitte & Touche LLP, Kitchener, Ontario.

The transfer agent and registrar for the Units is CIBC Mellon Trust Company at its principal office in Toronto.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the Fund, or any of its subsidiaries or their predecessors within the past two years or which are proposed to be entered into:

- the Declaration of Trust referred to under "Description of the Fund — Declaration of Trust";
- the LTIP referred to under "Management, Trustees and Directors — Long-Term Incentive Plan";
- the Acquisition Agreement referred to under "Principal Agreements — Acquisition Agreement";
- the Trust Note Indenture referred to under "Description of the Trust — Trust Notes";
- the credit agreement relating to the New Credit Facility provided to Spinrite referred to under "Credit Facility";
- the Liquidity Agreement referred to under "Principal Agreements — Liquidity Agreement";
- the Securityholders' Agreement referred to under "Principal Agreements — Securityholders' Agreement";
- the Holding LP Partnership Agreement referred to under "Description of Holding LP";
- the Partnership Agreement referred to under "Description of Spinrite"; and
- the Underwriting Agreement referred to under "Plan of Distribution".

Copies of these agreements, following execution where not executed, may be examined at the head and principal office of the Fund during normal business hours during the course of distribution to the public of the Units.

EXPERTS

The matters referred to under "General Matters — Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations" and certain other legal matters relating to the Units offered by this prospectus will be passed upon at the date of Closing on behalf of the Fund by Torys LLP and on behalf of the Underwriters by Stikeman Elliott LLP. As of the date hereof, the partners and associates of Torys LLP and Stikeman Elliott LLP did not beneficially own, directly or indirectly, any of the outstanding Units of the Fund or securities of Spinrite.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

The following is a glossary of terms used frequently throughout this prospectus and the summary thereof.

“2002 Plant Integration and Consolidation” means the redesign and reconfiguration of Spinrite’s plant layout to improve workflow and consolidation of seven separate warehouse locations and approximately 100 storage trailers into a newly constructed distribution centre in fiscal 2002.

“Acquisition” means the acquisition by the Fund of an indirect 80% interest in the capital of Spinrite.

“Acquisition Agreement” means the acquisition agreement pursuant to which the Trust will indirectly acquire the Ordinary Holding LP Units indirectly held by Delaware LP, Spinrite Management LP and the Management Corporations.

“Adjusted EBITDA” means EBITDA after removing the effects of non-recurring items.

“Adjusted EBITDA Margin” means the percentage that Adjusted EBITDA for any period is of sales for that period.

“affiliate” means in respect of a person or company, another person or company that would be considered to be an “affiliated entity” in respect of such person or company for the purposes of Ontario Securities Commission Rule 45-501 as in effect on the date hereof.

“Affiliated Bank” means a Canadian chartered bank which is an affiliate of Scotia Capital Inc.

“Budget” means the Canadian federal budget of March 23, 2004.

“Budget Proposals” means the proposed amendments to the Tax Act proposed in the Budget.

“CAGR” means compound annual growth rate.

“CDS” means The Canadian Depository for Securities Limited.

“Closing” means the closing of the Offering, expected to occur on February 8, 2005 or any other date agreed upon by Spinrite, the Fund and the Underwriters, but not later than February 28, 2005.

“Craft Yarn Council” means the Craft Yarn Council of America.

“CRA” means Canada Revenue Agency.

“craft yarns” means yarns used in the hand knitting and crocheting category.

“Current Facility” means the current credit facility of Spinrite.

“Declaration of Trust” means the declaration of trust dated December 8, 2004 pursuant to which the Fund was created, as amended or amended and restated from time to time.

“Delaware LP” means Spinrite Holdings, LP, a Delaware limited partnership.

“EBITDA” means earnings before interest, taxes, depreciation and amortization.

“EBITDA Margin” means the percentage that EBITDA for any period is of sales for that period.

“Environment, Health and Safety Requirements” means federal, provincial, state and local laws and regulations as well as permits and other approvals relating to the protection of the environment and workers’ health and safety governing, among other things, air emissions, water discharges, non-hazardous and hazardous waste (including waste water), the storage, handling, transportation and distribution of dangerous goods and hazardous materials such as chemicals, remediation of releases and workers’ health and safety in the United States and Canada.

“Existing Securityholders” means the current direct and indirect holders of limited partnership units of Spinrite which includes the Management Corporations, Spinrite Management LP and Delaware LP.

“Fund” means Spinrite Income Fund, a trust formed on December 8, 2004 pursuant to the Declaration of Trust under the laws of the province of Ontario.

“**GAAP**” means generally accepted accounting principles in Canada.

“**GP Inc.**” means Spinrite GP Inc., a Nova Scotia company and the general partner of Spinrite and will be the General Partner of Holding LP.

“**Holding LP**” means Spinrite Holding LP, a Manitoba limited partnership.

“**Holding LP Partnership Agreement**” means the partnership agreement governing Holding LP among GP Inc., the Trust, New Management NSULC, New NSULC and the Management Corporations dated as of January 28, 2005.

“**Holding LP Units**” means the limited partnership interests to be issued by Holding LP, consisting initially of the Ordinary Holding LP Units and the Subordinated Holding LP Units.

“**Independent Trustees**” means trustees of the Fund who are not officers or employees of any subsidiary of the Fund.

“**Lenders**” means the lenders under the New Credit Facility, being The Bank of Nova Scotia and certain other chartered banks.

“**Liquidity Agreement**” means the liquidity agreement among the Fund, the Trust, GP Inc., Delaware LP, Spinrite Management LP, Management Corporations and Holding LP to be dated as of the date of Closing.

“**LP Units**” means the partnership interests issued by Spinrite.

“**LTIP**” means the long-term incentive plan of the Fund.

“**management**” means senior management of GP Inc.

“**Management Corporations**” means: the following Ontario corporations owned by members of Spinrite management or consultants to Spinrite, as applicable, 1287356 Ontario Inc., 1620030 Ontario Limited, 1620031 Ontario Limited, 1620006 Ontario Limited, 1620005 Ontario Limited, 1620004 Ontario Limited, 1619914 Ontario Limited; and the following Nova Scotia unlimited liability corporations owned by Spinrite management: 3091784 Nova Scotia Company and 3091785 Nova Scotia Company.

“**Management NSULC**” means Yarn Management Company, a Nova Scotia unlimited liability company.

“**NAFTA**” means the North American Free Trade Agreement.

“**Named Executive Officers**” means the Chief Executive Officer of Spinrite and each of the four other most highly-compensated individuals who serve as executive officers of Spinrite.

“**Newco**” means 6328661 Canada Limited, a Canadian corporation.

“**Newco Note**” means the approximately \$137,123,389 loan to Newco of the Trust.

“**New Credit Facility**” means the proposed arrangements to be entered into concurrent with Closing among Spinrite and the Lenders providing Spinrite with a senior secured credit facility of up to \$67.7 million.

“**New Management NSULC**” means 3096489 Nova Scotia Company, a Nova Scotia unlimited company.

“**New NSULC**” means 3096488 Nova Scotia Company, a Nova Scotia unlimited liability company.

“**non-recurring items**” means transactions or events which management believes are unusual in the context of a publicly-traded issuer in the craft yarn manufacturing and marketing business and are not expected to recur within the foreseeable future and include non-recurring management fees, discretionary shareholder remuneration and expenses, non-recurring royalty fees, non-cash foreign exchange translation gains (losses) on debt and other instruments.

“**North America**” means Canada and the continental United States.

“**NSULC**” means 3083522 Nova Scotia Company, a Nova Scotia unlimited liability company.

“**Offering**” means the Offering of 20,291,200 Units to be issued and sold by the Fund pursuant to this prospectus.

“Offering Price” means \$10.00 per Unit.

“Ordinary Holding LP Units” means ordinary limited partnership units of Holding LP.

“Partnership Agreement” means the amended and restated partnership agreement dated as of January 24, 2004 governing Spinrite as amended or amended and restated from time to time.

“Partnership Agreements” means the Holding LP Partnership Agreement and the Partnership Agreement.

“Plans” means registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act.

“Predecessor” means Spinrite Inc., the predecessor of Spinrite.

“Predecessor Acquisition” means the acquisition of the Predecessor from the Predecessor’s owner entrepreneurs.

“Redemption Date” with respect to the Units means the trading day immediately after the date on which the Units were surrendered for redemption.

“Redemption Price” means a price per unit equal to the lesser of (a) 90% of the “market price” of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not then listed on a stock exchange, the principal market on which the Units are quoted for trading) during the ten consecutive trading day period ending on the Redemption Date and (b) 100% of the “closing market price” on the principal market on which the Units are quoted for trading on the date the Units were surrendered for redemption.

“Reorganization” means the reorganization of the ownership of Spinrite.

“Securityholders’ Agreement” means the securityholders agreement among GP Inc., the Trust, New NSULC, New Management NSULC and Management Corporations to be dated as of the date of Closing.

“Spinrite” means Spinrite Limited Partnership, a Manitoba limited partnership which carries on the craft yarn manufacturing and marketing business. Prior to January 25, 2004, Spinrite means Spinrite Inc.

“Spinrite Management LP” means Spinrite Management, LP, a Delaware limited partnership.

“Subordination End Date” means the earliest date on which both of the following conditions are satisfied: (a) the Fund has earned EBITDA (after adding back any amounts that are expensed but that are pre-funded as described under “Executive Compensation — Management Arrangements”). For the immediately preceding fiscal year (based on audited consolidated financial statements of the Fund) commencing with the financial year ended December 31, 2006, of at least \$29.9 million for such fiscal year and (b) yearly cash distributions of at least \$1.00 per Unit and per Subordinated Holding LP Unit have been paid by the Fund or Holding LP as applicable, for each of the two most recent fiscal years or annualized in the case of 2005.

“Subordinated Holding LP Units” means subordinated limited partnership units of Holding LP.

“Tax Act” means the *Income Tax Act* (Canada), as amended, and the regulations thereunder.

“Tax Proposals” means specific proposals to amend the Tax Act and regulations under the Tax Act which have been announced by or on behalf of the Minister of Finance (Canada).

“Trust” means Spinrite Trust, a trust formed on January 28, 2005 pursuant to the Trust Declaration of Trust under the laws of the Province of Ontario.

“Trust Declaration of Trust” means the declaration of trust dated January 28, 2005 pursuant to which the Trust was created, as amended or amended and restated from time to time.

“Trust Notes” means the notes issued under the Trust Note Indenture, consisting initially of the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes.

“Trust Note Indenture” means the note indenture among the Trust and CIBC Mellon Trust Company governing the notes issued by the Trust.

“Trust Unitholder” means a holder of Trust Units.

“Trust Units” means the trust units of the Trust.

“**TSX**” means the Toronto Stock Exchange.

“**Underwriters**” means Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and TD Securities Inc.

“**Underwriting Agreement**” means the underwriting agreement entered into among the Fund, the Underwriters, Spinrite, GP Inc., Holding LP, the Trust and certain of the Existing Securityholders dated January 28, 2005.

“**Unitholder**” means a holder of Units.

“**Units**” means the trust units of the Fund, including the Units offered by this prospectus.

“**U.S. Securities Act**” means *The United States Securities Act of 1933*, as amended.

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AUDITORS' CONSENT

We have read the prospectus of Spinrite Income Fund (the "Fund") dated January 28, 2005 relating to the sale and issue of units of the Fund. We complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the trustees of the Fund on the balance sheet of the Fund as at December 8, 2004. Our report is dated January 28, 2005.

We also consent to the use in the above-mentioned prospectus of our report to the directors of Spinrite Limited Partnership (the "Partnership") on the balance sheet of the Partnership as at March 27, 2004 and the statements of operations and undistributed income and of cash flows for the nine-week period then ended. Our report is dated December 6, 2004 except as to Note 19, which is as of January 28, 2005.

Kitchener, Ontario
January 28, 2005

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

AUDITORS' CONSENT

We have read the prospectus of Spinrite Income Fund (the "Fund") dated January 28, 2005, qualifying the sale and distribution of units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Spinrite Limited Partnership on the consolidated balance sheets of Spinrite Inc. as at January 24, 2004 and March 31, 2003, 2002, 2001, and 2000 and the consolidated statements of operations, retained earnings and cash flows for the forty-three week period ended January 24, 2004 and each of the years ended March 31, 2003, 2002, 2001 and 2000. Our audit report is dated March 11, 2004.

Mississauga, Canada
January 28, 2005

(Signed) GRANT THORNTON LLP
Chartered Accountants

AUDITORS' REPORT

To the Trustees of Spinrite Income Fund

We have audited the balance sheet of Spinrite Income Fund (the "Fund") as at December 8, 2004. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Fund as at December 8, 2004 in accordance with Canadian generally accepted accounting principles.

Kitchener, Ontario
January 28, 2005

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

SPINRITE INCOME FUND

BALANCE SHEET

As at December 8, 2004

ASSET

Cash	<u>\$10</u>
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UNITHOLDER'S EQUITY

Unitholders Equity	<u>\$10</u>
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SPINRITE INCOME FUND
NOTES TO BALANCE SHEET
As at December 8, 2004

1. BASIS OF PRESENTATION

The balance sheet of Spinrite Income Fund (the “Fund”) has been prepared in accordance with Canadian generally accepted accounting principles.

2. THE FUND

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario by declaration of Trust made as of December 8, 2004.

3. SUBSEQUENT EVENTS

The Fund has prepared a prospectus dated January 28, 2005 for the sale to the public of 20,291,200 units at a price of \$10.00 per unit (the “Offering”), payable on closing for aggregate net proceeds of \$188,244,560, after deducting expenses of the Offering and related transaction and underwriters’ fees.

Subsequent to an internal reorganization and immediately following the closing of the Offering, the Fund will use \$188,244,560 of the net proceeds from the Offering, together with the New Credit Facility, to indirectly acquire 80% of the securities of Spinrite Limited Partnership (“Spinrite”) from existing securityholders. To acquire 80% of Spinrite, the Fund will establish a subtrust (“Trust”) and use the proceeds of the Offering to subscribe for all of the units of the Trust and to purchase \$169,420,104 principal amount of series 1 Trust notes bearing interest at 3% per annum. The Trust will then undertake a series of transactions with the existing securityholders of Spinrite to effect the indirect acquisition of 80% of the securities of Spinrite.

AUDITORS' REPORT

To the Directors of Spinrite Limited Partnership

We have audited the balance sheet of Spinrite Limited Partnership (the "Partnership") as at March 27, 2004 and the statements of operations and undistributed income and of cash flows for the nine-week period then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at March 27, 2004 and the results of its operations and its cash flows for the nine-week period then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Ontario

December 6, 2004, except as to Note 19, which is as of January 28, 2005

(Signed) DELOITTE & TOUCHE LLP

Chartered Accountants

AUDITORS' REPORT

To the Directors of Spinrite Limited Partnership

We have audited the consolidated balance sheets of Spinrite Inc. as at January 24, 2004 and March 31, 2003, 2002, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for the forty-three week period ended January 24, 2004 and each of the years ended March 31, 2003, 2002, 2001 and 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 24, 2004 and March 31, 2003, 2002, 2001, and 2000 and the results of its operations and cash flows for the forty-three week period ended January 24, 2004 and each of the years ended March 31, 2003, 2002, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.

Mississauga, Canada
March 11, 2004

(Signed) GRANT THORNTON LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	Spinrite Limited Partnership	Spinrite Inc.	Spinrite Limited Partnership	Spinrite Inc.				
	September 25, 2004	September 27, 2003	March 27, 2004	January 24, 2004	March 31, 2003	March 31, 2002	March 31, 2001	March 31, 2000
	(unaudited)	(unaudited)						
ASSETS								
CURRENT								
Cash	\$ 462,679	\$ 795,284	\$ 119,874	\$ 2,965,641	\$ 2,321,266	\$ 1,741,767	\$ 1,137,143	\$ 782,843
Accounts receivable	17,318,639	9,725,500	16,896,326	15,733,404	10,822,746	9,805,344	11,353,734	11,710,759
Income taxes receivable (Note 16)	—	—	—	—	—	3,032,303	221,919	—
Inventories (Note 7)	23,952,320	13,822,273	14,512,104	10,959,287	10,995,538	12,269,897	11,960,955	14,496,712
Prepaid expenses and other assets (Notes 6 and 12(iii))	1,753,317	189,879	662,052	351,205	144,579	72,460	67,989	106,553
Advances to related parties (Note 15)	253,357	3,002,367	—	—	92,110	—	—	—
	43,740,312	27,535,303	32,190,356	30,009,537	24,376,239	26,921,771	24,741,740	27,096,867
PROPERTY, PLANT AND EQUIPMENT (Note 8)	9,852,760	15,059,545	9,849,115	15,216,683	15,359,613	16,234,777	11,402,178	9,031,241
DEFERRED FINANCING CHARGES (net of accumulated amortization of \$186,457 at September 25, 2004 and \$49,010 at March 27, 2004)	1,244,531	—	1,306,750	—	—	—	—	—
GOODWILL (Note 4)	27,507,423	—	27,507,423	—	—	—	—	—
OTHER INTANGIBLE ASSETS (Notes 4 and 9)	24,134,556	143,284	24,655,000	132,943	159,098	190,727	222,357	287,202
	<u>\$106,479,582</u>	<u>\$42,738,132</u>	<u>\$95,508,644</u>	<u>\$45,359,163</u>	<u>\$39,894,950</u>	<u>\$43,347,275</u>	<u>\$36,366,275</u>	<u>\$36,415,310</u>
LIABILITIES								
CURRENT								
Bank indebtedness (Note 10)	\$ 2,637,800	\$ 1,394,968	\$ 2,311,858	\$ —	\$ —	\$ 9,600,000	\$ 5,000,000	\$ 5,500,000
Accounts payable and accrued liabilities	14,389,389	6,389,800	12,132,189	7,822,761	7,348,653	6,501,907	8,431,286	8,453,869
Income taxes payable (Note 16)	1,601,000	987,678	425,000	2,608,542	1,623,531	—	—	529,436
Advances from related parties (Note 15)	156,791	—	1,817,198	170,111	—	67,879	868,393	119,601
Current portion of long-term debt (Note 11)	3,141,409	5,895,720	1,889,582	802,438	821,726	853,253	44,717	109,161
	21,926,389	14,668,166	18,575,827	11,403,852	9,793,910	17,023,039	14,344,396	14,712,067
LONG-TERM DEBT (Note 11)	34,848,303	—	39,996,145	4,832,949	5,488,492	6,286,336	92,778	77,169
FUTURE INCOME TAXES (Note 16)	—	1,639,860	—	1,807,860	1,639,860	1,405,791	1,172,000	1,199,514
	<u>56,774,692</u>	<u>16,308,026</u>	<u>58,571,972</u>	<u>18,044,661</u>	<u>16,922,262</u>	<u>24,715,166</u>	<u>15,609,174</u>	<u>15,988,750</u>
COMMITMENTS AND CONTINGENCY (Notes 12 and 19)								
PARTNERS' CAPITAL / SHARE CAPITAL								
(Note 13)	32,305,000	13,804,275	32,305,000	13,804,275	13,804,275	13,804,275	13,804,275	13,804,275
CONTRIBUTED SURPLUS	—	3,016,007	—	3,016,007	3,016,007	3,016,007	3,016,007	3,016,007
UNDISTRIBUTED INCOME / RETAINED								
EARNINGS	17,399,890	9,609,824	4,631,672	10,494,220	6,152,406	1,811,827	3,936,819	3,606,278
	49,704,890	26,430,106	36,936,672	27,314,502	22,972,688	18,632,109	20,757,101	20,426,560
	<u>\$106,479,582</u>	<u>\$42,738,132</u>	<u>\$95,508,644</u>	<u>\$45,359,163</u>	<u>\$39,894,950</u>	<u>\$43,347,275</u>	<u>\$36,366,275</u>	<u>\$36,415,310</u>

**CONSOLIDATED STATEMENTS OF OPERATIONS AND
UNDISTRIBUTED INCOME / RETAINED EARNINGS**

	Spinrite Limited Partnership	Spinrite Inc.	Spinrite Limited Partnership	Spinrite Inc.				
	26-weeks ended September 25, 2004	26-weeks ended September 27, 2003	9-weeks ended March 27, 2004	43-weeks ended January 24, 2004	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000
	(unaudited)	(unaudited)						
SALES	\$57,035,500	\$31,265,933	\$19,761,610	\$59,493,852	\$62,992,200	\$63,200,308	\$64,215,012	\$66,371,253
VOLUME REBATES	2,910,151	1,360,217	1,047,840	2,505,727	1,766,900	2,716,183	2,366,051	3,311,005
BROKERAGE FEES AND OUTWARD FREIGHT	3,289,245	535,663	861,061	1,173,308	666,810	423,348	345,719	387,204
DISCOUNTS AND ROYALTIES	1,037,669	878,841	678,529	1,560,310	1,855,319	1,772,306	1,445,902	1,703,099
	7,237,065	2,774,721	2,587,430	5,239,345	4,289,029	4,911,837	4,157,672	5,401,308
NET SALES	49,798,435	28,491,212	17,174,180	54,254,507	58,703,171	58,288,471	60,057,340	60,969,945
COST OF SALES	26,957,805	17,981,336	9,093,076	33,773,687	40,536,921	45,884,672	41,412,657	42,523,247
	22,840,630	10,509,876	8,081,104	20,480,820	18,166,250	12,403,799	18,644,683	18,446,698
EXPENSES								
Selling	3,184,020	2,707,468	1,073,620	4,645,390	6,000,937	7,487,113	8,083,726	6,129,938
Operating	3,750,948	2,203,160	754,930	3,509,154	4,104,891	1,666,374	5,167,145	4,792,553
Interest	1,860,645	177,250	711,808	308,207	478,490	603,089	440,490	400,097
Foreign exchange (gain) loss	(1,822,795)	52,609	484,074	(146,145)	475,825	588,116	(143,020)	268,267
	6,972,818	5,140,487	3,024,432	8,316,606	11,060,143	10,344,692	13,548,341	11,590,855
EARNINGS BEFORE INCOME TAXES	15,867,812	5,369,389	5,056,672	12,164,214	7,106,107	2,059,107	5,096,342	6,855,843
PROVISION FOR INCOME TAXES (Note 16)	1,300,000	1,911,971	425,000	4,354,400	2,301,528	584,099	1,917,961	2,720,952
NET INCOME	14,567,812	3,457,418	4,631,672	7,809,814	4,804,579	1,475,008	3,178,381	4,134,891
UNDISTRIBUTED INCOME / RETAINED EARNINGS, BEGINNING OF PERIOD	4,631,672	6,152,406	—	6,152,406	1,811,827	3,936,819	3,606,278	3,471,387
CHANGE IN ACCOUNTING POLICY (Note 3)	—	—	—	—	—	—	152,160	—
	19,199,484	9,609,824	4,631,672	13,962,220	6,616,406	5,411,827	6,936,819	7,606,278
INCOME DISTRIBUTIONS/DIVIDENDS (Note 13)	(1,799,594)	—	—	(3,468,000)	(464,000)	(3,600,000)	(3,000,000)	(4,000,000)
UNDISTRIBUTED INCOME / RETAINED EARNINGS, END OF PERIOD	\$17,399,890	\$ 9,609,824	\$ 4,631,672	\$10,494,220	\$ 6,152,406	\$ 1,811,827	\$ 3,936,819	\$ 3,606,278

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Spinrite Limited Partnership	Spinrite Inc.	Spinrite Limited Partnership	Spinrite Inc.				
	26-weeks ended September 25, 2004	26-weeks ended September 27, 2003	9-weeks ended March 27, 2004	43-weeks ended January 24, 2004	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000
	(unaudited)	(unaudited)						
OPERATING ACTIVITIES								
Cash flows from operating activities								
Net income	\$14,567,812	\$ 3,457,418	\$ 4,631,672	\$ 7,809,814	\$ 4,804,579	\$ 1,475,008	\$ 3,178,381	\$ 4,134,891
Items not involving cash:								
Deferred promissory note interest	335,552	—	113,250	—	—	—	—	—
Unrealized (gain) loss on foreign exchange	(1,300,207)	—	285,108	—	—	—	—	—
Future income taxes	—	—	—	168,000	234,069	233,791	124,646	112,045
Gain on sale of capital assets	—	—	—	(9,500)	—	—	—	—
Depreciation and amortization	1,046,874	750,187	113,870	1,213,210	1,567,595	1,309,817	1,029,192	1,010,224
	<u>14,650,031</u>	<u>4,207,605</u>	<u>5,143,900</u>	<u>9,181,524</u>	<u>6,606,243</u>	<u>3,018,616</u>	<u>4,332,219</u>	<u>5,257,160</u>
Changes in non-cash balances related to operations:								
Accounts receivable	(422,313)	1,189,356	(1,205,604)	(4,910,658)	(1,017,402)	1,548,390	357,025	(1,283,793)
Inventories	(9,440,216)	(2,826,735)	(3,552,817)	36,251	1,274,359	(308,942)	2,535,757	(84,242)
Prepaid expenses and other assets	(1,091,265)	(45,300)	(140,007)	(206,626)	(72,119)	(4,471)	38,564	73,739
Accounts payable and accrued liabilities	2,257,200	(958,853)	4,338,303	474,108	846,746	(1,929,379)	(22,583)	3,128,161
Income taxes payable	1,176,000	(635,853)	425,000	985,011	4,655,834	(2,810,384)	(751,355)	(1,519,333)
	<u>(7,520,594)</u>	<u>(3,277,385)</u>	<u>(135,125)</u>	<u>(3,621,914)</u>	<u>5,687,418</u>	<u>(3,504,786)</u>	<u>2,157,408</u>	<u>314,532</u>
	<u>7,129,437</u>	<u>930,220</u>	<u>5,008,775</u>	<u>5,559,610</u>	<u>12,293,661</u>	<u>(486,170)</u>	<u>6,489,627</u>	<u>5,571,692</u>
FINANCING ACTIVITIES								
Partners' capital contributions	—	—	32,305,000	—	—	—	—	—
Distributions to Partners	(1,799,594)	—	—	—	—	—	—	—
Dividends	—	—	—	(3,468,000)	(464,000)	(3,600,000)	(3,000,000)	(4,000,000)
Proceeds from new financing	—	—	41,512,445	—	—	6,500,000	—	—
Repayment of long-term debt	(2,931,360)	(414,498)	(204,382)	(674,831)	(829,371)	(259,033)	(48,835)	(272,710)
Advances (to) from related parties	(1,913,764)	(3,002,367)	(369,946)	262,221	(159,989)	(800,514)	748,792	(2,054,479)
Financing fees	(75,228)	—	(1,355,760)	—	—	—	—	—
Bank indebtedness	325,942	1,394,968	2,311,858	—	(9,600,000)	4,600,000	(500,000)	5,500,000
	<u>(6,394,004)</u>	<u>(2,021,897)</u>	<u>74,199,215</u>	<u>(3,880,610)</u>	<u>(11,053,360)</u>	<u>6,440,453</u>	<u>(2,800,043)</u>	<u>(827,189)</u>
INVESTING ACTIVITIES								
Acquisition of assets (Note 4)	—	—	(78,768,241)	—	—	—	—	(4,252,280)
Additions to property, plant and equipment	(392,628)	(434,305)	(322,414)	(1,054,625)	(660,802)	(5,349,659)	(3,335,284)	(1,209,118)
Proceeds on sale of capital assets	—	—	—	20,000	—	—	—	5,000
	<u>(392,628)</u>	<u>(434,305)</u>	<u>(79,090,655)</u>	<u>(1,034,625)</u>	<u>(660,802)</u>	<u>(5,349,659)</u>	<u>(3,335,284)</u>	<u>(5,456,398)</u>
CHANGE IN CASH	342,805	(1,525,982)	117,335	644,375	579,499	604,624	354,300	(711,895)
CASH, ACQUIRED ON ACQUISITION OF ASSETS	—	—	2,539	—	—	—	—	—
CASH, BEGINNING OF PERIOD	119,874	2,321,266	—	2,321,266	1,741,767	1,137,143	782,843	1,494,738
CASH, END OF PERIOD	<u>\$ 462,679</u>	<u>\$ 795,284</u>	<u>\$ 119,874</u>	<u>\$ 2,965,641</u>	<u>\$ 2,321,266</u>	<u>\$ 1,741,767</u>	<u>\$ 1,137,143</u>	<u>\$ 782,843</u>
SUPPLEMENTAL DISCLOSURE								
Payments for income taxes	\$ 124,000	\$ 2,580,852	\$ —	\$ 3,201,389	\$ 586,073	\$ 3,163,322	\$ 2,544,667	\$ 4,129,939
Payments for interest	\$ 1,331,688	\$ 177,250	\$ 562,244	\$ 307,941	\$ 478,490	\$ 603,089	\$ 440,490	\$ 400,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

Spinrite Limited Partnership (the "Partnership") was constituted and registered under the Partnership Act of Manitoba effective December 23, 2003 and commenced operations on January 24, 2004 for the purpose of acquiring substantially all of the assets representing the operations of Spinrite Inc. The Partnership operates as Spinrite Limited Partnership and produces yarn for sale in retail and industrial markets.

Since acquiring substantially all of the assets of Spinrite Inc. on January 24, 2004, the Partnership has carried on a similar business as that carried on previously by Spinrite Inc. in the production of yarn for sale in retail and industrial markets. Despite the substantive change in ownership that was involved in the Partnership's acquisition from Spinrite Inc., the underlying operations remain relatively unchanged. As a result, included in the accompanying financial statements are amounts representing the assets, liabilities, revenues and expenses of the Partnership for periods beginning January 25, 2004 and thereafter, and amounts representing the assets, liabilities, revenues and expenses of Spinrite Inc. for all periods up to and including January 24, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Year-end

The Partnership's year-end is the last Saturday in March and Spinrite Inc.'s year-end was March 31.

Basis of presentation and consolidation

These consolidated financial statements include such of the partners' assets, liabilities, revenues and expenses as are related to the Partnership, and its wholly-owned subsidiary, after the elimination of inter-company transactions and balances. No provision has been made for salaries to the partners or interest on their investment.

The comparative figures as at January 24, 2004, September 27, 2003, March 31, 2003, March 31, 2002, March 31, 2001 and March 31, 2000 and for the periods then ended, include the assets, liabilities, revenues and expenses as were related to Spinrite Inc. and its wholly owned subsidiary, 1076245 Ontario Limited, after the elimination of inter-company transactions and balances. These comparative figures have been included since they are representative of the assets and operations acquired by the Partnership on January 24, 2004 (see Notes 1 and 4). Unless otherwise noted, the accounting policies applied by the Partnership are consistent with those applied by Spinrite Inc.

Use of significant accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

The Partnership recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

Certain customer rebates, markdown adjustments and other discounts are recorded as deductions from sales. These amounts are recorded based on signed customer agreements where applicable. In cases where no agreement exists or where the amounts are not specified in the agreement, estimates are made based on annualized sales volumes and actual experience.

Inventories

Raw materials are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value. Cost includes material, labour and manufacturing overhead. Cost is determined on the first in, first out basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost. Rates and bases of depreciation applied to amortize the cost less estimated salvage value of property, plant and equipment over their estimated lives are as follows:

Buildings	4% - 10%, declining balance
Machinery and equipment	10% - 20%, declining balance
Office equipment	20%, declining balance
Motor vehicles	30%, declining balance
Computer equipment	30%, declining balance

Deferred financing charges

Deferred financing charges are recorded at cost and are amortized on a straight-line basis over five years.

Goodwill

Goodwill, representing the excess of the purchase price over fair value of the net identifiable assets of acquired businesses, is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

Other intangible assets

The intangible assets classified as a license agreement and brand names are considered to have indefinite useful lives and are recorded at cost. Intangible assets classified as customer relationships are recorded at cost and amortized on a straight-line basis over an estimated useful life of 15 years. All intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

Prior to January 25, 2004, Spinrite Inc. amortized its brand names over nine years on a straight-line basis.

Translation of foreign currencies

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization that is translated at historical rates. Translation gains or losses are included in earnings.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Income taxes

The Partnership is subject to taxation in the United States ("US") based on taxable activities carried on in the US and records a provision for income taxes payable to the US Federal and State governments. The earnings attributable to operations in Canada are taxed in the hands of the individual partners and no provision is made for income taxes that are applicable to these earnings.

Spinrite Inc. and its wholly owned subsidiary, 1076245 Ontario Limited, applied the liability method of accounting for income taxes whereby substantively enacted tax rates are applied to the temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases.

Derivative financial instruments

Derivative financial instruments are utilized by the Partnership in the management of its foreign currency exposure. The Partnership's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Gains and losses associated with derivative financial instruments qualifying as hedges are recognized concurrently with the related revenues and expenses of the hedged item. In order to qualify as a hedging relationship, the Partnership must identify the nature of the specific risk exposure being hedged in accordance with its risk management objective and strategy and formally designate that hedge accounting will be applied to the hedging relationship. The Partnership must formally document all relationships between hedging

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

instruments and hedged items and its risk management objectives and strategies for establishing hedging relationships. The Partnership must also assess the effectiveness of the hedging relationship, both at inception of the hedging relationship and continually throughout the term, with respect to offsetting changes in cash flows or fair value of the hedged item.

Derivative financial instruments that do not qualify as hedges are measured at fair value with changes in fair value at each balance sheet date recorded in income. Changes in fair value are recorded as a gain or loss on foreign exchange.

The Partnership does not currently meet the criteria noted above for its derivative financial instruments to qualify as hedges.

Prior to January 25, 2004, Spinrite Inc. did not account for its derivative financial instruments until settled.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 25, 2004, the Partnership has prospectively applied the accounting recommendations outlined in CICA Accounting Guideline 13 "Hedging relationships" whereby hedge accounting may only be applied if certain conditions are met. As a result of not currently meeting these conditions, the Partnership measures its derivative financial instruments at fair value with changes in fair value at each balance sheet date recorded in income as a gain or loss on foreign exchange. Prior to this period, in accordance with the recommendations of the CICA at that time, Spinrite Inc. did not account for its derivative financial instruments.

In the year ending March 31, 2003, Spinrite Inc. applied retroactively without restatement the accounting recommendations outlined in CICA Handbook section 3465 "Income taxes". The application of this section resulted in an adjustment to increase opening retained earnings for the year ended March 31, 2001 and decrease the future tax liability by \$152,160.

4. ACQUISITION OF ASSETS

Effective January 2004, the Partnership acquired the following assets of Spinrite Inc., a manufacturer of yarn for sale in retail and industrial markets. The purchase price was \$80,955,385 paid in cash of \$78,768,241 and assumed debt of \$2,187,144 (Note 15) and allocated as follows:

Cash	\$ 2,539
Accounts receivable	15,733,404
Inventory	10,959,287
Prepaid expenses and other assets	791,466
Property, plant and equipment	9,591,561
Other intangible assets	24,655,000
Goodwill	27,507,423
	89,240,680
Accounts payable and accrued liabilities	7,770,742
Obligations under capital lease	514,553
	<u>\$80,955,385</u>

5. FINANCIAL INSTRUMENTS

Credit risk

The Partnership and Spinrite Inc. provide credit to customers in the normal course of its operations. On a continuing basis, credit checks are performed on customers and provisions for contingent credit losses are maintained. The following percentages of accounts receivable are from five customers, each of which accounted for approximately 10% or more of accounts receivable as of at least one of the balance sheet dates presented: 68% at September 25, 2004; 48% at March 27, 2004; 52% at January 24, 2004; 48% at September 27, 2003; 48% at March 31, 2003; 36% at March 31, 2002; 36% at March 31, 2001; and 32% at March 31, 2000.

Currency risk

The Partnership and Spinrite Inc. are exposed to foreign exchange risk as a portion of sales are denominated in foreign currencies other than Canadian dollars. This risk is partially offset by foreign currency denominated purchases and the utilization of forward exchange

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FINANCIAL INSTRUMENTS (Continued)

contracts for other than trading purposes. The following balances included in these financial statements are denominated in United States dollars:

	Cash	Accounts Receivable	Bank Indebtedness	Accounts Payable and Accrued Liabilities	Long-Term Debt
September 25, 2004 (unaudited)	\$ 329,861	\$14,489,804	\$ 637,800	\$11,359,887	\$37,588,237
September 27, 2003 (unaudited)	498,732	5,466,107	—	3,481,698	—
March 27, 2004	—	9,065,110	1,528,464	7,534,015	41,417,223
January 24, 2004	(41,970)	8,970,112	—	2,555,409	—
March 31, 2003	1,381,659	5,575,598	—	3,315,237	—
March 31, 2002	1,521,637	5,311,868	—	2,003,782	—
March 31, 2001	183,493	6,514,785	—	1,656,014	—
March 31, 2000	2,219,288	—	5,658,157	2,537,295	—

Fair values

The fair values of cash and cash equivalents, accounts receivable, advances to related parties, bank indebtedness, accounts payable and accrued liabilities, advances from related parties, income taxes payable and long-term debt (except as noted below), approximates carrying value due to the relatively short term nature of the instruments and/or due to the floating interest rates on the borrowing. At September 25, 2004, the carrying values of both the \$13,255,550 senior subordinated promissory note and the \$24,322,687 term loan (Note 11) approximate fair value. The fair value of the capital lease obligations is approximately \$408,000 compared to a carrying value of \$401,475.

6. PREPAID EXPENSES AND OTHER ASSETS

	September 25, 2004 (unaudited)	March 27, 2004
Prepaid expenses	\$ 192,170	\$350,715
Duty receivable	729,459	140,497
Forward foreign currency contracts	831,688	170,840
	<u>\$1,753,317</u>	<u>\$662,052</u>

For all other periods included in these financial statements, the amounts noted for prepaid expenses and other assets relate solely to prepaid expenses.

7. INVENTORIES

	Raw Materials and Supplies	Work in Process	Finished Goods	Total
September 25, 2004 (unaudited)	\$9,803,207	2,364,294	11,784,819	\$23,952,320
September 27, 2003 (unaudited)	\$3,516,396	2,040,525	8,265,352	\$13,822,273
March 27, 2004	\$3,508,100	3,404,332	7,599,672	\$14,512,104
January 24, 2004	\$2,108,491	2,431,205	6,419,591	\$10,959,287
March 31, 2003	\$2,039,225	1,636,245	7,320,068	\$10,995,538
March 31, 2002	\$1,562,543	1,518,230	9,189,124	\$12,269,897
March 31, 2001	\$2,730,887	3,057,626	6,172,442	\$11,960,955
March 31, 2000	\$3,637,520	3,325,575	7,533,617	\$14,496,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PROPERTY, PLANT AND EQUIPMENT

September 25, 2004 (unaudited)			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 462,990	\$ —	\$ 462,990
Buildings	4,290,935	125,376	4,165,559
Machinery and equipment	4,998,642	245,400	4,753,242
Office equipment	107,694	9,920	97,774
Motor vehicles	5,767	994	4,773
Computer equipment	440,575	72,153	368,422
	<u>\$10,306,603</u>	<u>\$453,843</u>	<u>\$9,852,760</u>

September 27, 2003 (unaudited)			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 381,019	\$ —	\$ 381,019
Buildings	5,318,267	938,063	4,380,204
Machinery and equipment	13,802,790	4,262,153	9,540,637
Office equipment	358,589	213,402	145,187
Motor vehicles	143,095	120,431	22,664
Computer equipment	1,562,658	972,824	589,834
	<u>\$21,566,418</u>	<u>\$6,506,873</u>	<u>\$15,059,545</u>

March 27, 2004			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 462,990	\$ —	\$ 462,990
Buildings	4,290,935	18,567	4,272,368
Machinery and equipment	4,670,351	34,155	4,636,196
Office equipment	83,593	1,299	82,294
Motor vehicles	5,767	152	5,615
Computer equipment	400,339	10,687	389,652
	<u>\$ 9,913,975</u>	<u>\$64,860</u>	<u>\$9,849,115</u>

January 24, 2004			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 381,019	\$ —	\$ 381,019
Buildings	5,335,071	1,010,852	4,324,219
Machinery and equipment	14,388,000	4,565,834	9,822,166
Office equipment	361,287	224,171	137,116
Motor vehicles	74,552	62,394	12,158
Computer equipment	1,578,262	1,038,257	540,005
	<u>\$22,118,191</u>	<u>\$6,901,508</u>	<u>\$15,216,683</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

March 31, 2003			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 381,019	\$ —	\$ 381,019
Buildings	5,318,267	823,486	4,494,781
Machinery and equipment	13,416,577	3,764,712	9,651,865
Office equipment	358,589	197,268	161,321
Motor vehicles	143,095	116,431	26,664
Computer equipment	1,514,567	870,604	643,963
	<u>\$21,132,114</u>	<u>\$5,772,501</u>	<u>\$15,359,613</u>

March 31, 2002			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 381,019	\$ —	\$ 381,019
Buildings	5,310,264	584,991	4,725,273
Machinery and equipment	13,129,389	2,726,962	10,402,427
Office equipment	351,935	157,771	194,164
Motor vehicles	143,095	105,004	38,091
Computer equipment	1,161,604	667,801	493,803
	<u>\$20,477,306</u>	<u>\$4,242,529</u>	<u>\$16,234,777</u>

March 31, 2001			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 132,500	\$ —	\$ 132,500
Buildings	1,943,480	421,323	1,522,157
Machinery and equipment	10,915,097	1,835,597	9,079,500
Office equipment	274,610	118,896	155,714
Motor vehicles	143,095	88,679	54,416
Computer equipment	957,746	499,855	457,891
	<u>\$14,366,528</u>	<u>\$2,964,350</u>	<u>\$11,402,178</u>

March 31, 2000			
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 132,500	\$ —	\$ 132,500
Buildings	1,697,348	159,483	1,537,865
Machinery and equipment	7,764,353	1,188,694	6,575,659
Office equipment	270,479	80,484	189,995
Motor vehicles	143,095	65,358	77,737
Computer equipment	845,209	327,724	517,485
	<u>\$10,852,984</u>	<u>\$1,821,743</u>	<u>\$9,031,241</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

Details of equipment acquired under capital lease agreements that is included in property, plant and equipment at each balance sheet date, is as follows:

	Cost	Accumulated Depreciation	Net Book Value
September 25, 2004 (unaudited)	\$389,166	\$ 28,797	\$360,369
September 27, 2003 (unaudited)	965,396	271,605	693,791
March 27, 2004	389,166	7,312	381,854
January 24, 2004	823,527	173,853	649,674
March 31, 2003	965,396	200,190	765,206
March 31, 2002	965,396	139,823	825,573
March 31, 2001	204,269	49,084	155,185
March 31, 2000	141,869	14,187	127,682

9. OTHER INTANGIBLE ASSETS

	License Agreements	Brand Names	Customer Relationships	Total Cost	Accumulated Amortization	Net Book Value
September 25, 2004 (unaudited)	\$1,600,000	11,345,000	11,710,000	24,655,000	(520,444)	\$24,134,556
September 27, 2003 (unaudited)	\$ —	300,000	—	300,000	(156,716)	\$ 143,284
March 27, 2004	\$1,600,000	11,345,000	11,710,000	24,655,000	—	\$24,655,000
January 24, 2004	\$ —	300,000	—	300,000	(167,057)	\$ 132,943
March 31, 2003	\$ —	300,000	—	300,000	(140,902)	\$ 159,098
March 31, 2002	\$ —	300,000	—	300,000	(109,273)	\$ 190,727
March 31, 2001	\$ —	300,000	—	300,000	(77,643)	\$ 222,357
March 31, 2000	\$ —	383,040	—	383,040	(95,838)	\$ 287,202

10. BANK INDEBTEDNESS

The Partnership has an available operating line of up to \$20,000,000 with a Canadian chartered bank available for general operating requirements and standby letters of credit. Advances against the facility bear interest at rates ranging between the Canadian prime rate plus $\frac{3}{4}\%$ to $1\frac{1}{4}\%$ or LIBOR plus $2\frac{1}{4}\%$ to $2\frac{3}{4}\%$ depending on the results of certain quarterly financial ratio calculations. At September 25, 2004, borrowings under this credit facility were \$2,637,800 (\$1,538,921 at March 27, 2004) and USD denominated standby letters of credit totaling \$7,609,482 CAD were outstanding (\$5,886,467 CAD at March 27, 2004), of which \$5,680,984 CAD is included in accounts payable and accrued liabilities (\$4,709,690 CAD at March 27, 2004). The facility is secured by a first mortgage on the production facility and warehouse, a first charge on intangible assets, a general security agreement over all assets and an assignment of key person life insurance.

11. LONG-TERM DEBT

	Term Loan (i)	Senior Subordinated Promissory Note (ii)	Capital Lease Obligations (iii)	Term Loan (iv)	Term Loan (v)	Royalty Obligation (vi)	Total	Less: Current Portion	Long-term Portion
September 25, 2004 (unaudited) . . .	\$24,332,687	13,255,550	401,475	—	—	—	37,989,712	3,141,409	\$34,848,303
September 27, 2003 (unaudited) . . .	\$ —	—	558,220	2,887,500	2,450,000	—	5,895,720	5,895,720	\$ —
March 27, 2004 . . .	\$28,052,234	13,364,989	468,504	—	—	—	41,885,727	1,889,582	\$39,996,145
January 24, 2004 . . .	\$ —	—	514,553	2,770,834	2,350,000	—	5,635,387	802,438	\$ 4,832,949
March 31, 2003 . . .	\$ —	—	647,718	3,062,500	2,600,000	—	6,310,218	821,726	\$ 5,488,492
March 31, 2002 . . .	\$ —	—	827,089	3,412,500	2,900,000	—	7,139,589	853,253	\$ 6,286,336
March 31, 2001 . . .	\$ —	—	137,495	—	—	—	137,495	44,717	\$ 92,778
March 31, 2000 . . .	\$ —	—	119,662	—	—	66,668	186,330	109,161	\$ 77,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LONG-TERM DEBT (Continued)

- (i) Term loan of \$19,075,483 USD (\$21,269,417 USD at March 27, 2004) bearing interest at lender's fixed rate of 5.285% at September 25, 2004 (4.725% at March 27, 2004). Subsequent to September 25, 2004, the debt bears interest at rates ranging between the Canadian prime rate plus 1½% to 2½% or LIBOR plus 2½% to 3½%, depending on the results of certain quarterly financial ratio calculations.

In October 2004, the Partnership converted the term loan from USD denominated debt to CAD denominated debt. As a result, the debt is repayable in monthly principal installments of: \$158,333 until March 31, 2005; \$316,666 commencing April 30, 2005 to March 31, 2006; \$350,000 commencing April 30, 2006 to March 31, 2007; \$383,333 commencing April 30, 2007 to March 31, 2008; and \$395,833 commencing April 30, 2008 with the final payment on March 31, 2009. In addition to the scheduled principal repayments, an annual bulk payment equal to 75% of Net Free Cash Flow is to be applied as a permanent reduction of the loan and is payable prior to 120 days after year-end. Net Free Cash Flow is defined as EBITDA, less unfunded capital expenditures, cash interest expenses, scheduled principal repayments on long-term debt, cash taxes and net changes in working capital. The debt is secured by a first mortgage on the production facility and warehouse, a first charge on intangible assets, a general security agreement over all assets and an assignment of key person life insurance.

- (ii) Promissory note of \$10,391,620 USD due to a Limited Partnership that is related to a partner of Spinrite Limited Partnership (\$10,133,436 USD at March 27, 2004). The note bears interest at 15% per annum, monthly interest payments are due at the end of each calendar month with ⅔ of the interest paid monthly and the remaining ⅓ is deferred and added to the outstanding principal. The principal and deferred interest are due March 2010. The Partnership has the option to prepay the note at any time subject to a premium on a percentage of the outstanding principal at the time of prepayment as follows: 3% from January 24, 2004 to January 26, 2005, 2% from January 27, 2005 to January 26, 2006, 1% from January 27, 2006 to January 26, 2008.
- (iii) The capital lease obligations bear interest at rates ranging from 3.75% to 11.4% payable in varying monthly installments due between December 2004 and February 2007. The leases are secured by assets under capital lease with a net book value of \$360,369 at September 25, 2004 (note 8).
- (iv) Bearing interest at Canadian prime rate plus ½%. The debt was repayable in monthly principal installments of \$29,167. The debt was secured by a first mortgage on certain properties and a general security agreement. The debt was paid in full in January 2004.
- (v) Bearing interest at Canadian prime rate plus ½%. The debt was repayable in monthly principal installments of \$25,000. The debt was secured by a general security agreement. The debt was paid in full in January 2004.
- (vi) Non-interest bearing royalty obligation, repayable in monthly installments of \$16,667.

Principal repayments for the debt in each of the following five years are as follows:

2005	\$ 3,008,327
2006	3,999,996
2007	4,399,998
2008	4,674,996
2009	8,249,370
Thereafter	13,255,550
	<u>\$37,588,237</u>

Future minimum lease payments required under the capital leases are as follows:

2005	\$ 159,715
2006	148,967
2007	138,976
	<u>447,658</u>
Less: amount representing interest	46,183
	<u>\$ 401,475</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LONG-TERM DEBT (Continued)

Included in interest expense is interest on long-term debt as follows:

26-weeks ended September 25, 2004 (unaudited)	\$ 1,714,130
26-weeks ended September 27, 2003 (unaudited)	148,379
9-weeks ended March 27, 2004	668,000
43-weeks ended January 24, 2004	273,574
Year ended March 31, 2003	326,338
Year ended March 31, 2002	109,918
Year ended March 31, 2001	9,500
Year ended March 31, 2000	12,000

12. COMMITMENTS

(i) Royalties

The Partnership has entered into a license agreement relating to the use of certain trademarks. As at September 25, 2004, future minimum royalty payments required under the agreement are as follows:

2005	\$146,241
2006	111,162
2007	100,000
2008	100,000
2009	91,667
Thereafter	—

(ii) Operating leases

As at September 25, 2004, the Partnership is committed under various operating leases for vehicles and office equipment with future payments as follows:

2005	\$17,271
2006	16,988
2007	11,124

(iii) Foreign exchange contracts

The Partnership has entered into foreign currency contracts that require the Partnership to sell US dollars to the bank at various exchange rates over a period of up to 12 months subsequent to the balance sheet date. The fair value of these contracts has been included in prepaid expenses and other assets as required by and in accordance with the recommendations of the CICA and the policy for derivative financial instruments that applied at each respective balance sheet date.

Details of the foreign exchange contracts outstanding at each respective balance sheet date are as follows:

	Contracts to Sell	Range of Forward Rates	Fair Value
September 25, 2004 (unaudited)	\$10,360,000 USD	1.2948 to 1.3960	\$ 831,688
September 27, 2003 (unaudited)	\$ 4,610,000 USD	1.3889 to 1.6090	\$ 868,078
March 27, 2004	\$ 3,760,000 USD	1.3054 to 1.4910	\$ 170,840
January 24, 2004	\$ 4,605,000 USD	1.3054 to 1.6090	\$ 440,261
March 31, 2003	\$ 4,885,000 USD	1.5801 to 1.6090	\$ 595,589
March 31, 2002	\$ 2,400,000 USD	1.4804 to 1.5634	\$(286,075)
March 31, 2001	\$ 6,000,000 USD	1.4335 to 1.5012	\$(678,900)
March 31, 2000	\$ 7,000,000 USD	1.4436 to 1.4810	\$ 90,050

(iv) Standby letters of credit

At September 25, 2004, the Partnership had outstanding USD denominated standby letters of credit of \$1,928,498 CAD (\$1,176,803 CAD at March 27, 2004), in addition to those outstanding and included in these financial statements (see note 10).

(v) Supply contracts

At September 25, 2004, the Partnership is committed under a supply contract to minimum payments totaling approximately \$376,000 up to March 31, 2005. Subsequent to September 25, 2004, the Partnership has committed under another supply contract to additional minimum payments totaling approximately \$815,000 up to March 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PARTNERS' CAPITAL/SHARE CAPITAL

The Partnership is authorized to issue Class A and Class B units. Distributions of available funds are prioritized as follows:

- (i) to enable the partners to discharge any Canadian or United States income tax liabilities arising from allocation of income from the Partnership;
- (ii) 100% to all Limited Partners holding Class A units in proportion to the extent of the unpaid Class A Return;
- (iii) 100% to all Limited Partners holding Class A units in proportion to Unreturned Paid-In Capital; and
- (iv) 100% to all Limited Partners in proportion to the number of units held by each Limited Partner.

The Class A Return is the aggregate amount of distributions, other than those distributions which would be deemed to be a return of capital, required to cause the internal rate of return on the aggregate capital contributions to the Partnership from January 27, 2004 to the date of determination of the distribution to be equal to 12% per annum, compounded annually.

At March 27, 2004 and September 25, 2004 there were 32,305 Class A units outstanding for issued capital of \$32,305,000 and no outstanding Class B units. During the twenty-six weeks ended September 25, 2004, an income distribution was made to the Partners of the Partnership totaling \$1,799,594.

Subsequent to September 25, 2004, an income distribution was made to the Partners of the Partnership totaling \$3,850,000.

At each of January 24, 2004, September 27, 2003, March 31, 2003, March 31, 2002, March 31, 2001 and March 31, 2000, there were 1,000 common shares of Spinrite Inc. outstanding for issued capital of \$13,804,275.

14. RELATED PARTY TRANSACTIONS

	26-weeks ended September 25, 2004	26-weeks ended September 27, 2003	9-weeks ended March 27, 2004	43-weeks ended January 24, 2004
	(unaudited)	(unaudited)		
Management fee paid to an affiliate of a partner ⁽ⁱ⁾	\$ 300,000	\$ —	\$150,000	\$ —
Interest expense on debt with an affiliate of a partner	\$1,021,293	\$ —	\$394,465	\$ —
Consulting services paid to an affiliate of a partner	\$ 185,081	\$ —	\$ —	\$ —
Closing fee and expenses paid to an affiliate of a partner included in goodwill	\$ —	\$ —	\$162,613	\$ —
Closing fee and expenses paid to an affiliate of a partner included in deferred financing charges	\$ —	\$ —	\$266,000	\$ —
Rent paid to parent company	\$ —	\$45,000	\$ —	\$75,000
Management fee paid to parent company	\$ —	\$25,000	\$ —	\$50,000

- (i) At September 25, 2004, there is a commitment to pay \$150,000 per quarter to the same affiliate of a partner.

Prior to the 43-week period ended January 24, 2004, Spinrite Inc. paid rent of \$90,000 to its parent company in each of the years ended March 31, 2003, March 31, 2002, March 31, 2001 and March 31, 2000.

These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. ADVANCES TO AND FROM RELATED PARTIES

Included in advances to and from related parties at the respective balance sheet dates are the following:

Advances to:	Spinrite Inc.	Employees	Parent Company	Spinrite Income Fund	Affiliate of a Shareholder/partner	Total
September 25, 2004 (unaudited) . .	\$ —	—	—	172,754	80,603	\$ 253,357
September 27, 2003 (unaudited) . .	\$ —	10,640	301,249	—	2,690,478	\$3,002,367
March 27, 2004	\$352,730	17,216	—	—	—	\$ 369,946
January 24, 2004	\$ —	—	—	—	—	\$ —
March 31, 2003	\$ —	—	92,110	—	—	\$ 92,110
March 31, 2002	\$ —	—	—	—	—	\$ —
March 31, 2001	\$ —	—	—	—	—	\$ —
March 31, 2000	\$ —	—	—	—	—	\$ —

All of these amounts due from related parties are non-interest bearing, unsecured and due on demand.

Advances from:	Partners	Affiliate of a Partner	Parent Company	Total
September 25, 2004 (unaudited)	\$ 156,971	—	—	\$ 156,971
September 27, 2003 (unaudited)	\$ —	—	—	\$ —
March 27, 2004	\$2,174,510	12,634	—	\$2,187,144
January 24, 2004	\$ —	—	170,111	\$ 170,111
March 31, 2003	\$ —	—	—	\$ —
March 31, 2002	\$ —	—	67,879	\$ 67,879
March 31, 2001	\$ —	—	868,393	\$ 868,393
March 31, 2000	\$ —	—	119,601	\$ 119,601

The amount due to Partners at March 27, 2004 pertained to a working capital adjustment required under the terms of the asset acquisition disclosed in Note 4. The advance due to Partners outstanding at September 25, 2004, bears interest at 50% of the U.S. Federal Funds rate and is due on demand.

16. INCOME TAXES

The Partnership is only subject to taxation in the United States based on taxable activities carried on in the State of New York. For the periods ended September 25, 2004 and March 27, 2004, these activities generated taxable earnings of approximately \$2,900,000 and \$930,000 respectively and an income tax liability of approximately \$1,300,000 and \$425,000 respectively based on the effective US Federal and State combined rate of approximately 45%.

For all other periods, the provision for income taxes differs from the expense that would be obtained by applying the Canadian statutory tax rates as a result of the following:

	26-weeks ended September 27, 2003	43-weeks ended January 24, 2004	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000
	(unaudited)					
Income before income taxes	\$5,369,389	\$12,164,214	\$7,106,107	\$2,059,107	\$5,096,342	\$6,855,843
Canadian statutory tax rates	41.6%	41.5%	41.6%	42.5%	43.7%	44.5%
Income taxes at statutory rate	\$2,234,000	\$ 5,048,000	\$2,956,000	\$ 875,000	\$2,227,000	\$3,050,000
Adjustments to income taxes:						
Manufacturing and processing tax credit . . .	(360,000)	(875,000)	(510,000)	(160,000)	(340,000)	(480,000)
Difference between statutory rate and future rate	—	168,000	(97,000)	(87,000)	(47,000)	(22,000)
Expenses not deductible for tax and other . .	37,971	13,400	(47,472)	(43,901)	77,961	172,952
	<u>\$1,911,971</u>	<u>\$ 4,354,400</u>	<u>\$2,301,528</u>	<u>\$ 584,099</u>	<u>\$1,917,961</u>	<u>\$2,720,952</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. INCOME TAXES (Continued)

The provision for income taxes for the periods ended September 25, 2004 and March 27, 2004 is solely related to current tax expense. For all other periods, the significant components of the provision for income taxes are as follows:

	26-weeks ended September 27, 2003	43-weeks ended January 24, 2004	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000
	(unaudited)					
Current tax expense	\$1,911,971	\$4,186,400	\$2,067,459	\$350,308	\$1,793,315	\$2,608,907
Future tax expense relating to the origination and reversal of temporary differences	—	—	246,720	233,791	124,646	112,045
Future tax expense (recovery) resulting from increases (decreases) in income tax rates	—	168,000	(12,651)	—	—	—
Income tax expense	<u>\$1,911,971</u>	<u>\$4,354,400</u>	<u>\$2,301,528</u>	<u>\$584,099</u>	<u>\$1,917,961</u>	<u>\$2,720,952</u>

The amounts included in these financial statements as future tax liabilities relate to tax depreciation in excess of accounting depreciation on capital assets and intangible assets and have been allocated as non-current liabilities.

17. SEGMENTED INFORMATION

The Partnership operates in one reportable segment principally in the production of yarn for sale in the retail market.

Sales are attributed to countries based on the location of the customer and are distributed as follows:

	Canada	United States	Other	Total
For the 26-weeks ended: (unaudited)				
September 25, 2004	\$15,528,504	41,434,821	72,175	\$57,035,500
September 27, 2003	\$15,490,261	15,704,678	70,994	\$31,265,933
For the periods ended:				
9-weeks ended March 27, 2004	\$ 8,861,674	10,899,589	347	\$19,761,610
43-weeks ended January 24, 2004	\$29,078,928	30,339,888	75,036	\$59,493,852
Year ended March 31, 2003	\$30,112,455	32,482,656	397,089	\$62,992,200
Year ended March 31, 2002	\$31,298,707	31,696,262	205,339	\$63,200,308
Year ended March 31, 2001	\$32,815,671	30,637,379	761,962	\$64,215,012
Year ended March 31, 2000	\$35,773,386	29,106,783	1,491,084	\$66,371,253

For all periods included in these financial statements, all amounts noted for capital assets and goodwill are located in Canada.

Sales derived from major customers, each of which accounted for approximately 10% or more of sales in at least one of the periods presented, represent the following amounts:

	Customer A	Customer B	Customer C	Customer D	Customer E
For the 26-weeks ended: (unaudited)					
September 25, 2004	\$5,845,444	\$3,569,344	\$14,586,278	\$ 3,796,336	\$7,759,153
September 27, 2003	3,035,126	3,507,357	2,254,361	4,263,157	2,288,096
For the periods ended:					
9-weeks ended March 27, 2004	2,763,080	2,083,800	1,745,596	2,162,271	656,969
43-weeks ended January 24, 2004	7,005,226	8,077,693	4,067,457	6,619,857	2,717,194
Year ended March 31, 2003	7,179,950	7,310,821	3,009,510	6,639,871	1,747,733
Year ended March 31, 2002	7,761,414	6,493,665	2,955,434	8,472,326	457,002
Year ended March 31, 2001	6,054,153	6,574,210	2,740,103	8,570,153	931,606
Year ended March 31, 2000	5,037,773	5,407,412	2,595,488	12,480,675	719,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

19. SUBSEQUENT EVENTS

In addition to the subsequent events disclosed in notes 11(i), 12(v) and 13, the following has occurred subsequent to September 25, 2004:

On January 28, 2005, Spinrite Income Fund ("the Fund") filed a prospectus relating to an initial public offering of 20,291,200 units of the Fund. The net proceeds of this offering, if completed, together with the New Credit Facility, will be used to indirectly acquire 80% of the Partnership's securities. Upon closing of the offering, the Partnership will repay its long-term debt.

If the offering is not completed, the Partnership will be responsible for payment of the expenses of the offering and related transaction and underwriting fees.

**COMPILATION REPORT
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

To the Trustees of Spinrite Income Fund

We have read the accompanying unaudited pro forma consolidated balance sheet of Spinrite Income Fund (the "Fund") as at September 25, 2004 and the unaudited pro forma consolidated statements of operations for the twenty-six weeks then ended and for the fifty-two weeks ended March 27, 2004, and have performed the following procedures:

1. Compared the figures in the columns captioned "Spinrite Historical" to the unaudited consolidated financial statements of Spinrite Limited Partnership (the "Partnership") as at September 25, 2004 and for the twenty-six weeks then ended and found them to be in agreement.
2. Compared the figures in the column captioned "Pro Forma Spinrite Historical" in the pro forma consolidated statements of operations for the fifty-two weeks ended March 27, 2004 to column captioned "Combined 52-weeks ended March 27, 2004" in Note 2 to the pro forma consolidated financial statements and found them to be in agreement.
3. Compared the figures in the column captioned "Spinrite Limited Partnership 9-weeks ended March 27, 2004" in Note 2 to the audited financial statements of the Partnership for the nine weeks ended March 27, 2004 and compared the figures in the column captioned "Spinrite Inc. 43-weeks ended January 24, 2004" in Note 2 to the audited financial statements of Spinrite Inc. for the forty-three weeks ended January 24, 2004, audited by Grant Thornton LLP, respectively, and found them to be in agreement.
4. Recalculated the amounts in the column captioned "Combined 52-weeks ended March 27, 2004" in Note 2 and found them to be in arithmetically correct.
5. Made enquiries of certain officials of the Partnership who have responsibility for financial and accounting matters about:
 - (a) the basis for determination of the pro forma adjustments; and
 - (b) whether the pro forma financial statements comply as to form in all material respects with the various Securities Commissions and similar regulatory authorities in Canada.

The officials:

- (a) described to us the basis for determination of the pro forma adjustments, and
 - (b) stated that the pro forma statements comply as to form in all material respects with the requirements of the various Securities Commissions and similar regulatory authorities in Canada.
6. Read the notes to the pro forma consolidated statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
7. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Spinrite Historical" as at September 25, 2004 and for the twenty-six weeks then ended, and of the column captioned "Pro forma Spinrite Historical" for the fifty-two weeks ended March 27, 2004 and found the amounts in the column captioned "The Fund Pro forma" to be arithmetically correct.

A pro forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Kitchener, Ontario
January 28, 2005

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

SPINRITE INCOME FUND
PRO FORMA CONSOLIDATED BALANCE SHEET
September 25, 2004
(Unaudited — see compilation report)

	<u>The Fund Historical</u>	<u>Spinrite Historical</u>	<u>Pro forma Adjustments</u>	<u>Note 4</u>	<u>The Fund Pro forma</u>
ASSETS					
CURRENT					
Cash	\$ 10	\$ 462,679	\$188,244,560	a	
			96,566	c	
			47,691,000	b	
			(40,627,512)	b	
			(2,000,000)	b	
			(1,625,292)	d	
			(181,494,015)	e	\$ 10,747,996
Accounts receivable	—	17,318,639	—		17,318,639
Inventories	—	23,952,320	—		23,952,320
Prepaid expenses and other assets . . .	—	1,753,317	—		1,753,317
Advances to related parties	—	253,357	(253,357)	c	—
	10	43,740,312	10,031,950		53,772,272
PROPERTY, PLANT AND					
EQUIPMENT					
	—	9,852,760	—		9,852,760
DEFERRED FINANCING CHARGES	—	1,244,531	(944,531)	b	300,000
GOODWILL	—	27,507,423	184,049,705	f	211,557,128
OTHER INTANGIBLE ASSETS	—	24,134,556	—		24,134,556
	<u>\$ 10</u>	<u>\$106,479,582</u>	<u>193,137,124</u>		<u>299,616,716</u>
LIABILITIES					
CURRENT					
Bank indebtedness	\$ —	\$ 2,637,800	\$ (2,637,800)	b	\$ —
Accounts payable and accrued					
liabilities	—	14,389,389	—		14,389,389
Income taxes payable	—	1,601,000	—		1,601,000
Advances from related parties	—	156,791	(156,791)	c	—
Current portion of long-term debt . . .	—	3,141,409	(3,141,409)	b	—
	—	21,926,389	(5,936,000)		15,990,389
LONG-TERM DEBT	—	34,848,303	47,691,000	b	
			(34,848,303)	b	47,691,000
	—	56,774,692	6,906,697		63,681,389
NON-CONTROLLING INTEREST . . .					
	—	—	7,566,025	d	
			40,124,732	e	47,690,757
PARTNERS' CAPITAL					
	10	32,305,000	188,244,560	a	
			(32,305,000)	e	188,244,570
UNDISTRIBUTED INCOME					
	—	17,399,890	(2,944,531)	b	
			(9,191,317)	d	
			(5,264,042)	f	—
	10	49,704,890	138,539,670		188,244,570
	<u>\$ 10</u>	<u>\$106,479,582</u>	<u>193,137,124</u>		<u>299,616,716</u>

SPINRITE INCOME FUND
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
26-weeks ended September 25, 2004
(Unaudited — see compilation report)

	<u>The Fund Historical</u>	<u>Spinrite Historical</u>	<u>Pro forma Adjustments</u>	<u>Note 5</u>	<u>The Fund Pro forma</u>
SALES	\$ —	\$ 57,035,500	\$ —		\$57,035,500
VOLUME REBATES	—	2,910,151	—		2,910,151
BROKERAGE FEES AND OUTWARD FREIGHT	—	3,289,245	—		3,289,245
DISCOUNTS AND ROYALTIES	—	1,037,669	—		1,037,669
	—	7,237,065	—		7,237,065
NET SALES	—	49,798,435	—		49,798,435
COST OF SALES	—	26,957,805	—		26,957,805
	—	22,840,630	—		22,840,630
EXPENSES					
Selling	—	3,184,020	—		3,184,020
Operating	—	3,750,948	(137,447)	e	
			(600,000)	c	
			(120,000)	d	
			50,000	f	
			1,472,070	i	4,415,571
Interest	—	1,860,645	(1,860,645)	a	
			1,597,000	b	1,597,000
Foreign exchange (gain) loss	—	(1,822,795)	1,261,950	g	(560,845)
	—	6,972,818	1,662,928		8,635,746
EARNINGS BEFORE INCOME TAXES	—	15,867,812	(1,662,928)		14,204,884
PROVISION FOR INCOME TAXES . . .	—	1,300,000	(1,000,000)	h	300,000
EARNINGS BEFORE					
NON-CONTROLLING INTEREST . . .	—	14,567,812	(662,928)		13,904,884
NON-CONTROLLING INTEREST	—	—	2,646,158	j	2,646,158
NET INCOME	\$ —	\$ 14,567,812	(3,309,086)		11,258,726

SPINRITE INCOME FUND
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
52-weeks ended March 27, 2004
(Unaudited — see compilation report)

	<u>The Fund Historical</u>	<u>Pro forma Spinrite Historical</u> (Note 2)	<u>Pro forma Adjustments</u>	<u>Note 6</u>	<u>The Fund Pro forma</u>
SALES	\$ —	\$79,255,462	\$ —		\$79,255,462
VOLUME REBATES	—	3,553,567	—		3,553,567
BROKERAGE FEES AND OUTWARD FREIGHT	—	2,034,369	—		2,034,369
DISCOUNTS AND ROYALTIES	—	2,238,839	(499,000)	k	1,739,839
	—	7,826,775	(499,000)		7,327,775
NET SALES	—	71,428,687	499,000		71,927,687
COST OF SALES	—	42,866,763	—		42,866,763
	—	28,561,924	499,000		29,060,924
EXPENSES					
Selling	—	5,719,010	(26,155)	g	5,692,855
Operating	—	4,264,084	(49,010)	e	
			(100,000)	c	
			(556,000)	d	
			100,000	f	
			2,944,140	j	6,603,214
Interest	—	1,020,015	(1,020,015)	a	
			3,194,000	b	3,194,000
Foreign exchange loss (gain)	—	337,929	(466,148)	h	(128,219)
	—	11,341,038	4,020,812		15,361,850
EARNINGS BEFORE INCOME TAXES . .	—	17,220,886	(3,521,812)		13,699,074
PROVISION FOR INCOME TAXES	—	4,779,400	(4,179,400)	i	600,000
EARNINGS BEFORE NON-CONTROLLING INTEREST	—	12,441,486	657,588		13,099,074
NON-CONTROLLING INTEREST	—	—	2,492,809	l	2,492,809
NET INCOME	\$ —	\$12,441,486	(1,835,221)		10,606,265

SPINRITE INCOME FUND

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited — see compilation report)

26-weeks ended September 25, 2004 and 52-weeks ended March 27, 2004
(in thousands of dollars, except per Unit and Note 2)

1. BASIS OF PRESENTATION

The accompanying pro forma consolidated balance sheet and the pro forma consolidated statement of operations of Spinrite Income Fund (the “Fund”) have been prepared by Spinrite Limited Partnership (“Spinrite”) in accordance with Canadian generally accepted accounting principles. The accompanying pro forma consolidated financial statements give effect to the proposed transactions described below.

The pro forma consolidated financial statements may not be indicative of the financial position and results of operations that would have occurred if the transactions had been completed on the dates indicated or of the financial position or operating results that may be obtained in the future.

The unaudited pro forma consolidated balance sheet of the Fund as at September 25, 2004 has been prepared using the audited balance sheet of the Fund as at December 8, 2004, the unaudited consolidated balance sheet of Spinrite as at September 25, 2004 and the adjustments and assumptions outlined below. The pro forma unaudited consolidated statement of operations for the 26-weeks ended September 25, 2004 has been prepared using the results of operations of Spinrite for the 26-weeks ended September 25, 2004 and the adjustments and assumptions outlined below. The pro forma unaudited consolidated statement of operations for the 52-weeks ended March 27, 2004 has been prepared using the results of operations of Spinrite for the 52-weeks ended March 27, 2004 which were derived from Spinrite’s audited statement of operations for the 9-weeks ended March 27, 2004, Spinrite Inc.’s audited consolidated statement of operations for the 43-weeks ended January 24, 2004, and the adjustments and assumptions outlined below (see note 2).

2. PRO FORMA HISTORICAL FINANCIAL STATEMENTS

Effective January 24, 2004, Spinrite acquired substantially all of the assets of Spinrite Inc. From this time to March 27, 2004, Spinrite carried on a similar business as that carried on previously by Spinrite Inc. As a result, the following combined statement of operations has been prepared to provide a reflection of the operations for a full 52-week period.

	Spinrite Limited Partnership	Spinrite Inc.	Combined
	9-weeks ended March 27, 2004	43-weeks ended January 24, 2004	52-weeks ended March 27, 2004
			(unaudited)
SALES	\$19,761,610	\$59,493,852	\$79,255,462
VOLUME REBATES	1,047,840	2,505,727	3,553,567
BROKERAGE FEES AND OUTWARD FREIGHT	861,061	1,173,308	2,034,369
DISCOUNTS AND ROYALTIES	678,529	1,560,310	2,238,839
	<u>2,587,430</u>	<u>5,239,345</u>	<u>7,826,775</u>
NET SALES	17,174,180	54,254,507	71,428,687
COST OF SALES	9,093,076	33,773,687	42,866,763
	<u>8,081,104</u>	<u>20,480,820</u>	<u>28,561,924</u>
EXPENSES			
Selling	1,073,620	4,645,390	5,719,010
Operating	754,930	3,509,154	4,264,084
Interest	711,808	308,207	1,020,015
Foreign exchange loss (gain)	484,074	(146,145)	337,929
	<u>3,024,432</u>	<u>8,316,606</u>	<u>11,341,038</u>
EARNINGS BEFORE INCOME TAXES	5,056,672	12,164,214	17,220,886
PROVISION FOR INCOME TAXES	425,000	4,354,400	4,779,400
NET INCOME	<u>\$ 4,631,672</u>	<u>\$ 7,809,814</u>	<u>\$12,441,486</u>

SPINRITE INCOME FUND

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited — see compilation report)

**26-weeks ended September 25, 2004 and 52-weeks ended March 27, 2004
(in thousands of dollars, except per Unit and Note 2)**

3. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario by declaration of Trust made as of December 8, 2004. The Fund has been established to indirectly acquire and hold 80% of the securities of Spinrite. Each unitholder of the Fund participates pro rata in any distribution from the Fund. Income tax obligations related to distributions of the Fund are the obligations of the unitholders.

The accompanying unaudited pro forma consolidated financial statements of the Fund have been prepared to reflect the following proposed transactions:

- (a) The Fund will issue 20,291,200 units for net cash proceeds of \$188,245 (“the Offering”), after deducting estimated expenses of the Offering and underwriting fees;
- (b) The Fund will establish a subtrust (“Trust”) and use the net proceeds of the Offering to subscribe for the units of the Trust and to purchase \$169,420 principal of series 1 Trust Notes bearing interest at 3% per annum;
- (c) The Trust will establish and subscribe for all the common shares of a newly incorporated subsidiary (“Newco”) and make a \$137,123 loan to Newco (“the Loan”);
- (d) Newco will use the proceeds received from the sale of its common shares and the loan from the Trust to acquire the shares and debt of 3083522 Nova Scotia Company (“NSULC”) and Yarn Management Company (“Management NSULC”);
- (e) The Trust will acquire all remaining outstanding ordinary limited partner units of Spinrite Holding LP (“Holding LP”) (being the holder of 100% of the limited partner units of Spinrite) not held by NSULC or Management NSULC;
- (f) NSULC and Management NSULC will be wound up into Newco;
- (g) Newco will transfer to the Trust all ordinary limited partner units in Holding LP and all common shares in Spinrite GP Inc. (“GP”);
- (h) Newco will be wound up into the Trust;
- (i) Spinrite will draw approximately \$47,691 under the new credit facility;
- (j) Holding LP will issue additional subordinated limited partner units to certain existing securityholders.

4. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE FUND

The pro forma consolidated balance sheet of the Fund as at September 25, 2004 is based on the audited balance sheet of the Fund as at December 8, 2004, the unaudited consolidated balance sheet of Spinrite as at September 25, 2004 and has been prepared as if the transactions described in note 3 had occurred on September 25, 2004.

Pro forma adjustments relating to the consolidated balance sheet of the Fund as at September 25, 2004 include the following:

- (a) The issuance by the Fund of 20,291,200 units for net cash proceeds of \$188,245 on closing of the Offering after deducting estimated expenses of the Offering and underwriters fees;
- (b) The borrowing of funds under proposed credit facilities of \$47,691 and repayment of existing credit facilities of \$40,628 in addition to an early repayment fee of \$256. The payment of deferred financing fees of \$300 and other costs of \$1,444 relating to the proposed credit facilities and the elimination of \$1,245 in deferred financing fees relating to the existing credit facilities that will be repaid;
- (c) The repayment of \$157 due to related parties and receipt of \$253 due from related parties;
- (d) The payment of \$1,625 and issuance of 756,603 units of Holding LP in connection with the management arrangements between Holding LP and certain existing securityholders.
- (e) The Fund will acquire Spinrite for cash consideration of \$181,495, net of consideration received by Holding LP upon issuance of additional subordinated limited partner units to existing securityholders.
- (f) The acquisition of Spinrite by the Fund will be accounted for using the purchase method of accounting. The allocation of the purchase price is based on the estimated fair value of the net identifiable assets of Spinrite. The excess of the purchase price over

SPINRITE INCOME FUND

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited — see compilation report)

26-weeks ended September 25, 2004 and 52-weeks ended March 27, 2004
(in thousands of dollars, except per Unit and Note 2)

4. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE FUND (Continued)

the fair value of net assets acquired has been accounted for as goodwill. Accordingly, the estimated purchase price has been allocated on a preliminary basis to Spinrite's net identifiable assets as follows:

	\$
Current assets	47,022
Capital assets	9,853
Intangible assets	24,435
Goodwill	211,557
Current liabilities	(15,990)
Long-term debt	(47,691)
	<u>229,186</u>
Non-controlling interest — subordinated units of Holding LP	(47,691)
Net purchase price	<u>181,495</u>
Consideration:	
Cash	181,495
Total consideration	<u>181,495</u>

The above purchase price and allocation of the purchase price is preliminary. The actual calculation and allocation of the purchase price that will be reported in the consolidated financial statements of the Fund after the acquisition of Spinrite by the Fund will be based on the fair value of the assets acquired and liabilities assumed at the time of acquisition. Accordingly, the purchase price will be adjusted subsequently on completion of the transaction and allocation process.

In the preparation of the pro forma consolidated balance sheet of the Fund, all intercompany balances between the Fund and Spinrite have been eliminated.

5. PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS OF THE FUND FOR THE TWENTY-SIX WEEKS ENDED SEPTEMBER 25, 2004

The pro forma consolidated statement of operations of the Fund for the 26-weeks ended September 25, 2004 has been prepared as if the Fund was operating during the 26-weeks ended September 25, 2004 and the transactions described in note 3 occurred on March 28, 2004.

Pro forma adjustments relating to the consolidated statement of operations of the Fund for the 26-weeks ended September 25, 2004 include the following:

- (a) Elimination of interest expense of \$1,861 relating to related party, long-term and revolving debt that will be retired;
- (b) Provision for interest expense of \$1,597 on the proposed credit facilities bearing interest at 6.3%;
- (c) Reversal of non-recurring management fees of \$600 relating to the existing management agreement which will be terminated;
- (d) Reversal of non-recurring salaries of \$120 paid to the previous owner as part of the January 2004 recapitalization;
- (e) Elimination of the amortization expense of \$137 relating to the elimination of the existing deferred financing fees associated with existing long-term debt that will be repaid;
- (f) Amortization of the deferred financing fees recorded in connection with the proposed credit facilities of \$50;
- (g) Elimination of foreign exchange gain of \$1,262 relating to the translation of long-term debt that will be retired;
- (h) Adjustment to reflect the expected income tax provision of \$300 for the period after consideration of the proposed structure of the Fund and its principal subsidiaries and other affiliates;
- (i) Adjustment to reflect compensation expense of \$1,472 incurred in the period after the closing of the Offering in connection with management arrangements between Holding LP and certain existing securityholders.

SPINRITE INCOME FUND
NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited — see compilation report)
26-weeks ended September 25, 2004 and 52-weeks ended March 27, 2004
(in thousands of dollars, except per Unit and Note 2)

5. PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS OF THE FUND FOR THE TWENTY-SIX WEEKS ENDED SEPTEMBER 25, 2004 (Continued)

- (j) Adjustment to reflect the approximately 19% non-controlling interest's share of the net income of \$2,646.

The pro forma consolidated statement of operations excludes any additional selling, general and administrative expenses that may be incurred as a result of being a public reporting issuer.

The pro forma consolidated statement of operations excludes amortization that may result from the final purchase price allocation of any incremental value to identifiable intangible assets with definite lives.

6. PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS OF THE FUND FOR THE FIFTY-TWO WEEKS ENDED MARCH 27, 2004

The pro forma consolidated statement of operations of the Fund for the 52-weeks ended March 27, 2004 has been prepared as if the Fund was operating during the 52-weeks ended March 27, 2004 and the transactions described in note 3 occurred on April 1, 2003.

Pro forma adjustments relating to the consolidated statement of operations of the Fund for the 52-weeks ended March 27, 2004 include the following:

- (a) Elimination of interest expense of \$1,020 relating to long-term and revolving debt that will be retired;
- (b) Provision for interest expense of \$3,194 on the proposed credit facilities bearing interest at 6.3%;
- (c) Reversal of non-recurring management fees of \$100 relating to the existing management agreement which will be terminated;
- (d) Reversal of non-recurring salaries and expenses paid to the previous owner of \$556 that are in excess of expected continuing costs;
- (e) Elimination of the amortization expense of \$49 relating to the elimination of the existing deferred financing fees associated with existing long-term debt that will be repaid;
- (f) Amortization of the deferred financing fees recorded in connection with the proposed credit facilities of \$100;
- (g) Elimination of the amortization expense of \$26 relating to intangible assets previously recorded in Spinrite;
- (h) Elimination of foreign exchange loss of \$466 relating to the translation of long-term debt that will be retired;
- (i) Adjustment to reflect the expected income tax provision of \$600 for the period after consideration of the proposed structure of the Fund and its principal subsidiaries and other affiliates;
- (j) Adjustment to reflect compensation expense of \$2,944 incurred in the period after the closing of the Offering in connection with management arrangements between Holding LP and certain existing securityholders.
- (k) Reversal of non-recurring royalty payments of \$499 that are in excess of expected continuing royalty costs.
- (l) Adjustment to reflect the approximately 19% non-controlling interest's share of the net income of \$2,493.

The pro forma statement of operations excludes any additional selling, general and administrative expenses that may be incurred as a result of being a public reporting issuer.

The pro forma statement of operations excludes amortization that may result from the final purchase price allocation of any incremental value to identifiable intangible assets with definite lives.

CERTIFICATE OF THE ISSUER AND THE PROMOTER

Date: January 28, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), Part XIV of *The Securities Act, 1990* (Newfoundland and Labrador), by Part 3 of the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations under those acts. This prospectus, as required by the *Securities Act* (Quebec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

SPINRITE INCOME FUND

By its attorney, **SPINRITE GP INC.**

By: (Signed) DARIO MARGVE
Chief Executive Officer

By: (Signed) RYAN NEWELL
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) ROBERT T.E. GILLESPIE
Director

By: (Signed) GEORGE S. TAYLOR
Director

The Promoter,
SPINRITE GP INC.

By: (Signed) DARIO MARGVE
Chief Executive Officer

CERTIFICATE OF THE UNDERWRITERS

Date: January 28, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), and by Part XIV of *The Securities Act, 1990* (Newfoundland and Labrador), by Part 3 of the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations under those acts. To our knowledge, this prospectus, as required by the *Securities Act* (Quebec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.

CIBC WORLD MARKETS INC.

By: (Signed) PETER L. SLAN

By: (Signed) DANIEL J. MCCARTHY

BMO NESBITT BURNS INC.

RBC DOMINION SECURITIES INC.

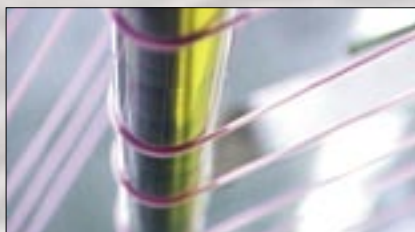
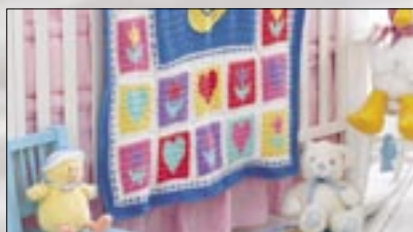
By: (Signed) JEFFREY P. WATCHORN

By: (Signed) RIADH ZINE

TD SECURITIES INC.

By: (Signed) PETER GIACOMELLI

Spinrite Income Fund



Spinrite

Spinnrite