
WORKING OPPORTUNITY FUND
(EVCC) LTD.

Annual Information Form

Balanced Shares

Growth Shares

No securities regulatory authority has expressed an opinion about these shares and it's an offence to claim otherwise.

December 27, 2002

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Introduction

This is the Annual Information Form of Working Opportunity Fund (EVCC) Ltd. which contains additional information about the Fund.

In this document,

- “we”, “us”, “our”, “WOF” and the “Fund” refer to Working Opportunity Fund (EVCC) Ltd.
- “Balanced Shares” means WOF’s balanced class shares (series 1).
- “Growth Shares” means WOF’s growth class shares (series 1).
- “GrowthWorks” and the “Manager” means GrowthWorks Capital Ltd., manager of WOF.
- “investee company” refers to a company or other entity in which WOF has made a venture capital investment.
- “NAV” means the net asset value of Shares.
- “Province” means the government of British Columbia.
- “Shares” refers to both the Balanced Shares and Growth Shares of WOF.
- “Sponsor” means Working Enterprises Ltd., the Fund’s sponsor.

A Unique Type of Fund

WOF is a venture capital investment fund owned by approximately 54,000 British Columbia shareholders. It is registered as an “employee venture capital corporation” under the B.C. *Employee Investment Act*. This means you can receive both federal and British Columbia tax credits on your Share purchases and that WOF must comply with various requirements of the *Employee Investment Act*.

Although WOF is not a “mutual fund”, as defined under securities legislation, it is structured much like a mutual fund. It pools money raised from investors with similar investment objectives, is managed by a professional manager, prices its shares at NAV and investors share in the Fund’s gains, losses, revenues and expenses. But it does have a number of important differences from mutual funds as described in this document, including:

- *Type of Investments* – WOF invests primarily in venture capital investments of B.C. based businesses which meet the requirements of the *Employee Investment Act*. These are most often young, private companies.
- *Special Tax Benefits* – When you buy Shares, you are eligible to receive a total of 30% in special tax credits which you can use to reduce the amount of income tax you pay. We have placed below an illustration showing how these tax benefits work.
- *Eight Year Hold on Shares* – You can’t redeem your Shares on demand. Generally, you can redeem your Shares only after you have held them for eight years.
- *Ability to Elect Some Directors* – Unlike most mutual funds, shareholders have the right to elect at least 2 directors to WOF’s Board every year at the Fund’s annual general meeting.

We discuss these and the other unique features of WOF throughout this document and WOF’s simplified prospectus.

Name, Formation and History of WOF

WOF's full legal name is Working Opportunity Fund (EVCC) Ltd. Its head office and principal place of business is at 2600 - 1055 West Georgia Street, P.O. Box 11170, Royal Centre, Vancouver, British Columbia, V6E 3R5.

WOF was incorporated under the *Company Act* (British Columbia) on November 5, 1991 by filing a memorandum and articles of incorporation with the B.C. Registrar of Companies. WOF began offering common shares to the public on January 8, 1992.

WOF was created as a unique public/private partnership. In 1989, the Province of British Columbia enacted the *Employee Investment Act* to encourage B.C. residents to invest in eligible small and medium-sized British Columbia businesses, encourage greater employee participation in share ownership and enterprise development, create and protect jobs and promote growth and diversification of the B.C. economy. The Province sought support from the labour organizations associated with the Sponsor to form and sponsor an employee venture capital corporation that would be registered under the Act. As inducements for the Sponsor to form the Fund, the Province provided some start-up funding and approvals to allow the Fund to annually raise significant capital under the Act under the terms of a written agreement (the “**government agreement**”) with the Fund and the Sponsor. Based on this, the Sponsor formed the Fund and joined the Province in a “working partnership” among government, labour and business. In 2001, the government agreement was amended to further confirm the parameters of the “working partnership”:

- The parties agreed to work together in the spirit of partnership for purposes of jointly fostering the success of the Fund and promoting economic development and job creation in British Columbia.
- The Province and the Fund also agreed to deal fairly and in good faith with each other in efforts to resolve or cure any administrative, compliance or other problems which may arise from time to time.
- To provide vital operating certainty for the Fund's investing and capital raising activities, the Province agreed to seek the necessary approvals under the *Employee Investment Act* so that the Fund could annually raise \$80 million from the sale of Shares on a rolling five year basis until the Province issued a notice terminating further approvals from being added beyond the five years of approved fund raising already in place when the notice was issued, and agreed that the notice mechanism would be the means through which the Province could terminate its provision of tax credits to investors who invest in the Fund.

On May 30, 2002 the Province enacted Bill 28 – Employee Investment Amendment Act, 2002 (“**Bill 28**”) which amends the *Employee Investment Act*. The net effect of the amendments is to allow the Province to unilaterally reduce the previously issued approvals allowing the Fund to raise \$80 million a year, despite its earlier commitments and the agreement referred to above. On June 21, 2002, the Province issued regulations further to Bill 28 and a press release which indicated that the Fund will now be able to raise \$55 million annually. The press release also indicated that the \$25 million removed from the Fund's previous allocation will be reallocated to other, newly established employee venture capital corporations with assets of less than \$200 million. On July 18, 2002, the Province confirmed in writing to the Fund the reduction to \$55 million and that this \$55 million cap will be in place for the 2003, 2004 and 2005 RRSP seasons.

Bill 28 and the newly issued regulations also empower the administrator under *Employee Investment Act* to reallocate amounts to other corporations registered under the *Employee Investment Act* if a particular corporation is unable to utilize the full amount allocated to it or if the registration of a

corporation is suspended or revoked. Bill 28 provides that any agreement, arrangement or approval with the Province will be without effect to the extent that it requires anything to be done which is inconsistent with the *Employee Investment Act* or regulations (as amended), requires a discretion under the *Employee Investment Act* to be exercised in a specified manner, or requires the taking of any action toward achieving a specific outcome under the *Employee Investment Act*. Bill 28 further provides that no compensation is payable to a corporation or any other person because of or arising out of the amendments, regulations made as a result of amendments or a reallocation of the amount of tax credits described above. In addition, Bill 28 provides that no actions or other proceedings may be brought against the Province, the administrator or any other person arising as a direct or indirect consequence of the amendments, regulations made as a result of amendments or a reallocation of the amount of tax credits described above.

When WOF began, it was managed internally by its own officers and employees. During 1998, WOF's board and its shareholders approved a restructuring of management so that it would instead be provided by an external portfolio management company under the terms of a management agreement. The latter arrangement is the more typical management structure in the investment funds industry. On January 1, 1999, all WOF employees, including its investment team, started working for a separate company – GrowthWorks Capital Ltd. GrowthWorks is registered under the *Securities Act* (British Columbia) as a portfolio manager and now provides investment management and other services to WOF under the terms of a management agreement. We discuss this agreement in the section called *Responsibility for Fund Operations – The Manager – GrowthWorks Capital Ltd.* on page 24.

In 1999, WOF shareholders passed a special resolution:

- to amend WOF's memorandum and articles by adding two new classes of shares: Balanced Shares and Growth Shares, and
- to exchange all WOF's issued common shares for Balanced Shares on a one-for-one basis.

The Balanced Shares continue with the same investment strategy as the common shares had, while the Growth Shares have a somewhat different investment strategy which offers more exposure to equities. We discuss these investment strategies in the section called *Investment Restrictions* on page 4.

In 2001, WOF shareholders approved changes to the commissions WOF pays on the sale of Shares. Previously, dealers received an upfront sales commission equal to 5% of the selling price of each Share sold. As of the date of this document, dealers can choose one of the two new commission options discussed in the section called *Purchases and Switches* on page 17.

In October 2002, WOF shareholders passed a special resolution to amend the Fund's articles authorizing the Board to:

- provide an exception to the 8 year hold restriction to allow a redemption and repurchase of Shares to be processed during a period of up to three months (as specified by the Board from time to time) prior to the eighth anniversary of the original purchase of the Shares, and
- as it sees fit from time to time, set a lower hold period (or possibly no hold period at all) on shares sold in the future after a particular date and the early redemption fee payable on shares sold in the future which are redeemed before 8 years.

These resolutions will become effective upon receipt of all necessary approvals and filing with the Registrar of Companies of British Columbia.

Investment Restrictions

Employee Investment Act

WOF is an “**employee venture capital corporation**” under the *Employee Investment Act*. This means it has adopted an employee venture capital plan and has been registered by the “administrator” under the *Employee Investment Act*. As a result, you receive tax credits on your Share purchases, but WOF must comply with various requirements of the *Employee Investment Act*. These primarily restrict the kinds of investments WOF may make. If WOF doesn’t comply with the *Employee Investment Act*, it could face penalties.

The Administrator under the Employee Investment Act

The “administrator” under the *Employee Investment Act* (“**Administrator**”) is a provincial government official who oversees registrations, tax credit issuances, investment protection account releases, and compliance with the requirements of the *Employee Investment Act*. The Administrator has the authority to refuse to issue tax credit certificates, refuse to authorize releases from an investment protection account, and to suspend or revoke the registration of an employee venture capital corporation if:

- the corporation fails to comply with the *Employee Investment Act* or its employee venture capital plan and any conditions pertaining to it, or
- the corporation or its directors, officers or shareholders are conducting the business or affairs of the corporation in a manner that is contrary to the spirit and intent of the *Employee Investment Act*.

Employee Venture Capital Plan

In connection with its registration as an employee venture capital corporation under the *Employee Investment Act*, WOF adopted, on January 7, 1992, an employee venture capital plan. This **Plan** is a contractual agreement among WOF and its shareholders. Generally, the Plan may not be altered without the prior approval of the Administrator and the consent of a majority of shareholders. The Plan sets out how WOF will conduct its affairs with respect to the following matters:

- (a) Share offerings;
- (b) investor eligibility criteria;
- (c) subscription entitlement;
- (d) holding of Share certificates;
- (e) application for Tax Credit Certificates;
- (f) Share valuation;
- (g) the Eligible Business Investments investment schedule;
- (h) use of funds in accordance with the *Employee Investment Act*;
- (i) redemption and resale of Shares; and
- (j) WOF’s investment strategy.

Investment Protection Account

The *Employee Investment Act* requires WOF to establish a special account called the investment protection account (or **IPA**) and to deposit into it 30% of all equity capital raised by WOF. Withdrawals from the IPA require two authorizing signatures, one from an authorized Fund official and the other from the Administrator. The Administrator authorizes a payment out of the IPA only if WOF has made or proposes to immediately make an eligible investment. The IPA will have a zero balance once 80% of all funds raised by WOF from the issuance of Shares have been invested in eligible investments.

Income earned in the IPA is for the account of WOF and need not be invested in Eligible Business Investments. If WOF's registration as an employee venture capital corporation is revoked, the Administrator may require WOF to pay to the British Columbia government all or part of the income earned on funds contained in the IPA.

The Royal Bank of Canada holds the IPA which is governed by an agreement dated as of January 25, 1995.

Employee Investment Act Investment Requirements

WOF offers two classes of Shares: Balanced Shares and Growth Shares. They have the following investment objectives:

	<u>Balanced Shares</u>	<u>Growth Shares</u>
<u>Investment Objective:</u>	<u>To obtain long term capital growth</u>	<u>To obtain maximum long term capital growth</u>
<u>Types of Investments:</u>	<u>Primary Funds:</u> Eligible Business Investments <u>Secondary Funds:</u> Canadian fixed income and debt securities	<u>Primary Funds:</u> Eligible Business Investments <u>Secondary Funds:</u> Canadian equity, equity-linked, and debt securities

Primary Funds Investment Restrictions

Under WOF's employee venture capital plan registered under the *Employee Investment Act*, WOF must over time invest at least 80% of the money (we call this money the "**Primary Funds**") it raises each year from the sale of both Balanced and Growth Shares in "Eligible Business Investments" (as described below) within the following time periods.

- 20% of the net assets by the end of the next fiscal year following that year,
- 40% by the end of the second fiscal year following that year,
- 60% by the end of the third fiscal year following that year, and
- 80% by the end of the fourth fiscal year following that year.

We have to maintain the 80% investment level until the Shares which provided the investment capital are redeemed after their eight year hold period.

Eligible Business Investments are common assets of the Balanced Shares and Growth Shares. They are allocated to the Balanced Shares and Growth Shares on a share for share basis based on the number of Balanced Shares and Growth Shares sold compared to the total number of Shares sold.

Eligible Businesses

An “**Eligible Business**” means a corporation, cooperative association, or partnership that:

- (a) has, together with its prescribed affiliates, less than \$50 million in total assets calculated in the manner prescribed by regulation;
- (b) has at least 80% of its assets located in British Columbia;
- (c) pays at least 50% of its wages and salaries, calculated in the manner prescribed by regulation, to employees who regularly work within British Columbia;
- (d) is not substantially engaged, determined in the manner prescribed by regulation, in any one or more of the following prescribed ineligible activities:
 - (i) primary resource exploration or extraction;
 - (ii) financial services such as providing loans, selling insurance or real estate or trading in securities;
 - (iii) property management or the rental or leasing of land or improvements;
 - (iv) the development or improvement of land;
 - (v) agricultural activities, other than non-traditional agricultural activities such as: game farming, specialized small crops, livestock and poultry production; high technology enterprises such as greenhouses or hydroponic crop production, plant propagation, animal genetics or production of breeding stock; or
 - (vi) retail services; and
- (e) has a permanent establishment, as determined under the Federal Tax Act, located in British Columbia.

Eligible Business Investments

An “**Eligible Business Investment**” is one which meets each of the following requirements:

- (a) the investment consists of the acquisition:
 - (i) of any of the following types of securities which we call “**Eligible Securities**” of an Eligible Business directly from the Eligible Business:
 - (1) shares of any kind;
 - (2) debt securities that do not have conventional, periodic payments of principal and interest prior to maturity and which are:
 - (A) subordinated to the rights of other creditors, other than creditors prescribed by regulation;
 - (B) not secured in any way, and do not prevent the issuer from incurring other debts;
 - (C) secured by security which covers less than 50% of the amount of the debt, and do not prevent the issuer from incurring other debts; or
 - (D) otherwise substantially at risk, as determined in the prescribed manner by regulation;
 - (3) partnership interests or units;

- (4) royalty interests;
 - (5) trust units, where the trust property primarily consists of other securities described in (1) through (8);
 - (6) rights, options, or warrants to acquire any security which is described in (1) through (8);
 - (7) such other securities as the Administrator considers to be similar in character and risk exposure to those listed above;
 - (8) such other securities as may be prescribed by regulation.
- (ii) in circumstances prescribed by regulation, of Eligible Securities of an Eligible Business from an agent or broker acting as an underwriter for the Eligible Business;
 - (iii) of Eligible Securities of an affiliate or associate of an Eligible Business directly from the affiliate or associate, and the funds paid by WOF for the Eligible Securities are in turn invested in Eligible Securities of the Eligible Business by the affiliate or associate either directly or indirectly through one or more other affiliates or associates;
 - (iv) of Eligible Securities of an Eligible Business or an affiliate or associate of an Eligible Business from an existing investor who owns those securities, and the Administrator considers that the purchase of the Eligible Securities will:
 - (1) result in job preservation;
 - (2) assist the Eligible Business in dealing with the departure of an employee investor or a venture capital investor;
 - (3) facilitate an orderly succession where the owner of an Eligible Business is retiring;
 - (4) provide some other substantial economic benefit to the Eligible Business or the Province; or
 - (v) of Eligible Securities in other prescribed circumstances;
- (b) the acquisition of the Eligible Securities was or will be for cash, for purposes of directly or indirectly raising additional capital for an Eligible Business, except if the Eligible Securities are purchased from an existing investor:
 - (i) under subsection (a)(iv) above; or
 - (ii) in accordance with the terms of an order by the Administrator under section 40(5) of the *Employee Investment Act* in circumstances where the purchase will result in substantial employee participation in the restructuring of ownership of an existing business
 - (1) to facilitate transfer of control from person or group of persons if the restructuring would result in a widely dispersed ownership by persons resident in Canada; or
 - (2) if the business is or will be in financial difficulty;
 - (c) the investment is not and will not be prohibited under certain sections of the *Employee Investment Act* we describe below under the subheadings *Aggregate Investment Limitation*, *Investments for Certain Purposes Prohibited*, *Control of Eligible Business* and *Prohibited Investments*.

In addition, if we acquire an Eligible Security and it's later converted or exchanged for another Eligible Security of the same investee company (or its affiliate or associate), the Eligible Security acquired upon the conversion or exchange will be an Eligible Business Investment.

Aggregate Investment Limitation

We cannot make or hold an Eligible Business Investment where, as a result of that investment, the total amount received by that Eligible Business from WOF and any other employee venture capital corporations or venture capital corporations (registered under the *Small Business Venture Capital Act*), directly or indirectly, would exceed \$5,000,000 within a two year period.

However, the \$5,000,000 limit excludes any investments in Eligible Businesses that WOF chooses to make using money that is not required to be invested in Eligible Business Investments (ie. the up to 20% of WOF Share capital raised, plus any gains generated on invested capital).

Investments for Certain Purposes Prohibited

Under the *Employee Investment Act*, we cannot use funds raised through the sale of Shares to make an Eligible Business Investment where that Eligible Business intends to use the money, directly or indirectly, in whole or in part:

- (a) for lending, other than in exchange for Eligible Securities of an affiliate or an associate which is an Eligible Business;
- (b) for acquiring securities, other than:
 - (i) Eligible Securities from an affiliate or an associate which is an Eligible Business,
 - (ii) Eligible Securities approved by the Administrator on being satisfied that the investment will result in substantial employee participation in the start-up of a new business or restructuring of ownership of an existing business to facilitate transfer of control from a person or group of persons where the restructuring will result in widely dispersed ownership by persons resident in Canada, or where the Administrator is satisfied that the Eligible Business is or will be in financial difficulty;
- (c) for making any payment with respect to the purchase of goods or services from, the payment of dividends to or the repayment of shareholder debt to a director, officer or shareholder of WOF or from or to an associate of a director, officer or major shareholder of WOF;
- (d) for purchasing services or assets provided by the government or an agency or corporation of the government, where
 - (i) those services or assets are to be used in all or in part in a business or activity that is the same or similar to the activity previously carried on by the government or the agency or corporation of the government, and
 - (ii) WOF has received, either directly or indirectly, any financial assistance from any government, municipality or public authority with respect to the acquisition of those services or assets;
- (e) as part of a transaction or series of transactions directly or indirectly involving, other than as a part of a proposal described under (b) above:
 - (i) the purchase or redemption of previously issued shares of the Eligible Business or one of its affiliates;
 - (ii) the retirement of any part of a liability to a shareholder of the Eligible Business or one of its affiliates;
 - (iii) the payment of dividends; or

- (iv) the funding of all or part of the purchase by the Eligible Business of all or a substantial portion of the assets of an existing proprietorship, partnership, joint venture, trust or corporation;
- (f) for the funding of all or part of the purchase by the Eligible Business of any services or assets at a price that is greater than the fair market value of the services or assets purchased; or
- (g) for other prescribed purposes.

Despite the above, the Administrator may order, for a particular Eligible Business Investment, that the Eligible Business may use the proceeds from an investment by WOF, in whole or in part, for one or more of the purposes described above if the Administrator is satisfied that such use would assist in the overall growth and development of the Eligible Business.

Control of Eligible Business

Ordinarily, WOF cannot take control of a business it invests in. The *Employee Investment Act* provides that we may not make an Eligible Business Investment where:

- (a) 50% of the shares carrying votes for the election of directors of the Eligible Business are owned, directly or indirectly, by, or
- (b) the Eligible Business is controlled, directly or indirectly, in any manner, by

WOF or WOF and any other employee venture capital corporation or venture capital corporation (registered under the *Small Business Venture Capital Act*), either alone or in conjunction with one or more of its or their

- (c) associates or affiliates,
- (d) shareholders or their associates or affiliates,
- (e) directors or their associates, or
- (f) officers or their associates.

However, this general restriction does not apply to an investment in an Eligible Business where the Administrator is satisfied that

- (a) the investment will result in substantial employee participation in the
 - (i) start up and operation of a new business, or
 - (ii) restructuring of ownership of an existing business to facilitate transfer of control from a person or a group of persons where the restructuring will result in widely dispersed ownership by persons resident in Canada, or
- (b) the Eligible Business is or will be in financial difficulty.

The Administrator may set conditions with respect to the making or holding of an investment under these circumstances.

Prohibited Investments

The *Employee Investment Act* prohibits WOF from making or holding an Eligible Business Investment where a “major shareholder” of WOF is or was at any time during the two years immediately preceding the investment:

- (a) a major shareholder of the Eligible Business;
- (b) an associate of a major shareholder of the Eligible Business;

- (c) a voting trust where the trustee votes shares of the Eligible Business; or
- (d) the Eligible Business or an associate or affiliate of the Eligible Business.

A “major shareholder” of WOF means a person who, together with his or her associates, owns 10% or more of the Shares.

WOF also cannot make or hold an Eligible Business Investment where the Eligible Business or an associate, affiliate, director, officer or shareholder of the Eligible Business provides or has provided, directly or indirectly, as part of any transaction or series of transactions, a loan, guarantee or any other financial assistance to a person who is, or was at any time during the two years immediately preceding the investment:

- (a) WOF;
- (b) an associate or affiliate of WOF;
- (c) a director, officer or major shareholder of WOF; or
- (d) a member of a group of persons that controls WOF.

Secondary Funds Investment Restrictions

By “**Secondary Funds**” we mean:

- the remaining up to 20% of capital raised by the sale of Shares which is not required to be invested in Eligible Business Investments (we call this the “**Residual Capital**”);
- any investment gains (we call these “**Gains**”); and
- any Primary Funds on hand waiting to be invested in Eligible Business Investments over time (we call these “**Pending Funds**”).

It’s how we invest these Secondary Funds that makes the difference between Balanced Shares and Growth Shares.

Balanced Shares - Secondary Funds Investments

We can invest Balanced Shares Residual Capital and Gains in Canadian fixed income and debt securities which meet the following criteria:

- (a) liquid reserves on deposit in British Columbia at a savings institution or with a loan company that has been approved by the Lieutenant Governor in Council under the *Financial Institutions Act* (British Columbia);
- (b) securities that are issued by the government of British Columbia or Canada;
- (c) debt obligations guaranteed by the government of British Columbia or Canada;
- (d) debt obligations issued or guaranteed by corporations carrying on active business in British Columbia rated the equivalent of A-1, R-1 or higher by a recognized bond rating agency;
- (e) securities of a municipal corporation in British Columbia;
- (f) securities the payment of the principal and interest of which is guaranteed by a municipal corporation in British Columbia;
- (g) guaranteed trust or investment certificates of:
 - (i) a bank, or
 - (ii) a corporation that is incorporated under the laws of Canada or a province and that has a business authorization to carry on a trust business or deposit business;

- (h) securities issued for school, hospital, irrigation, drainage or other like purposes that are secured by or payable out of rates or taxes levied under the law of British Columbia on property in British Columbia;
- (i) bonds, debentures or other evidence of indebtedness of a corporation that are secured by the assignment to the Fund of payments that Canada or British Columbia has agreed to make, if those payments are sufficient to meet the interests on all the bonds, debentures or other evidence of indebtedness outstanding as it falls due and also to meet the principal amount of all the bonds, debentures or other evidence of indebtedness on maturity;
- (j) bonds, debentures or other evidence of indebtedness of a corporation incorporated under the laws of Canada or British Columbia that are fully secured by a mortgage, charge or hypothec to the Fund on any one or combination of the following assets:
 - (i) land;
 - (ii) the plant or equipment of a corporation that is used in the transaction of its business; or
 - (iii) bonds, debentures or other evidence of indebtedness or shares of a class or classes authorized by (e) through (n) of this list;
- (k) bonds, debentures or other evidence of indebtedness of a corporation incorporated under the laws of Canada or British Columbia if the corporation has earned and paid a dividend:
 - (i) in each of the 5 years immediately preceding the date of investment at least equal to the specified annual rate on all of its preferred shares; or
 - (ii) in each year of a period of 5 years ended less than one year before the date of investment on its common shares of at least 4% of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid;
- (l) bonds, debentures or other evidence of indebtedness of a loan corporation or like corporation that at the time of investment has:
 - (i) power to lend money or mortgages, charges or hypothecs of real estate;
 - (ii) a paid up nonreturnable capital stock of not less than \$500,000;
 - (iii) a reserve fund amounting to not less than 25% of its paid up capital;
 and the stock of which has a market value that is not less than 7% in excess of its par value;
- (m) first mortgages, charges or hypothecs on land in Canada, but only if the loan does not exceed 75% of the value of the property at the time of the loan as established by a valuator whom the Fund believes on reasonable grounds to be competent and independent;
- (n) deposits in, or non-equity or membership shares or other evidence of indebtedness of, a credit union incorporated in British Columbia;
- (o) investments in community investment loan funds administered by Community Futures Development Corporations in British Columbia on terms acceptable to the Administrator;
- (p) securities of an Eligible Business or an affiliate or associate of an Eligible Business, of a WOF investee company or an affiliate or associate of a WOF investee company that do not qualify as Eligible Business Investments; or
- (q) any other debt securities prescribed by regulation.

However, we can only invest Balanced Share Pending Funds, in those securities described in paragraphs (a), (b), (c) and (d) above.

Growth Shares - Secondary Funds Investments

We can invest Growth Shares Residual Capital and Gains in the following equity, equity-linked and debt securities:

- (a) securities listed and traded on The Toronto Stock Exchange (or its successor exchange or trading system);
- (b) securities of an investment unit trust or mutual fund corporation which holds a diversified investment portfolio of securities that are issued by British Columbia or Canadian issuers;
- (c) fully paid common shares of a corporation incorporated under the laws of Canada or of British Columbia that, in each year of a period of 7 years ended less than one year before the date of investment, has paid a dividend on its common shares of at least 4% of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid;
- (d) preferred shares of a corporation incorporated under the laws of Canada or British Columbia if the corporation has paid a dividend:
 - (i) in each of the 5 years immediately preceding the date of investment at least equal to the specified annual rate on all of its preferred shares; or
 - (ii) in each year of a period of 5 years ended less than one year before the date of investment on its common shares of at least 4% of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid;
- (e) pools of any of the above securities;
- (f) debt securities of the kind described in "Balanced Shares - Secondary Funds Investments", including those that may have payments thereon linked or related to the performance of any of the equity securities described (or group or index thereof);
- (g) securities of an Eligible Business or an affiliate or associate of an Eligible Business, of a WOF investee company or an affiliate or associate of a WOF investee company that do not qualify as Eligible Business Investments; or
- (h) any other equity or equity related investment prescribed by regulation.

However, we can only invest Growth Share Pending Funds, in those debt securities described in paragraphs (a), (b), (c) and (d) under "Balanced Shares - Secondary Funds Investments" (including versions which provide a return linked or related to the performance of an index or group of Canadian equity securities).

In selecting Canadian equity and equity-linked securities, we will generally give preference to investment products which apply "socially responsible" screens to securities included in a broad market index or sub-index.

WOF is also permitted under the *Employee Investment Act* to hold any securities it receives on the disposition of an Eligible Business Investment or other permitted investment it holds.

Additional Investment Restrictions Adopted by WOF

In addition to the requirements of the *Employee Investment Act*, WOF's board of directors has adopted the following investment restrictions:

- we perform an ethical review of potential investee companies. It prohibits us from investing in companies in the tobacco products, military weapons or nuclear power industries.

- we will not buy or sell investments from any of WOF’s officers or directors, and
- we will not knowingly make any investment in any Eligible Business that a WOF director or officer (or their associates) (i) has a significant ownership interest in, or (ii) is an officer or director of (unless the director or officer or employee does not participate in making the WOF investment decision and discloses to WOF his offices with the Eligible Business).

Changes to Investment Objectives or Strategies

The fundamental investment objectives, restrictions, policies or strategies of WOF which are determined by the *Employee Investment Act* can only be changed if the *Employee Investment Act* is amended by government. The fundamental investment objectives, restrictions, policies or strategies of WOF which are determined by WOF’s board of directors can be changed by the Board.

Mutual Fund Investment Restrictions Do Not Apply

Because WOF is not a “mutual fund”, as defined under applicable securities legislation, it is not subject to the investment restrictions and practices governing mutual funds, including those in National Instrument 81-102. However, the extensive restrictions contained in the *Employee Investment Act* govern its unique investment mandate.

Description of Shares

The authorized share capital of WOF consists of 500,000,000 Balanced Shares, 500,000,000 Growth Shares, and 500,000,000 common shares, all without par value. The Balanced Shares and Growth Shares are issuable in series. WOF’s board has only authorized one series of each of the Balanced Shares and Growth Shares to date. WOF’s articles provide that all series of a class have equal priority as to dividends or payment on liquidation.

The rights and restrictions attached to the Balanced Shares and the Growth Shares are essentially identical, except that each class will have its own NAV per share. These rights also apply to fractions of Shares in the proportion that the fractional Share bears to a whole Share.

The rights and restrictions on Shares entitle you to:

- receive dividends if and when the board declares them;
- receive notice of all general meetings of shareholders of WOF;
- receive one vote for every Share you own;
- vote on 2 of the 13 directors of WOF as elected by shareholders every year (the remainder are appointed by the Sponsor);
- receive on the liquidation, dissolution or winding-up of WOF, an amount equal to the net asset value per Balanced Share for each Balanced Share you hold and an amount equal to the net asset value per Growth Share for each Growth Share you hold. You will receive these amounts before any distribution is made on WOF’s common shares;
- switch from Balanced Shares to Growth Shares, and vice versa, as determined by the Board. Currently, you are allowed to switch two times every year. See the section called *Purchases and Switches* on page 17; and
- redeem your Shares after you have held them for eight years.

You cannot redeem or transfer your Shares before the eighth anniversary of when you bought them except in very limited circumstances. Under exceptional circumstances, WOF doesn’t have to

redeem Shares even though you qualify to have them redeemed. For more information on redeeming your Shares, see the section called *Redemption* on page 20.

Under the restrictions attached to the Shares, we must calculate NAV at least monthly. Currently we calculate it weekly as we discuss in the section called *Calculation of Net Asset Value* on page 14.

Any amendments to the memorandum or articles of WOF relating to the make-up of the Board require unanimous approval of shareholders present in person or by proxy at any meeting of shareholders. All other amendments to the memorandum or articles, including rights attached to the Shares, require the approval of three-quarters of the votes cast at a general meeting of shareholders. For those amendments relating to only one class or series of shares, WOF needs the approval of three-quarters of the votes cast at a separate meeting of the holders of that class or series.

Calculation of Net Asset Value

Net Asset Value

You invest in WOF by purchasing Balanced Shares or Growth Shares or both. The price for buying or selling (and the price for switching) is based on the net asset value per Share or “NAV”. NAV is the value of everything a mutual fund or other investment fund owns (its “assets”), minus the value of everything it owes (its “liabilities”), divided by the number of shares held by investors.

Since the Balanced Shares and the Growth Shares invest their Secondary Funds in different ways, they participate in different types of assets. As a result, we calculate two NAVs - the NAV for Balanced Shares and the NAV for Growth Shares.

We currently calculate NAVs weekly at the end of the day Friday. If we receive your order before 1:00 p.m. on a Friday (Vancouver time), we will process your order using the prices that we calculate that Friday for Balanced Shares and Growth Shares. If we receive your order after 1:00 p.m., we will use next week’s prices.

Here’s how we calculate NAV:

$$\text{Net Asset Value per Balanced Share} = \frac{\text{Balanced Share Assets} - \text{Balanced Share Liabilities}}{\text{total number of Balanced Shares (including fractions thereof) issued and outstanding}}$$

$$\text{Net Asset Value per Growth Share} = \frac{\text{Growth Share Assets} - \text{Growth Share Liabilities}}{\text{total number of Growth Shares (including fractions thereof) issued and outstanding}}$$

Where:

“Balanced Share Assets” means the aggregate value of that portion of WOF’s assets which have been acquired, allocated or classified in the records of WOF as assets underlying the Balanced Shares in accordance with the investment policy applicable to such class (as determined by the Board from time to time), together with a pro rata portion of the assets of WOF not otherwise allocated to any one or more class of shares;

“Balanced Share Liabilities” means the aggregate value of that portion of WOF’s liabilities which have been incurred, allocated or classified in the records of WOF in respect of the Balanced Share Assets or Balanced Shares, together with a pro rata portion of the liabilities of WOF not otherwise allocated to any one or more class of shares;

“Growth Share Assets” means the aggregate value of that portion of WOF’s assets which have been acquired, allocated or classified in the records of WOF as assets underlying the Growth Shares in accordance with the investment policy applicable to such class (as determined by the Board from time to time), together with a pro rata portion of the assets of WOF not otherwise allocated to any one or more class of shares; and

“Growth Share Liabilities” means the aggregate value of that portion of WOF’s liabilities which have been incurred, allocated or classified in the records of WOF in respect of the Growth Share Assets or Growth Shares, together with a pro rata portion of the liabilities of WOF not otherwise allocated to any one or more class of shares.

We publish the Net Asset Values per Share in newspapers of general circulation in British Columbia such as the National Post, Globe and Mail, Province and Vancouver Sun. We also posts those values on our website at www.wofund.com.

Valuation

WOF’s board has delegated the responsibility for determining NAV to its Valuation Committee. We describe the make-up of this committee in the section called *Responsibility for Fund Operations*. Currently, WOF’s employee venture capital corporation plan sets out the valuation principles and procedures. Amendments to the *Employee Investment Act* which came into force on May 30, 2002 empower the Province to prescribe a method for establishing the value of assets of a corporation registered under the *Employee Investment Act*. At this time, the Province has not prescribed or otherwise specified what this method will be.

Currently, the Valuation Committee uses different methods to value the different types of WOF assets. WOF’s assets can be divided into three main categories:

- *Securities for which there is a published market.* The Valuation Committee values these **Published Assets** at the quoted price less any discount the Valuation Committee believe is appropriate given the circumstances.
- *Securities for which there is no published market.* The Valuation Committee values these **Unpublished Assets** based on detailed valuation rules set out in the Plan and described below. The carrying values generated are reviewed semi-annually by a chartered business valuator.
- *Other assets.* The Valuation Committee values these assets as they are carried on the books of WOF in accordance with generally accepted accounting principles.

WOF’s assets and liabilities are divided between the Balanced Shares and Growth Shares. Investments and liabilities which are specific to a class of Shares will be directly allocated as assets of that class only. For example, assets bought with Balanced Shares Secondary Funds are allocated to the Balanced Shares assets. For more information about the assets allocated to each class of Shares, see the section called *Investment Restrictions* on page 4.

To ensure compliance, the Valuation Committee will adopt any adjustment or changes in valuing WOF’s assets required by any governmental or regulatory body having jurisdiction over WOF, WOF’s auditor or the independent chartered business valuator.

The Valuation Committee also sets the frequency for calculating NAV which must be at least monthly. We call this a **Valuation Period**. It is currently weekly. However, the Valuation Committee can change this frequency and may also make a special valuation between the regular intervals if an event causes value to change by more than 5% since the last valuation. If a special valuation is made, the Net

Asset Value per Share calculated for that day shall continue in effect until the end of the regular Valuation Period.

Valuation of Published Assets

Currently, for WOF's Published Assets, the Valuation Committee values these assets at the quoted price less any discount the Valuation Committee believes is appropriate. For example, the Valuation Committee will generally attach a lower value than the quoted price to publicly traded shares if trading is somehow restricted or if there is a relatively small public float compared to WOF's holdings. A published market means any market on which those securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation or an over the counter, inter-dealer or other market, trading or quotation system where the prices of the securities traded or quoted thereon are available to WOF through computer access, participating investment dealers or written reports generated by a system operator. As a result of amendments to the *Employee Investment Act*, the Province may prescribe valuation rules. Accordingly, this valuation method may change.

Valuation of Unpublished Assets

Currently, the Valuation Committee values the Unpublished Assets on the basis of the following principles and procedures:

- Investments are valued at estimated fair market value (the price that would be agreed upon in an open and unrestricted market between fully informed, knowledgeable, and willing parties dealing at arm's length, without constraint) using the method of valuation which best and most objectively reflects such fair market value.
- The estimated fair market value of investments are determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly disposition over a reasonable period of time.
- New investments are valued at cost for one year, unless there is a transaction which establishes values or there is a significant change from our expectations.
- If there is a recent significant arm's length, bona fide, enforceable offer or transaction (what we call a **Value Event**) with respect to an investment, values used in such offers or transactions are used in the valuation of the investment. Prices are adjusted to reflect the value an ordinary purchaser would likely have paid. Similarly, if there is a valuation prepared by a qualified independent party, that valuation may be used to give a valid indication of the current value of an investment.
- If an investment is progressing satisfactorily in relation to WOF's expectations and there has not been a recent Value Event, then the best and most objective traditional valuation method may be used to estimate value (ie. such as: a conservative multiple of sustainable earnings with a cross reference to (and an assessment of) tangible asset value may be used). However, if the investment is not amenable to being valued using traditional valuation methods, then the value from the last Value Event, any specific valuation or investment will be used.

Debt instruments are valued at their principal amount, unless they are in arrears or a write-down is considered prudent due to the unlikelihood of full realization on the investment. As a result of amendments to the *Employee Investment Act*, the Province may prescribe valuation rules. Accordingly, these valuation methods may change.

Semi-Annual Valuation Reviews

An independent valuator, in good standing with the Canadian Institute of Chartered Business Valuators, semi-annually reviews the value of the Unpublished Assets as of the first day of May and as of the first day of November every year. The valuator reports on whether the carried value of the Unpublished Assets represents a fair and reasonable estimate of the value of the Unpublished Assets on the basis of the foregoing valuation principles.

Valuation of WOF's Unpublished Assets will inevitably be subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

Purchases and Switches

Purchases

- You can place an order to buy a specific dollar amount of Shares at any time. You receive the number of Shares equal to the dollar value you want to spend divided by the weekly NAV for the Shares you are purchasing.
- We calculate NAV weekly. If we receive your order before 1:00 p.m. on a Friday (Vancouver time), we will use the prices that we calculate that Friday for Balanced Shares and Growth Shares. If we receive your order after 1:00 p.m., we will use the next week's prices.
- You can only buy Shares if you are a B.C. resident or you are a B.C. resident and buy Shares through your RRSP or your spouse's RRSP (who also has to live in B.C.).
- You don't pay any sales commissions when you buy Shares, WOF pays the commission. See page 18.
- You can buy Shares from your investment or mutual fund dealer. You can also arrange to buy them through a payroll deduction plan and automatic investment plan. See page 18.
- Your first purchase of either Balanced Shares or Growth Shares has to be at least \$500. You cannot split the initial \$500 amount between Growth Shares and Balanced Shares. After that, you can buy Balanced Shares and Growth Shares in amounts of \$25 or more.
- Currently approvals issued under the *Employee Investment Act*, allow us to sell up to \$55 million worth of Shares by the end (ie. March 1st) of each of the RRSP seasons for 2003, 2004 and 2005. Since no B.C. tax credits will be issued for any Shares sold above the amount of tax credits allocated to the Fund in the year, we will monitor sales and suspend them when this limit is reached. If we have to suspend sales, we will normally start them again at the beginning of the next government fiscal year.
- You receive tax credits when you buy Shares that you can use to reduce the amount of income tax you pay to the federal and provincial governments. This reduces your cost of buying Shares. Here's an example of how this works, assuming you buy the Shares through a fully deductible RRSP using 2002 income tax rates.

Taxable Income Before Deduction of RRSP Contribution	\$35,000	\$55,000	\$65,000
Subscription Amount	\$ 5,000	\$ 5,000	\$ 5,000
Share Purchase Tax Credits.			
Federal ⁽¹⁾	(750)	(750)	(750)
B.C. ⁽²⁾	(750)	(750)	(750)
Estimated Tax Reduction from RRSP Contribution	<u>(1,558)</u>	<u>(1,558)</u>	<u>(1,825)</u>
Net Cost of Investment after above Tax Savings⁽³⁾	<u>\$ 1,942</u>	<u>\$ 1,942</u>	<u>\$ 1,675</u>

1. You can't receive more than \$750 per year in federal tax credits for all share investments in prescribed labour-sponsored venture capital corporations.
2. You can't receive more than \$2,000 per year in B.C. tax credits for all share investments in employee venture capital corporations and under registered employee share ownership plans.
3. Amounts withdrawn from an RRSP are taxable when withdrawn. Caution: A registered retirement income fund or **RRIF** is not eligible to buy Shares and receive a federal tax credit. However, an individual can buy Shares, receive the federal tax credit and then transfer or swap them into a RRIF.

For more on tax credits, you should turn to *Canadian Income Tax Considerations* on page 30.

- Securities laws allow us to refuse your purchase order within one business day of receiving it. If we refuse a purchase order, we will immediately return your money without interest. Securities laws also allow you to cancel or withdraw from your purchase in some circumstances. See *What are Your Legal Rights?* on page 35 of the Fund's simplified prospectus. In addition to those rights, we allow you to cancel a purchase order so long as we receive the cancellation prior to 1:00 p.m. on the Friday of the week you placed your order.
- You must pay for your Shares when you buy them. If for any reason your payment hasn't been received within three business days of processing your order, the Shares will be sold back to WOF on the next business day. If the proceeds are more than the amount you owe us, we will keep the difference. If the proceeds are less than the amount you owe, we will pay the difference and collect it plus the Manager's expenses from your dealer, in which case your dealer may require you to pay the difference plus expenses.
- When you buy Shares, you pay no commission to your dealer. Instead, WOF pays commissions to your dealer on the following basis. At the time of sale, your dealer will choose one of two commission options, either: (1) an up front sales commission of 5% of the price paid for the Shares and an ongoing service/trailer commission at a rate of 0.5% per annum on the net asset value of those Shares, paid quarterly in arrears each year until the Shares are redeemed; OR (2) an up front sales commission of 2% of the price paid for the Shares and an ongoing service/trailer commission at a rate of 1% per annum on the net asset value of those Shares, paid quarterly in arrears each year until the Shares are redeemed. WOF reserves the right to not pay the service/trailer commissions if the amount is less than \$25 or in other specific circumstances it may specify from time to time. In addition, as compensation for managing the distribution of Shares, paying for certain associated expenses and engaging in marketing activities, WOF pays its principal distributors, a commission of 0.75% of the gross proceeds received by WOF on the annual sale of Shares.

Automatic Investment and Payroll Deduction Plans

You may purchase Shares through an automatic investment plan or a payroll deduction plan. Under the automatic investment plan, you authorize us to debit your bank, trust company or credit union account monthly and use that amount to buy Shares. Under the payroll deduction plan, if you are employed by a participating employer, you may authorize your employer to deduct a specified amount from your pay and have that amount used to buy Shares.

- Take advantage of these plans by completing the appropriate section of your subscription form.
- Under each of these services, you have to purchase at least \$25 of Shares per month.
- You can make purchases through your RRSP. For administration purposes, direct Share purchases by an RRSP under a payroll deduction plan have to use a Fund RRSP.
- You don't pay any additional administration fees for a payroll deduction plan or for an automatic investment plan administered by us.
- You can change the dollar amount or the frequency of your purchases or terminate the service at any time. If we suspend offering of Shares at any time, funds received through automatic investment and payroll deduction plans will be placed in a trust account and used to purchase Shares when the offering resumes.

Opening a WOF RRSP Account with Co-operative Trust

If you want to deposit your Shares into an RRSP but don't have a self administered RRSP, you can open a WOF RRSP for this purpose with Co-operative Trust Company of Canada. Simply complete the appropriate portion of the subscription form. **Any purchase of Shares by an RRSP through a payroll deduction plan must be made by a WOF RRSP.** For your information, a WOF RRSP may only hold Shares and cash.

Switches

- You can convert some or all of one class of Shares into the other as determined by the Board. Currently, you are allowed to switch two times each calendar year.
- If you hold your Shares through a dealer, your dealer can request a conversion using the dealer's electronic order system. Otherwise, you have to send us a written and signed conversion request.
- Shares will be converted from one class to the other at the NAV for the Balanced Shares and the Growth Shares then in effect. If you are converting only part of your Shares, the ones you purchased first will be converted first.
- Conversion won't cause your 8 year hold period to restart. The date of your original investment in Shares will carry over to the ones you convert into.
- When you switch your Shares, the commission structure for the converted Shares will be the same as the commission structure chosen by your dealer when you purchased the Shares. See *Purchases* on page 17 for details.

Redemption

General

- You can have WOF redeem your Shares any time after you have owned them for 8 years. **Shares are not redeemable or transferable prior to the eighth anniversary of when you bought them except in very limited circumstances.** We discuss below these very limited circumstance for early redemption.
- We calculate NAV weekly. If we receive your redemption order before 1:00 p.m. on a Friday (Vancouver time), we will use the prices that we calculate that Friday for Balanced Shares and Growth Shares. If we receive your redemption order after 1:00 p.m., we will use next week's prices.
- If you are approaching the eighth anniversary of holding Shares, you can redeem your Shares during the one month period prior to the eighth anniversary of your purchase if you also buy Shares at the same time on terms and conditions acceptable to WOF. We call this a "reinvestment" or a "rollover". You can receive an additional round of tax credits on a reinvestment, subject to the usual maximums.
- If you are redeeming Shares directly, rather than through your dealer's electronic order system, you will have to complete and sign our redemption request form. Your signature will have to be guaranteed by a Canadian bank, trust company or stock exchange member.
- If your Shares are held in an RRSP or RRIF, a person authorized by the trustee of the plan must request the redemption. If your Shares are held in your account with a dealer, the consent of the dealer is required.
- Under exceptional circumstances, WOF doesn't have to redeem Shares even though you have held them for eight years. WOF can refuse to redeem if it would create a working capital deficiency for WOF, cause it to be in default of its financial obligations under an arm's length loan agreement, if WOF is insolvent or the redemption would cause WOF to become insolvent, or if total redemptions in the fiscal year would exceed either: 20% of WOF's retained earnings or 50% of WOF's net earnings after taxes for the previous fiscal year.
- If WOF can't meet all redemption requests, it will honour requests in the following priority: first, requests resulting from shareholder death; second, requests resulting from shareholder bankruptcy; third, requests resulting from shareholder disability; fourth, requests resulting from shareholder involuntary loss of employment; and fifth, all other requests for redemption.

Remember that redeeming your Shares could mean you will have to pay taxes. See *Canadian Income Tax Considerations* on page 30 for details.

Early Redemption

Early redemption is only possible in circumstances amounting to a "hardship disposition" as defined in the *Employee Investment Act* and its regulations. There are four hardship disposition categories as listed below:

- *Death* - An original death certificate or a notarially certified copy of an original death certificate must be presented as proof of death.
- *Bankruptcy or Pending Bankruptcy* - An original or notarially certified copy of the bankruptcy court order or other acceptable official documentation must be presented as proof of bankruptcy

or proof, in the view of the Administrator, of insolvency and pursuit of a formal process to settle debts under the *Bankruptcy and Insolvency Act*.

- *Disability* - A certificate of a qualified medical practitioner stating that the shareholder is "permanently disabled" must be presented.
- *Involuntary Loss of Employment* - A genuine involuntary loss of employment or self-employment as follows. The employment or self-employment must have been on a continuing basis for at least 20 hours per week. The involuntary loss of employment (including layoffs) has continued for at least 6 months, or if the employment or self-employment was seasonal in nature, for at least 12 months. Replacement employment or self-employment must not have been obtained. For a self-employed shareholder, an "involuntary loss of employment" means that the business in which that shareholder works must have permanently closed or ceased business or have received no or nominal revenues for at least 6 months, or if the self-employment was seasonal in nature, for at least 12 months. If you purchase Shares knowing that you will be involuntarily terminated or if you agree to early retirement or similar compensation packages, then you will not be entitled to have Shares redeemed on the basis of an involuntary loss of employment. If the Shares are held in a Spousal RRSP, then early redemption of the Shares on the basis of involuntary loss of employment may occur only if the above-mentioned conditions apply to the contributor to the Spousal RRSP and not the annuitant.

Note: Amendments to the *Employee Investment Act* which came into force on May 30, 2002 require a person who purchases Shares on or after May 30, 2002 having to repay both the federal and provincial tax credits provided on the purchase of those Shares if the person is eligible for early redemption and redeems the Shares within 5 years of their purchase. A "grandfathering" provision in the amendments provides relief from this new tax credit repayment requirement for Shares purchased prior to May 30, 2002.

To be eligible to redeem early, you will need to provide satisfactory documentation establishing that your circumstances amount to a "hardship disposition." Shares purchased prior to May 30, 2002 can only be redeemed after receiving approval from the Administrator under the *Employee Investment Act* that your circumstances amount to a "hardship disposition". For Shares purchased after May 30, 2002 you will need to apply to the Fund for approval that your circumstances amount to a "hardship disposition" (as that term was defined prior to the amendments the *Employee Investment Act* coming into force on May 30, 2002) and upon receiving the Fund's approval, your Shares can be redeemed after repayment of federal and provincial tax credits. To facilitate this repayment, the amount you receive on redemption will be net of the federal and provincial tax credits required to be repaid.

If any of the above conditions existed at the time you purchased the Shares or you knew at the time of the purchase that such a condition would soon occur, this will be considered to be a pre-existing condition and you will not be entitled to redeem the Shares prior to eight years from the date you purchased the Shares. If you fall within one of the above categories and would like to apply for early release due to a "hardship distribution" give us a call at 1.800.563.3863.

Responsibility for Fund Operations

Board of Directors and Officers of WOF

WOF's board of directors has top level responsibility for overseeing the management of WOF, subject to the responsibilities delegated to its committees, the Manager and the President as described below.

WOF's directors and officers are:

<u>Name & Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Peter Armstrong Vancouver, B.C.	Director	President, Great Canadian Railtour Company Ltd.
Dean Drysdale, Langley, B.C.	Director	Business Professor, Kwantlen University College
Milton Fong, Vancouver, B.C.	CFO (Acting)	Accountant, Controller of GrowthWorks Capital Ltd.
Colleen Jordan, New Westminster, B.C.	Director	Secretary-Treasurer, British Columbia Division, Canadian Union of Public Employees
David Levi, Vancouver, B.C.	Director and President	President, GrowthWorks Capital Ltd.
Dr. Julia G. Levy, Vancouver, B.C.	Director	Executive Chairman, Scientific Advisory Board, QLT Inc. (biotechnology company)
Graeme McFarlane, Vancouver, B.C.	Director	Lawyer, Ogilvy Renault
Marian R. Meagher, Victoria, B.C.	Director	Consultant
Murray Munro, Vancouver, B.C.	Secretary	Senior Vice-President, Marketing and Operations, of GrowthWorks Capital Ltd.
Kenneth Neumann, Richmond, B.C.	Chairperson and Director	Director, United Steelworkers of America, District 3
Jerri New, Chase, B.C.	Director	President, Local 378, Office & Professional Employees International Union
Angela Schira, Richmond, B.C.	Director	Secretary-Treasurer, B.C. Federation of Labour
John Shields, Victoria, B.C.	Director	President (Emeritus), B.C. Government and Service Employees Union
Cindy Stewart, Vernon, B.C.	Director	President, Health Sciences Association, British Columbia
Nikolas O. Worhaug, Surrey, B.C.	Director	Canadian Director, Hotel Employees and Restaurant Employees International Union

Each of the directors and officers of WOF has held the principal occupation listed above, or other offices with the same union or company, for the last five years except the following: Milton Fong was principally employed as Controller of Family Insurance Group Ltd. between June 1992 and January 1999. David Levi was principally employed as President of WOF between January 1992 and December 1998. Graeme McFarlane was principally employed by the Attorney General of

British Columbia as a law clerk to justices of the Supreme Court of British Columbia from September 1998 to June 1999, as an articulated student with the law firm of Alexander Holburn Beaudin & Lang from May 1998 to September 1998, and as a Special Projects Assistant in the Human Resources Department of the University of British Columbia from October 1996 to April 1998. Marian Meagher was principally employed as the Regional Executive Vice-President - British Columbia of the Public Service Alliance of Canada from April 1997 to May 2000 and prior to that was co-chair, labour of the B.C. Labour Force Development Board. Murray Munro was principally employed as Vice-President, Corporate Affairs of WOF between February 1998 and December 1998 and as Executive Director of the Western Brewers' Association between August 1997 and January 1998 and prior to that was a Director of a branch of the B.C. Ministry of Small Business, Tourism and Culture (and predecessor Ministries). Jerri New was principally employed as a customer service representative with B.C. Hydro between May 1987 and May 1999.

Each member of the Board receives \$300 for each Board meeting and are reimbursed for all expenses incurred to attend meetings and carry out Board duties. The total amount paid to WOF's directors for the 2001 fiscal year was \$33,600.

Investment Committee

The Board has established an Investment Committee composed of five or more directors. The President is a non-voting member of the Investment Committee. A quorum for meetings of the Investment Committee is three members. The Investment Committee is responsible for approving investments in Eligible Businesses with a transaction cost of 1% of the asset value of WOF or less. All Eligible Business Investments which have a transaction cost in excess of 1% of the net asset value of WOF will remain subject to Board approval.

President

Where an additional investment in an investee company is considered appropriate or necessary, the President of WOF, currently David Levi, may authorize such additional investment up to a defined amount. This amount is currently set at \$1,250,000, but can be changed by the Board. Additionally, the President is authorized to approve investments in new Eligible Businesses up to \$500,000 in total per calendar quarter.

Valuation Committee

The Board has established a Valuation Committee comprised of five directors, three of whom are not members of the Investment Committee. The Board has delegated responsibility to the Valuation Committee for determining the Net Asset Value per Share. A majority of the voting members of the Valuation Committee are independent of WOF's sponsor and its shareholder unions. The President and the Chief Financial Officer are non-voting members of the Valuation Committee. See the section above called *Calculation of Net Asset Value - Valuation* on page 15.

Audit Committee

The Board has established an Audit Committee comprised of at least four directors, a majority of whom are not officers or employees of WOF or the Sponsor. The Audit Committee is responsible for reviewing and approving the financial statements of WOF sent to shareholders and liaising with WOF's auditor.

The Advisory Council

To assist it in implementing its investment strategy, WOF has created an Advisory Council composed of experienced business persons. Members of the Advisory Council provide the Board and GrowthWorks with their views on proposed initial investments in Eligible Businesses. WOF intends to have between 4 and 12 members on the Advisory Council and a quorum for meetings of the Advisory Council is any 3 members.

The name, municipality of residence and principal occupation of each member of the Advisory Council is set out below:

<u>Name and Municipality of Residence</u>	<u>Occupation or Position</u>
J. Stewart Cunningham, Vancouver, B.C.	Chair, Financial Institutions Commission of BC
Doug Eakins, Vancouver, B.C.	Chartered Accountant
John Geddes, Richmond, B.C.	Director, Business Development, E-Commerce MacDonald Dettwiler and Associates Ltd.
Ellen Godfrey, Victoria, B.C.	Chair, CSP Internet Ltd.
Anthony Griffiths, Toronto, Ontario	Independent Consultant, former Chairman of Mitel Corporation
Ian Reid, Vancouver, B.C.	Former Co-Founder Partner, Sierra Systems Group Inc.

The members of the Advisory Council are not employed by WOF, but are paid for their services at a per diem rate of \$300. In 2001, WOF paid a total of \$12,600 to Advisory Council members. In order to avoid potential constraints on the expression of opinions by members of the Advisory Council, the members are not held liable to WOF for any views expressed by them, or for any losses that WOF may incur in reliance on such views.

The Manager – GrowthWorks Capital Ltd.

GrowthWorks' head office and principal place of business is at 2600 - 1055 West Georgia Street, P.O. Box 11170, Royal Centre, Vancouver, British Columbia, V6E 3R5. GrowthWorks telephone number is 688-9631 or 1.800.563.3863. You can e-mail GrowthWorks at info@growthworks.ca or visit its website at www.growthworks.ca.

Here's the investment related services GrowthWorks provides to us under a **Management Agreement** dated January 1, 1999:

- identifying investment opportunities which meet WOF's objectives and investment strategy;
- analyzing proposed investments;
- negotiating and structuring proposed investments;

- preparing and making recommendations for investments to the Advisory Council and the Investment Committee or the Board in accordance with the investment decision making process established by WOF;
- monitoring WOF's portfolio investments, which may include actively participating on investee companies' boards of directors and evaluating financial and other key performance indicators;
- regularly reporting to the Board on the investment portfolio; and
- recommending the appropriate timing, terms and methods of realizing on WOF's investments.

GrowthWorks also provides us with the following administrative services:

- devising and implementing a marketing strategy, in cooperation with the principal distributors;
- maintaining shareholder records (registrar, transfer agency, and "authorized depository" functions under the *Employee Investment Act*);
- preparing shareholder reporting information;
- overseeing securities administration;
- providing RRSP trust administration services as agent for the RRSP trustee;
- assisting with necessary filings under applicable securities legislation;
- providing administrative and support services to the Board, Board Committees and the Advisory Council;
- providing bookkeeping and accounting services; and
- providing office premises and telephone reception.

To facilitate GrowthWorks providing these services to the Fund and conducting business and transactions on the Fund's behalf, WOF and GrowthWorks entered into an **Authorization Agreement** dated January 1, 1999 which provides the Manager and its staff with the necessary authorizations to conduct business on behalf of the Fund.

Under the Management Agreement, WOF pays the Manager an annual management fee of:

- 2.8 % of net assets up to \$100 million in net assets,
- 2.6 % of the next \$100 million in net assets,
- 2.4 % of the next \$100 million in net assets, and
- 2.3 % of the net assets beyond \$300 million.

This fee is calculated and paid monthly on combined net assets related to both classes of Shares. The Manager reduces this annual management fee by any fees it receives from investee companies such as finders' fees, directors' fees and work fees.

The Manager can also earn a performance bonus equal to 20% of the returns on WOF's venture investment portfolio, net of associated direct expenses, above a threshold return of: 10% or the average 5 year GIC rate during the year plus 3%, whichever is greater. If the returns do not exceed the threshold in any given year, no amount will be payable and, furthermore, the difference below the threshold will be carried forward and deducted from the returns on WOF's venture investment portfolio in subsequent years.

The Manager, not the Fund, is responsible for paying the Fund's general operating expenses. However, in addition to paying the Manager the fees outlined above, the Fund pays applicable taxes, capital items and commissions.

All administration fees paid by WOF's shareholders are for the Manager's account.

The Management Agreement has an initial term of 5 years, and is renewable for additional 5 year terms. We may terminate the Management Agreement earlier if (i) the Manager is in breach or default of any of the provisions thereof and such breach has not been cured within 30 business days' notice; (ii) the Manager becomes bankrupt or insolvent; or (iii) after 3 years on written notice to the Manager. Termination will be effective 2 years after the date of notice of termination. The Manager may terminate the Management Agreement, if (i) WOF is in breach or default of any of the provisions thereof and such breach has not been cured within 30 business days notice; (ii) there is a fundamental change in the investment objectives, policies or restrictions of WOF; or (iii) after 3 years on written notice of termination to WOF. Termination will be effective 2 years after the date of termination notice. If the Management Agreement is terminated, WOF must promptly appoint a successor manager to carry out the management activities until a meeting of WOF's shareholders is held to confirm such appointment. Any successor manager will be subject to removal or termination in substantially the same manner as provided for in the Management Agreement.

Directors and Officers of the Manager

GrowthWorks' officers have many years of experience in making and managing venture capital investments in Canada. The names, municipality of residence and principal positions of each of GrowthWorks' directors and officers are:

<u>Name & Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Pat Brady, Vancouver, B.C.	Vice- President, Investments	Venture capital manager
Donna Bridgeman, Vancouver, B.C.	Senior Vice-President, Corporate Affairs and Vice-President, Investments	Venture capital manager
Jim Charlton, Vancouver, B.C.	Senior Vice-President, Investments	Venture capital portfolio manager
Derek Douglas, Richmond, B.C.	Senior Vice-President, Investments	Venture capital portfolio manager
Todd Farrell West Vancouver, B.C.	Vice-President, Investments	Venture capital manager
Milton Fong ⁽¹⁾ , Vancouver, B.C.	Controller	Accountant
Yad Garcha, Burnaby, B.C.	Senior Vice-President, Investments	Venture capital portfolio manager
Alex Irwin, W. Vancouver, B.C.	Senior Counsel	Lawyer

<u>Name & Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Hillar Kalmar, North Vancouver, B.C.	Senior Vice-President, Investment	Venture capital portfolio manager
David Levi ⁽¹⁾ , Vancouver, B.C.	Director and President	President of the Manager
Les Lyall Toronto, Ontario	Senior Vice-President	Senior Vice-President of the Manager
Murray Munro ⁽¹⁾ , Vancouver, B.C.	Senior Vice-President, National Sales, Marketing and Government Relations	Senior Vice-President, National Sales, Marketing and Government Relations, of the Manager
Michael E. Phillips, Vancouver, B.C.	Senior Vice-President, Investment	Venture capital portfolio manager

(1) These individuals also act as officers of WOF.

All of GrowthWorks' officers previously held the same office and/or principal occupation with WOF for the last five years except the following: Donna Bridgeman was Vice-President, Finance, WOF from 1996 to 1999. Pat Brady was principally employed as Director of Finance of DynaMotive Technologies from January 1996 to February 1998, and was an investment manager with WOF from March 1998 to January 1999 and then with GrowthWorks from January 1999 to June 2002. Derek Douglas was principally employed as a Senior Vice-President at Ventures West Management Inc. between November 1992 and June 1998. Todd Farrell was principally employed as Senior Product Manager, International Thomson Publishing from 1995 to 1998 and was an investment manager with WOF from 1998 to January 1999 and with GrowthWorks from January 1999 to June 2002. Milton Fong was principally employed as Controller of Family Insurance Group Ltd. between June 1992 and January 1999. Les Lyall was principally employed as President and CEO of BCS Technology Inc. from 1995 to 1998, Vice President of Overseas Globaltel Corp from 1998 to 1999, investment manager of GrowthWorks from 1999 to June 2002 and Vice-President, Investments of GrowthWorks from June 2002 to December 2002. Murray Munro was principally employed as Executive Director of the Western Brewers' Association between August 1997 and January 1998 and prior to that was a Director of a branch of the B.C. Ministry of Small Business, Tourism and Culture (and predecessor Ministries). From 1999 to December 2002, Mr. Munro was Senior Vice-President, Marketing and Operations of GrowthWorks. Alex Irwin is principally employed as a lawyer with Alex Irwin Law Corp., a member of "Irwin, White & Jennings, Barristers & Solicitors".

GrowthWorks' investment department also includes Rolf Dekleer, Zahra Mamdani and Joe Timlin as investment managers. As WOF continues to grow, GrowthWorks expects to hire additional qualified investment personnel.

Principal Distributors

WOF has engaged Canaccord Capital Corporation, Cartier Partners Securities Inc. and United Capital Securities Inc. as its principal distributors for the sale of Shares. Each of Canaccord, Cartier Partners and United have their head office in Vancouver, British Columbia.

Under the terms of an agency agreement dated August 27, 2001, WOF's principal distributors have agreed to use their best efforts to obtain subscriptions for Shares. They are allowed to retain sub-agents to assist them. The agency agreement terminates on 60 days notice of termination from one party to the others.

Brokerage Arrangements

The Fund has no formula, method or criteria for allocating brokerage business to persons or companies engaged in the distribution of Shares.

Custodian

Royal Bank of Canada is the custodian of WOF's portfolio securities. It is located at 1025 West Georgia Street, Vancouver, British Columbia, V6E 3N9.

Under a custodial agreement dated January 25, 1995, Royal Bank of Canada is the custodian of all securities owned by WOF. As custodian, Royal Bank of Canada is responsible for the safekeeping of such securities, and for collecting and receiving all income, principal, dividends and other distributions with respect to the property of WOF in its custody. Royal Bank receives fees in accordance with its standard fee schedule as determined by it from time to time. This agreement can be terminated on 90 days notice. Under the Management Agreement, WOF has designated the Manager to direct Royal Bank of Canada's handling of the securities.

Auditor

WOF's auditor is Hay & Watson. They are located in Vancouver, British Columbia. The auditor's responsibility is to determine that WOF's financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

Registrar

WOF acts as its own registrar. It keeps records of the owners of Shares, processes orders and issues account statements and tax slips to investors. Share certificates or electronic records representing Shares are deposited with WOF. WOF holds them in custody for eight years from the date of purchase. WOF holds the certificates and records under the terms of a depository agreement with the Province of British Columbia dated December 21, 1994. Under this agreement, the Fund is the authorized depository for Shares at the discretion of the administrator of the *Employee Investment Act*. The agreement may be cancelled on reasonable written notice.

The Sponsor

As required by the applicable tax credit legislation, WOF has a labour sponsor, Working Enterprises Ltd. The aim of Working Enterprises in sponsoring WOF is to provide B.C. residents with the opportunity to invest in a tax-assisted venture capital investment vehicle which may not otherwise be available to them. It also seeks to promote job creation and economic development in British Columbia.

Working Enterprises is owned equally by B.C. Federation of Labour, B.C. Government and Service Employees Union, Canadian Union of Public Employees, Health Sciences Association, International Longshoremen's and Warehousemen's Union, Office and Technical Employees Union and the United Steelworkers of America. Working Enterprises' shareholders represent approximately 460,000 employees in government and a variety of industries in British Columbia.

Working Enterprises holds one Share of WOF. The articles of WOF require that WOF have at least 11 directors. Members of the Board are to be elected or appointed on the following basis:

- a minimum of 2 directors are to be elected by the shareholders at WOF's annual general meeting,
- a minimum of 2 directors must be independent business persons or investment managers appointed by the Sponsor;
- the president of WOF is automatically appointed as a director; and
- sufficient additional directors are to be appointed by Working Enterprises as are necessary to equal 50% of the total number of directors plus one.

Working Enterprises has a 40% indirect interest in GrowthWorks Capital Ltd and a 50% indirect interest in United Capital Securities Inc., one of WOF's principal distributors of Shares.

Under British Columbia securities laws, Working Enterprises is regarded as the promoter of WOF.

Principal Holders of Securities

WOF

At the date of this annual information form, to our knowledge, no person owns more than 10% of any class or series of voting securities of WOF.

At the date of this annual information form, directors and senior officers of WOF, as a group, beneficially owned, directly or indirectly, or controlled approximately 23% of the outstanding voting securities of the Manager.

The Manager

At the date of this annual information form, the persons controlling more than 10% of the outstanding voting securities of GrowthWorks Ltd. are as follows:

<u>Name of Shareholder</u>	<u>Designation of Class</u>	<u>Type of Ownership</u>	<u>Number of Common Shares</u>	<u>Percentage of Common Shares</u>
David Levi	Common	Direct, Indirect, or Controlled	1,500,000	19.74%
Working Enterprises Ltd. ⁽¹⁾	Common	Direct, Indirect, or Controlled	3,039,000	40.00%

⁽¹⁾ For a description of the ownership of Working Enterprises Ltd., see the above section called *The Sponsor*.

The Manager, GrowthWorks Capital Ltd., is a wholly owned subsidiary of Growth Works Ltd. At the date of this annual information form, directors and senior officers of the Manager, as a group, beneficially owned, directly or indirectly, or controlled approximately 49.4% of the outstanding voting securities of GrowthWorks Ltd.

Working Enterprises Ltd. also owns 50% of the common shares of United Capital Group Ltd., which in turn owns 100% of the common and preferred shares of United Capital Securities Inc., one of WOF's principal distributors.

Fund Governance

General

WOF's board of directors has overall responsibility for overseeing the management of WOF. The Board has delegated certain responsibilities to its committees, the Manager and to the President. WOF has also created an Advisory Council composed of experienced, independent business persons who assist us in implementing our investment objectives. We discuss the roles of these bodies in the section called *Responsibility for Fund Operations* on page 21.

WOF and the Manager have established written and unwritten policies relating to the business, sales practices, risk management and internal conflicts of interest. WOF's Board is responsible to ensure that WOF's corporate governance policies are developed and maintained.

The Manager's services are not exclusive to WOF. However the following special provisions are included in our Management Agreement to protect WOF:

- for all investment opportunities the Manager sources that are "eligible investments" under the *Employee Investment Act*, WOF has the first right to participate in them, unless the Board has agreed to share those opportunities with other investors under co-investing arrangements;
- the Manager will not form or manage any other employee venture capital corporation which raises money from the same type of retail investors to whom WOF sells its Shares;
- the Manager will use its best efforts to ensure that WOF meets its investment schedule obligations for making Eligible Business Investments; and
- the Manager will adopt a compensation system for its investment managers which creates an equal degree of financial incentive, as between other interests, for them for managing WOF's investments.

Where a significant cost or other advantage to WOF can be obtained, WOF purchases services from some companies related to Working Enterprises Ltd. in the normal course of doing business. However, it is WOF's policy to have the Audit Committee review any significant dealings with any company related to Working Enterprises. All such dealings are subject to cancellation by the Audit Committee at any time. Members of the Audit Committee who are associates of Working Enterprises Ltd. abstain from voting on these matters. Dealings under the Management Agreement, which was approved by a special committee of independent Board members and by WOF shareholders, are not subject to this policy.

Use of Derivatives

Currently, the Board has adopted a policy that we will only use derivatives for hedging or risk reducing purposes. WOF's policy and practice is to only use derivatives which will reduce the risk associated with an investment it holds. Given this clear risk reduction policy, the Fund has not adopted further processes, procedures or trading controls aimed at managing additional derivative risk because using derivatives which involve taking such additional risk is not permitted.

Canadian Income Tax Considerations

In the opinion of McCarthy Tétrault, tax counsel to WOF, the following summary presents fairly the principal Canadian federal income tax considerations generally applicable to purchasers of Shares. Unless the context otherwise indicates, when we use the term "you", it means any eligible purchaser of Shares. See the section called *Purchases and Switches* on page 17. This summary assumes you

are a Canadian resident individual, hold Shares as capital property and deal at arm's length with WOF. It also discusses the consequences under the *B.C. Tax Act* as a result of WOF being registered under the *Employee Investment Act* as an employee venture capital corporation.

This summary is of a general nature only and is not exhaustive of all possible federal or British Columbia income tax considerations. It is based on:

- current provisions of the *Federal Tax Act* and the regulations thereunder;
- specific proposals for amendments to the *Federal Tax Act* and the regulations thereunder publicly announced prior to the date hereof;
- counsel's understanding of the current published administrative practices of Canada Customs and Revenue Agency; and
- the provisions of the *B.C. Tax Act* dealing with the B.C. Tax Credit and the income taxation of WOF and the *Employee Investment Act* as of the date hereof.

This summary does not take into account any provincial taxes, other than provincial income taxes imposed by the *B.C. Tax Act*, or any foreign income tax legislation or considerations. It does not take into account nor does it anticipate any changes in law, whether by legislative, governmental or judicial action after December 27, 2002. It is assumed that WOF will continue to be registered under the *Employee Investment Act* as an employee venture capital corporation. **You should consult with your own tax advisor about your particular tax situation.**

Federal Tax Act Considerations

Taxation of WOF

Calculation of Income and Taxes

WOF is a corporation resident in Canada which has a December 31 taxation year. It must calculate its income or loss for each taxation year, file income tax returns and pay its income tax liability. WOF is treated as a mutual fund corporation and also as a Canadian-controlled private corporation for the purposes of the *Federal Tax Act*.

Income tax rates can change. For its 2002 taxation year, WOF is subject to an effective combined Canadian federal and British Columbia provincial tax rate (including federal surtax) of approximately 49.28% on its interest and other investment income (other than dividends from taxable Canadian corporations) and approximately 39.62% on its business income. The rate on business income will change for WOF's 2003 taxation year to approximately 37.62%. Taxable capital gains are subject to a rate of approximately 49.28% for the 2002 and 2003 taxation years. See *Capital Gains and Losses*. All of the tax paid by WOF on taxable capital gains and part of the tax payable by WOF on investment income will be refundable in certain circumstances. See below.

WOF may also be liable for large corporations tax imposed under the *Federal Tax Act*. The tax is calculated as 0.225% of taxable paid-up capital which in turn is reduced by an allowance for investments made by WOF in debt obligations and shares of certain corporations.

Dividends

Any dividends declared on shares of taxable Canadian corporations will be received by WOF free of tax. No tax will be payable by WOF on any dividends paid by WOF.

Capital Gains and Losses

WOF has elected in accordance with the *Federal Tax Act* to have each of its Canadian securities treated as capital property. This is expected to ensure that gains or losses realized by WOF on the sale of Canadian securities are taxed as capital gains or capital losses.

When WOF sells, or otherwise disposes of a capital property, it will realize a capital gain to the extent the proceeds of disposition exceed WOF's adjusted cost base of the property and any costs of disposition. A capital loss results if these proceeds are less than the adjusted cost base and any costs of disposition. One-half of a capital gain ("taxable capital gain") will be included in computing income and one-half of any capital loss ("allowable capital loss") may be deducted against taxable capital gains.

WOF maintains a capital gains dividend account under the *Federal Tax Act*. WOF can receive a capital gains refund if it pays (or is deemed to have paid) capital gains dividends or redeems Shares.

Interest and Other Investment Income

WOF must include interest and investment income (other than dividends), net of expenses, in calculating its taxable income. As a private corporation, WOF is eligible for a refund of a portion of the tax paid by it on its income when it pays or is deemed to have paid taxable dividends to its Shareholders. The amount of the refund available to WOF in any taxation year is limited to the lesser of:

- (a) one-third of the taxable dividends paid by it in the year to its shareholders; and
- (b) its refundable dividend tax on hand at the end of the year.

Generally speaking, the refundable dividend tax on hand account is a cumulative amount equal to a portion of the non-refunded income tax paid on WOF's interest and investment income, other than capital gains, determined in accordance with detailed rules in the *Federal Tax Act*.

Dividend Refunds and Capitalization of Income

WOF expects to capitalize annually, by adding to its paid-up capital, all or part of its net capital gains and interest and other investment income to minimize income taxes payable by WOF. WOF has elected to maintain a separate paid-up capital account for each class and series of its Shares and may continue to add additional amounts to each account by special resolution in addition to those amounts required by the *Employee Investment Act*.

If and to the extent that WOF increases the paid-up capital of its Shares as discussed above, you will be deemed to have received a dividend equal to the amount of the paid-up capital increase in respect of your Shares. The deemed dividend will be subject to the treatment generally applicable to dividends or capital gains dividends, as the case may be, paid on the Shares.

See below under the section called *Taxation of Shareholders - Dividends*.

The amount of any dividend or capital gains dividend may entitle WOF to a refund of tax otherwise payable on its realized capital gains and other investment income. See the sections above called "Capital Gains and Losses" and "Interest and Other Investment Income".

Potential Penalty Taxes Applicable to WOF

The *Federal Tax Act* provides that a provincially registered labour sponsored venture capital corporation such as WOF will only be liable to pay a federal penalty tax for the failure to meet certain investment guidelines if and when the labour sponsored venture capital corporation is subject to a penalty under the provincial legislation under which it is registered. WOF will not be liable for any such federal penalties because the *Employee Investment Act* does not provide for any penalties to be imposed in the event that investment restrictions are not met.

Taxation of Shareholders

Federal Tax Credit Available to an Individual Purchaser (not an RRSP)

When you buy Shares, you receive a **Federal Tax Credit** equal to 15% of your net cost of Shares up to \$750 annually. Generally, your net cost of Shares is the price you paid for them. The amount of the Federal Tax Credit or B.C. Tax Credit does not reduce the net cost of the Shares.

You can deduct the Federal Tax Credit from the federal income tax you would otherwise have to pay. If you buy Shares during the first 60 days of any calendar year, you can choose to claim for part of or all of your Federal Tax Credit to apply to the previous tax year or instead you can use them for the tax year you bought them in. To claim a Federal Tax Credit for 2002 and subsequent years, you must file with your tax return the document issued to you by WOF evidencing your purchase of Shares.

You are limited to deducting a maximum Federal Tax Credit of \$750 for any single taxation year. The \$750 annual limit refers to all labour-sponsored funds tax credits including the Federal Tax Credit in respect of your Shares. The Federal Tax Credit is not a taxable benefit or income to you. Except for the limited circumstance of buying Shares in the first 60 days of the calendar year, you cannot carry forward or carry back the Federal Tax Credit. Any excess Federal Tax Credit is not refundable. Therefore you should carefully calculate your federal taxes payable to ensure the Federal Tax Credit from buying Shares is fully utilized. A Federal Tax Credit may also affect the calculation of the amount of tax instalments or employee withholdings required by the *Federal Tax Act* for the taxation year to which the Federal Tax Credit relates.

The deductibility of the Federal Tax Credit may be adversely affected by the calculation of alternative minimum tax. See below the section called *Minimum Tax*.

The RRSP as a Purchaser

You may, in limited circumstances, also be able to receive the Federal Tax Credit if your RRSP or a spousal RRSP (of which your spouse or common-law partner is the annuitant) buys the Shares. You will be entitled to the Federal Tax Credit if your RRSP acquires the Shares provided that your spouse or common-law partner has not made a contribution to your RRSP or to an RRSP which transferred funds to your RRSP. You will also be entitled to the Federal Tax Credit even if your spouse or common-law partner contributed funds to your RRSP or to another RRSP that transferred funds to your RRSP provided that no other person claims a tax credit. Similarly, if you contribute to an RRSP under which your spouse or common-law partner is the annuitant which acquires Shares, you will be entitled to the Federal Tax Credit provided that no other person claims the tax credit.

If you contribute to an RRSP, you may claim a deduction for 2002 in respect of contributions of up to 18% of your earned income in 2001, subject to a maximum of \$13,500 (which amount may be reduced for members of a registered pension plan or deferred profit sharing plan). The contribution limit will increase to \$14,500 in 2004, \$15,500 in 2005 and thereafter \$15,500 indexed by the growth in the average wage in Canada. You can carry forward any unused allowable RRSP contribution

room for 1991 and subsequent taxation years and add them to the contribution limits for subsequent years.

No Federal Tax Credit is available if a RRIF subscribes for Shares.

The Shares as a Qualified Investment for an RRSP or RRIF

A Share is a qualified investment for an RRSP or RRIF provided that, immediately after the time the Share was acquired by the RRSP or RRIF, the annuitant under the plan or fund is not a connected shareholder of WOF. Generally speaking, a connected shareholder is a person who, together with any non-arm's length persons, owns or has options to acquire 10% or more of the issued Shares of any class or series. This 10% rule will not apply if the aggregate cost amount of the holdings of the RRSP or RRIF and its annuitant and non-arm's length persons do not exceed \$25,000 and the annuitant deals at arm's length with WOF.

The income tax consequences to you of holding your Shares through an RRSP and of either transferring shares to such RRSP or causing the RRSP to acquire the Shares directly depend on your particular situation. You are encouraged to consult your own professional tax advisor as to the particular income tax consequences to you of any arrangements whereby Shares are held by RRSPs or RRIFs.

The Shares are Not Foreign Property

Shares of WOF are not "foreign property" for purposes of the *Federal Tax Act* as long as the cost amount to WOF of all foreign property held by WOF does not exceed 30% of the total cost amount of all property held by it at any time.

3 for 1 Foreign Property Bump

Your RRSP or RRIF can increase its ownership of "foreign property" if your RRSP or RRIF buys Shares.

A 1% penalty tax will be payable monthly if, at the end of a month, the "cost amount" (generally the adjusted cost base) of "foreign property" of your plan exceeds 30% of the cost amount of the plan's property. However, the 30% limit on foreign property is increased to a possible 50% for RRSPs and RRIFs which also hold "small business properties". Shares of WOF constitute "small business properties" provided you or your spouse or your RRSP or RRIF or your spouse's RRSP or RRIF is the first owner of the Shares. A RRSP or a RRIF may hold \$3 of additional foreign property for a particular month for every \$1 of the greater of the plan's total cost amount of "small business properties" at the end of that month and the amount of the average cost amount of holdings of small business properties at the end of the three immediately preceding months. The maximum additional room for foreign property ownership is 20% of the aggregate cost amount of the RRSP's or RRIF's assets ("20% additional cap").

The cost amount of a property is generally equal to its adjusted cost base. Certain events can increase the adjusted cost base of a property. For example, the adjusted cost base of Shares will be increased by the amount of any dividends deemed to be received when WOF capitalizes its earnings. See below *Taxation of Shareholders – Dividends*.

Here's some examples of how the additional foreign property rules work for a RRSP or a RRIF which holds assets with a tax cost of \$100,000. These examples assume that the only "small business properties" are Shares and that the plan's total cost amount of Shares at the end of that month is greater than the amount of the average cost amount of holdings of Shares at the end of the three immediately preceding months.

Cost amount of Shares held in the RRSP/RRIF at the end of the month	Standard 30% Limit	Additional room due to small business property holdings	Total Foreign Property Limit
\$3,500.00	30%	3 x 3,500 = 10,500 = 10.5%	40.5%
\$6,666.67	30%	3 x 6,666.67 = 20,000 = 20%	50%
\$10,000.00	30%	3 x 10,000 = 30,000 = 30% but <u>20% additional cap</u> applies	50%

Transfer of Shares to an RRSP and RRIF

You may transfer Shares to an RRSP under which you or your spouse is the annuitant. When you transfer Shares to an RRSP, you may treat the fair market value on the date of transfer of the Shares as a contribution to the RRSP. The contribution will be deductible in accordance with provisions of the *Federal Tax Act* subject to annual limits. This deduction is in addition to the Federal Tax Credit. WOF believes that the fair market value of a Share will be the Net Asset Value per Share determined by WOF and set out in the most recent monthly valuation. Canada Customs and Revenue Agency does, however, have the right to review the fair market value of a Share. If you transfer Shares, you have to include in your income any proceeds received from an RRSP as consideration for the Share in excess of fair market value.

If you buy Shares during the first 60 days of 2002 and then transfer them to an RRSP during that period as a contribution, you may elect to apply, in respect of either the 2002 taxation year or the 2003 taxation year, the amount permitted to be deductible as a contribution in accordance with provisions of the *Federal Tax Act*.

On the transfer of Shares to an RRSP, you will be deemed to have received proceeds equal to the fair market value of the Shares at the date of transfer. If this amount is greater than your adjusted cost base of the Shares, the excess will be a capital gain. Special rules in the *Federal Tax Act* prevent you from realizing a capital loss on the transfer. The rules applicable to the calculation of capital gains and losses generally are more fully discussed below in the section called *Taxation of Shareholders - Disposition of Shares*.

If you borrow money to buy Shares which you then contribute to an RRSP, you cannot deduct the related interest expense once the Shares are transferred to an RRSP. See *Deduction of Interest on Borrowed Money*.

The *Federal Tax Act* contains general rules that govern transfers or swaps into RRIFs. Subsequent transfers of Shares to a RRIF by the RRSP may be permitted within the parameters set out in the *Federal Tax Act*.

Shares Held by an RRIF

Under the *Federal Tax Act*, there are a number of rules which require a minimum percentage of the assets of an RRIF to be withdrawn in each year. You must plan such RRIF's investments in such a way as to allow withdrawal of the required amount in each year. Because of the restrictions placed on the redemption of the Shares by WOF, an annuitant of an RRSP may be unable to withdraw the required amount in cash. If sufficient liquid assets are not available in the RRIF to make the necessary annual withdrawal, then a portion of the Shares may have to be withdrawn in lieu of cash.

LIFs, LIRAs and LRIFs

The Shares will also be qualified investments for purposes of a locked in retirement account (“LIRA”) which qualifies as an RRSP for purposes of the *Federal Tax Act* subject to the terms and conditions of the LIRA. The Shares will also be qualified investments for a life income fund (“LIF”) and a locked in retirement income fund (“LRIF”) which qualifies as an RRIF for purposes of the *Federal Tax Act*, subject to the terms and conditions of the LIF and LRIF. You should consult with your own professional tax advisor regarding the terms and conditions of such plans and the qualification of such plans as an RRSP or RRIF for purposes of the *Federal Tax Act*.

Liability to Repay Federal Tax Credit

(a) Shares Purchased Prior to May 30, 2002

Normally, investors in labour sponsored funds are liable to repay the amount of any federal tax credit received on the purchase of shares of the labour sponsored fund when they sell or otherwise dispose of the shares. However, you will not be liable to repay the Federal Tax Credit when you sell or otherwise dispose of your Shares of WOF. This is because you don’t have to repay the Federal Tax Credit if you don’t have to repay the B.C. Tax Credit. You will not be liable to repay the B.C. Tax Credit because a Share cannot be disposed of within 8 years of its issue date except in cases involving a “trust disposition” and a “hardship disposition”. In the case of a “trust disposition” or “hardship disposition”, no liability to repay the B.C. Tax Credit arises, so no corresponding liability to repay the Federal Tax Credit occurs. These types of dispositions are described on page 40.

(b) Shares Purchased On or After May 30, 2002

Amendments to the *Employee Investment Act* which came into force on May 30, 2002 provide that the definition of “hardship disposition” is deleted from the *Employee Investment Act* applicable to Shares acquired on or after May 30, 2002. Because of the rights attached to the Shares in the Fund’s constating documents, shareholders will continue to be entitled to redeem their Shares prior to the expiration of 8 years from the date of purchase if their circumstances amount to a “hardship disposition”. However, Shareholders who purchase Shares after May 30, 2002 will be liable to repay the B.C. Tax Credit and therefore the Federal Tax Credit for an early redemption of such Shares occasioned by a “hardship disposition”. In the case of a “trust disposition”, no liability to repay the B.C. Tax Credit arises, so no corresponding liability to repay the Federal Tax Credit occurs. These types of dispositions are described on page 40.

Fees

You may deduct new account administration fees and additional investment administration fees in respect of the taxation year in which such fees are paid so long as the amounts of the fees are reasonable in the circumstances and are not in respect of an RRSP or RRIF. You cannot deduct any fees if the Shares are purchased directly by an RRSP of which you or your spouse is the annuitant. You may treat early redemption fees as an expense of disposition in respect of the taxation year in which the redemption of Shares occurs. The early redemption fee will accordingly reduce any capital gain or increase any capital loss otherwise determined on the redemption of a Share. You are not entitled to deduct WOF RRSP trustee fees.

Deduction of Interest on Borrowed Money

If you borrow money to buy Shares, the interest on the loan will ordinarily be deductible for income tax purposes provided the Shares are owned by you for the purpose of earning income. If you contribute Shares purchased with borrowed funds to an RRSP, the interest expense relating to the period following the contribution will not be deductible. If you sell Shares purchased with borrowed funds to an RRSP or RRIF, the ability to deduct the interest expense after the transfer will depend on

whether the proceeds of the disposition are used for the purpose of earning income. You should consult with your own professional tax advisors to determine when interest paid on money borrowed to acquire Shares will be deductible in your particular circumstances.

Dividends

If you hold your Shares outside an RRSP or RRIF, cash or stock dividends (other than capital gains dividends) paid on Shares and received by you must be included in computing your income subject to the gross-up and dividend tax credit rules in the *Federal Tax Act*. A capital gains dividend received by you will generally be deemed to be a capital gain for the year in which the dividend is received subject to certain transitional rules if the capital gains dividend is treated as being paid from capital gains realized by WOF before February 28, 2000. Currently, you have to include one-half of any capital gains as taxable gains in your income for determining how much tax you have to pay. The taxable capital gain is not eligible for the lifetime capital gains exemption. **You should consult with your own tax advisor about your particular tax situation.**

If and to the extent that WOF increases the paid-up capital of its Shares as discussed above, you will be deemed to have received a dividend equal to the amount of the paid-up capital increase in respect of your Shares. The deemed dividend will be subject to the treatment generally applicable to dividends or capital gains dividends, as the case may be, paid on the Shares. You will not receive any cash distribution in respect of a deemed dividend or a deemed capital gains dividend. As a result, if you hold your Shares outside an RRSP or RRIF, you may be liable to pay income tax in respect of the deemed dividend or a deemed capital gains dividend even though you will not have received a cash distribution from WOF with which to pay the tax. A RRSP or a RRIF is exempt from income tax on the amount of any dividend or capital gains dividend deemed to have been received by the RRSP or RRIF.

Disposition of Shares

In general, a disposition or a deemed disposition of Shares which are capital property will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Shares exceed (or are less than) your adjusted cost base of the Shares and any costs of disposition. The Federal Tax Credit and the B.C. Tax Credit will not reduce the adjusted cost base of the Shares. Your adjusted cost base will be increased by the amount of any dividends you are deemed to have received when WOF capitalizes its earnings. See the section above called *Taxation of WOF*.

The capital loss that would otherwise arise on the disposition of Shares will be reduced by the amount of the Federal Tax Credit and B.C. Tax Credit you (or a person with whom you do not deal at arm's length with) received in respect of your Shares to the extent that such tax credits have not previously reduced a capital loss in respect of the Shares.

Currently, you have to include one-half of any capital gains as taxable capital gains in your income. The taxable capital gain is not eligible for the lifetime capital gains exemption. One-half of any capital loss (the "allowable capital loss") may normally be deducted in computing your income for the current year or taxable income for the three preceding or for future years (in accordance with rules contained in the *Federal Tax Act*) to the extent of taxable capital gains.

If your RRSP or RRIF holds the Shares, the amount of taxable capital gains is exempt from income tax when realized by the RRSP or RRIF.

If you convert Balanced Shares into Growth Shares or vice versa, you will not be considered to have disposed of the Shares converted for the purposes of the *Federal Tax Act*. Your cost of Shares received on the conversion will be deemed to be your adjusted cost base of the Shares which were converted and must be averaged with the adjusted cost base of any other Shares you own of the class

into which the Shares were converted. If you convert into another class of Shares and hold Shares of that class on December 31 of that year, and WOF capitalizes its earnings, you will be deemed to have received a dividend and/or capital gains dividend to the extent the paid-up capital of the Shares is increased. See the above section called *Taxation of Shareholders – Dividends*. The amount of the dividend or the capital gains dividend may reflect income or gains for that class of Shares for the entire year even though you held that Shares of that class for only part of the year.

Redemption of Shares

If you redeem Shares, the proceeds you receive will be treated as proceeds of a disposition of the Shares and you will realize a capital gain (or capital loss) equal to the amount by which the redemption proceeds exceed (or are less than) your adjusted cost base of the Shares and any costs of disposition. See *Taxation of Shareholders - Disposition of Shares*.

Capital Gains Exemption

The *Federal Tax Act* provides for a \$500,000 exemption from tax for qualifying post-1984 net capital gains of an individual resident in Canada arising on certain qualified small business corporation shares as defined in the *Federal Tax Act*. The Shares do not constitute qualified small business corporation shares so the \$500,000 exemption will not apply.

Minimum Tax

Dividends and capital gains dividends received from WOF and capital gains realized on the disposition of Shares may be subject to alternative minimum tax. The Federal Tax Credit cannot be used to reduce your liability for alternative minimum tax. Your ability to deduct the Federal Tax Credit may be adversely affected if minimum tax exceeds your regular tax.

British Columbia Provincial Income Tax Considerations

Employee Investment Tax Credit

When you buy Shares individually or through an RRSP, you will receive a **Tax Credit Certificate** under the *Employee Investment Act* that allows you to deduct from your B.C. income taxes otherwise payable an amount equal to 15% of the amount you paid to WOF for your Shares subject to an aggregate annual limit of \$2,000 for investments in shares issued by employee venture capital corporations and under an employee share ownership plan registered under the *Employee Investment Act*. No B.C. Tax Credit is available to a RRIF which subscribes for Shares. You can choose to deduct your B.C. Tax Credit against tax otherwise payable under the *B.C. Tax Act* for either the taxation year in which you buy the Shares or the taxation year ending within the preceding 60 days, after deducting certain other tax credits available under the *B.C. Tax Act*. You cannot obtain a refund in respect of any unutilized B.C. Tax Credit and such B.C. Tax Credit cannot be carried forward. Therefore you should carefully calculate your federal taxes payable to ensure the B.C. Tax Credit from buying Shares is fully utilized.

British Columbia income tax otherwise payable by individuals is calculated as a percentage of taxable income calculated under the *Federal Tax Act*. Deductions claimed by an individual in respect of a taxation year pursuant to the *Federal Tax Act* will reduce the B.C. income tax otherwise payable but tax credits claimed under the *Federal Tax Act*, such as the Federal Tax Credit, will not reduce B.C. income tax otherwise payable.

An income tax return must be filed with a copy of the Tax Credit Certificate within three years of the end of the taxation year to which the B.C. Tax Credit pertains to obtain the B.C. Tax Credit.

A B.C. Tax Credit may affect the calculation of the amount of tax instalments or employee withholdings required by the *B.C. Tax Act* for the taxation year to which the B.C. Tax Credit relates.

Tax Credit Certificate

WOF will apply on your behalf, as a purchaser of Shares, for a Tax Credit Certificate entitling you to a B.C. Tax Credit. If you are a B.C. resident and the annuitant under an RRSP, you will be entitled to the B.C. Tax Credit in respect of the acquisition of Shares by the RRSP. Where Shares are acquired by a spousal RRSP under which your spouse is the annuitant, you or your spouse may claim the B.C. Tax Credit provided you are also a beneficiary of that RRSP.

If the Minister of Finance and Corporate Relations approves the application made by WOF and the Administrator under the *Employee Investment Act* is satisfied about certain conditions, counsel to WOF understands that the Administrator will issue a Tax Credit Certificate to you (subject to the requirement that if you are the contributor to a spousal RRSP, you are also designated as the beneficiary of that spousal RRSP). The conditions require that:

- (a) WOF, its directors, officers and its shareholders are conducting the business or affairs of WOF in a manner that is not contrary to the spirit and intent of the *Employee Investment Act*, whether or not there has been a contravention of the *Employee Investment Act*. WOF is not aware of any act or omission that would cause the Administrator to withhold the issuance of Tax Credit Certificates on this basis;
- (b) WOF and its Eligible Investors are complying with WOF's employee venture capital plan (the "**Plan**") and any conditions pertaining to it;
- (c) the Shares have been acquired in accordance with the Plan;
- (d) other than where prescribed, the Shares do not constitute a type of security that entitles you in respect of the acquisition of those Shares,
 - (i) to claim a tax credit under the *B.C. Tax Act* or the *Federal Tax Act*, other than under section 13.1 of the *B.C. Tax Act* or section 127.4 of the *Federal Tax Act*, against tax payable,
 - (ii) to claim a deduction from income under the *B.C. Tax Act* or the *Federal Tax Act*, or
 - (iii) to receive any other financial assistance from any government, municipality or public authority;
- (e) no B.C. Tax Credit or Federal Tax Credit has been previously allowed for those Shares under the *B.C. Tax Act* or the *Federal Tax Act*; and
- (f) the sum of your aggregate entitlements in respect of all Tax Credit Certificates applied for in the year is \$2,000 or less.

The Lieutenant Governor-in-Council may, in respect of any year, prescribe the maximum annual amount of B.C. Tax Credits to be granted by the Administrator to participants in employee share ownership plans and shareholders of employee venture capital corporations registered under the *Employee Investment Act*. In press releases dated May 14, 2002 and June 21, 2002, the Province has stated that the annual maximum amount of tax credits available for employee capital corporations will be maintained at \$12 million.

Amendments to the *Employee Investment Act* were made on May 30, 2002. Under these amendments, the Province can adopt regulations that:

- subdivide the annual maximum tax credit amount into smaller annual maximum amounts (that may differ from each other),
- specify criteria which may differentiate among corporations registered under the *Employee Investment Act* on any basis the Province considers appropriate,
- allocate those smaller annual maximum amounts among corporations according to the criteria which apply to them, and
- authorize the administrator under *Employee Investment Act* to, in circumstances and on conditions that may be prescribed, reallocate amounts set by the regulation regardless of which prescribed criteria apply to the corporations.

Additionally, the proposed amendments empower the administrator under *Employee Investment Act* to reduce a particular corporation's already issued approvals to raise equity capital if the approved amount exceeds the amounts for the annual maximum or the smaller annual maximum amounts for corporations meeting criteria established under the regulations or as a result of the administrator making a reallocation under the regulations, with effect as of the effective date of the regulation or reallocation (as the case may be).

Liability to Repay B.C. Tax Credit

In certain circumstances, the directors, officers, members of a group of persons that controls a corporation or a registered holder of Shares who controls a corporation that is or was an employee venture capital plan may be liable under the *Employee Investment Act* to pay to the British Columbia government an amount equal to or less than the B.C. Tax Credit previously issued in respect of the issue of Shares.

There are other circumstances in which you, or others who purchase Shares from you, will be liable to repay the B.C. Tax Credit. The following are the circumstances and the required amount of the repayment:

- (a) If you receive, directly or indirectly, the benefit of all or part of a B.C. Tax Credit when you are not entitled, you have to pay the amount of the excessive benefit immediately to the Minister of Finance and Corporate Relations.
- (b) If you received a B.C. Tax Credit and dispose of the beneficial interest in respect of Shares acquired within five years from when you acquired the Shares, you will have to repay or cause to be repaid to the Minister of Finance and Corporate Relations an amount equal to the B.C. Tax Credit allowed under section 13.1 of the *B.C. Tax Act*, in respect of those Shares, or a lesser amount in prescribed circumstances. This amount is reduced if you receive or become entitled to total consideration that is less than that for which the Shares were issued. The Administrator, however, has discretion to determine that the amount should be higher in some cases.
- (c) If you acquire beneficial ownership in the Shares pursuant to a disposition referred to in paragraph (b), you are jointly and severally liable to make the repayment referred to in paragraph (b) with the original purchaser of the Shares who received the B.C. Tax Credit and who disposes of them.

WOF is only liable to repay the B.C. Tax Credit where a person who acquires the Shares or the beneficial ownership in the Shares pursuant to a disposition referred to in paragraph (b) is an associate or an affiliate of WOF. WOF is then jointly and severally liable with the persons referred to in paragraphs (b) and (c) to make the repayment referred to in paragraph (b).

Liability will not arise in any of the above circumstances where:

- (a) the disposition is a trust disposition;
- (b) the disposition is a hardship disposition of Shares purchased prior to May 30, 2002;
- (c) the shares disposed of were acquired by the Shareholder under a hardship disposition prior to May 30, 2002; or
- (d) a tax credit repayment had previously been made in respect of the Shares disposed of.

A trust disposition occurs where there is a disposition of a Share:

- (a) to a trust for which the transferor or the transferor's spouse is the annuitant or beneficiary;
- (b) from a trust to the annuitant or beneficiary of the trust;
- (c) from one trust to another if both trusts have the same annuitant or beneficiary;
- (d) from one trust to another trust if the annuitant of the trust receiving the Share is the spouse of the annuitant of the trust disposing of the Share; or
- (e) in other prescribed circumstances (there are no other circumstances applicable to WOF at this time).

A trust means:

- (a) a trust governed by a registered retirement savings plan as defined in the *Federal Tax Act*;
- (b) a trust governed by a registered retirement income fund as defined in the *Federal Tax Act*;
- (c) a trust, in a form and on terms approved by the Administrator, established for the purpose of acquiring or holding shares issued under a Plan; and
- (d) other prescribed trusts (there are no prescribed trusts applicable to WOF at this time).

For discussion of the "hardship disposition" rules, see the section on Early Redemption on page 20.

The Administrator has further advised that if you hold Shares in an RRSP, then early redemption of Shares on the basis of a hardship disposition will require the redemption proceeds to be concurrently withdrawn from the RRSP with the usual income tax consequences. Generally speaking, the annuitant, or in limited cases, the contributor to the RRSP will be required to include the amount withdrawn from the RRSP in income for the year of receipt. However, in the case of death, the fair market value of the Shares is included in your income unless your RRSP transfers the Shares to your surviving spouse, the spouse's RRSP or certain other beneficiaries or their RRSP's in accordance with the *Federal Tax Act*.

Amendments to the *Employee Investment Act* which came into force on May 30, 2002 provide that the definition of "hardship disposition" is to be deleted from the *Employee Investment Act*, but that certain provisions dealing with hardship dispositions will be "grandfathered" for Shares purchased prior to the amendments. This means that for all Shares purchased prior to May 30, 2002, shareholders will not be required to repay tax credits on redemptions permitted as a result of a "hardship disposition". After the amendments came into effect on May 30, 2002, holders of Shares will still have to hold their Shares for a minimum of 8 years, but because of the restrictions attached to the Shares in the Fund's constating documents, and despite the changes to the *Employee Investment Act*, will continue to be entitled to redeem if circumstances amount to a "hardship disposition". However, because of the amendments to the *Employee Investment Act*, shareholders who purchase Shares after May 30, 2002 will be required to repay all tax credits received on the purchase on those Shares if the subsequent redemption of their Shares would have previously been considered a "hardship disposition".

Tax Effects of the B.C. Tax Credit Under the Federal Tax Act

As a result of the qualification of WOF as a prescribed labour sponsored venture capital corporation for the purposes of the *Federal Tax Act*, you will not be required to reduce your adjusted cost base of your Shares, as otherwise determined, by the amount of the B.C. Tax Credit. In addition, you will not be required to include the amount of the B.C. Tax Credit in your income. The amount of a loss arising from a disposition of your Shares, as otherwise determined under the *Federal Tax Act*, will, however, be reduced by the amount of B.C. Tax Credit you receive. Any property you substitute for your Shares will be subject to a similar loss reduction calculation in respect of the B.C. Tax Credit.

Provincial Taxation of WOF

For the purposes of provincial corporate income tax, WOF's aggregate income will be attributed to, and taxable in, those provinces in which it is earned. The taxation of WOF under the *B.C. Tax Act* will parallel the federal tax treatment discussed above in the section called *Federal Tax Act Considerations - Taxation of WOF*. The amount of the British Columbia income tax refundable to WOF by virtue of a capital gains refund will depend on the percentage of WOF's taxable income earned in British Columbia relative to WOF's entire income for the taxation year.

Material Contracts

WOF has entered into the following contracts which may be material to investors:

- (a) the agency agreement referred to in the section called *Responsibility for Fund Operations – Principal Distributors* on page 27;
- (b) the co-investment agreements referred to in the section called *Other Material Information* on page 43;
- (c) the custodian agreement referred to in the section called *Responsibility for Fund Operations - Custodian* on page 28;
- (d) The depository agreement referred to in the section called *Responsibility for Fund Operations – Registrar* on page 28;
- (e) The employee venture capital plan referred to in the section called *Investment Restrictions – Employee Venture Capital Plan* on page 4;
- (f) The government agreement and the amendment referred to in the section called *Name, Formation and History of WOF* on page 2;
- (g) The investment protection account agreement referred to in the section called *Investment Restrictions – Investment Protection Account* on page 5; and
- (h) The management agreement and the authorization agreement referred to in the section called *Responsibility for Fund Operations – The Manager - GrowthWorks Capital Ltd.* on page 24.

Copies of the above contracts may be inspected during regular business hours at our offices.

Other Material Information

Co-Investment Agreements

Investing in young, entrepreneurial businesses is risky. Often these businesses are on a course of rapid development and require large amounts of capital. We seek to co-invest with other venture investors to diversify risk, provide our investee companies with access to additional capital sources, and enhance our investment opportunities. To this end, we have entered into the following co-investment agreements:

- *Pacific Venture Fund Limited Partnership* – The Pacific Venture Fund Limited Partnership (“PVF”) is a limited partnership, whose managing general partner is an affiliate of the Manager, which emphasizes investing in, and providing venture capital and mezzanine financing to, later stage companies. WOF has agreed to co-invest up to \$35 million alongside the PVF in those kinds of investment opportunities under an agreement dated July 14, 2000, as amended. Unless otherwise agreed, this agreement terminates on the earlier of July 14, 2006 and the sale of the last investment made pursuant to this agreement.
- *GrowthWorks Technology and Biotech Funds* – WOF has entered into a co-investment agreement dated July 19, 2000, as amended, with GrowthWorks Ltd. the parent company of the Manager, under which WOF will co-invest up to \$30 million with new technology funds established and managed by GrowthWorks Ltd. or any of its subsidiaries and up to \$30 million with new biotechnology funds established and managed by GrowthWorks Ltd. or any of its subsidiaries.

Under these co-investment agreements, all eligible investment opportunities will be shared proportionately based on the committed capital of the co-investing participants. Members of the Manager’s investment team and support staff will be employed by the managers of other GrowthWorks funds. Each manager compensates its employees directly based on the services provided.

Exemptions and Approvals

WOF has been given an exemption from section 2.1 of National Instrument 81-105 to permit it to directly pay sales commissions and other costs associated with the distribution of its Shares.

Certificate of the Fund, Manager and Promoter

December 27, 2002

This annual information form, the financial statements of Working Opportunity Fund (EVCC) Ltd. for the financial period ended December 31, 2001 and the auditors' report on those financial statements, together with the simplified prospectus required to be sent or delivered to a purchaser during the currency of this annual information form, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus and do not contain any misrepresentation.

WORKING OPPORTUNITY FUND (EVCC) LTD.

“David Levi”
D. LEVI
President and Chief Executive Officer

“Milton Fong”
M. FONG
Chief Financial Officer (Acting)

On behalf of the Board of Directors

“Ken Neumann”
K. NEUMANN
Director

“Graeme McFarlane”
G. MCFARLANE
Director

GROWTH WORKS CAPITAL LTD.

as Manager

“David Levi”
D. LEVI
President and Chief Executive
Officer

“Milton Fong”
M. FONG
Controller

On behalf of the Board of Directors

“David Levi”
D. LEVI
Director

WORKING ENTERPRISES LTD.

as Promoter

“David Levi”
D. LEVI
President

Certificate of the Principal Distributors

December 27, 2002

To the best of our knowledge, information and belief this annual information form, the financial statements of Working Opportunity Fund (EVCC) Ltd. for the financial period ended December 31, 2001 and the auditors' report on those financial statements, together with the simplified prospectus required to be sent or delivered to a purchaser during the currency of this annual information form, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus and do not contain any misrepresentation.

CANACCORD CAPITAL CORPORATION

“Michael G. Greenwood”
Michael G. Greenwood

CARTIER PARTNERS SECURITIES INC.

“Jack Buckingham”
Jack Buckingham

UNITED CAPITAL SECURITIES INC.

“Brian Worth”
Brian Worth

This Annual Information Form provides important information concerning:

(LOGO)

WORKING OPPORTUNITY FUND (EVCC) LTD.

Balanced Shares

Growth Shares

You can find additional information about Working Opportunity Fund (EVCC) Ltd. in its financial statements. If you have questions or want a free copy of the annual information form and financial statements, call us at 1.800.563.3863 or ask your dealer or Investment Advisor. You can also find most of these documents on our website at www.wofund.com.

These documents and other information about WOF, such as information circulars and material contracts, are also available at www.sedar.com.

Manager of the Fund:

GROWTHWORKS CAPITAL LTD.

2600-1055 West Georgia

P.O. Box 11170 Royal Centre

Vancouver, British Columbia V6E 3R5

Telephone: (604) 688-9631 Fax: (604) 669-7605

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