

# **VBA Canadian Partners' Fund**

Annual Report

**December 31, 2004**

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# MESSAGE TO INVESTORS

## VBA Canadian Partners' Fund

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We are pleased to present the 2004 Annual Report statements for the VBA Canadian Partners' Fund. The Fund was established to provide high-net worth individuals the opportunity to invest alongside VBA Partners in outstanding Canadian small-capitalization growth companies. We are convinced that VBA's fundamental research approach, discipline and diligence, which have provided significant returns for our existing clients over the past 13 years, will also prove to be a winning investment for unitholders of the VBA Canadian Partners' Fund. As the lead manager and, with the majority of my liquid assets invested in the Fund, I am fully committed to building long-term investment performance for unitholders.

### VBA's Investment Philosophy

Here is a brief synopsis of our investment approach and philosophy. VBA's proven investment process is focused on identifying small-cap growth companies with attractive financial characteristics and managed by highly skilled entrepreneurs who are significant owners and, therefore, motivated to increase shareholder value. We analyze the industry dynamics, the company's competitive advantages and its strategies for long-term growth. While doing so, we built a detailed financial model to determine the company's future earnings growth profile and financial performance under a reasonable set of assumptions. We use different valuation methods (i.e. discounted cash flow, P/E ratio) to assess the current underlying value and investment return/risk trade-off. This process requires extensive travelling to conduct management interviews, plant visits and conferences. Once a company meets our investment hurdle, we gradually build a position, as our investment thesis is validated by the company's quarterly results. We keep the winners, as long as the results and the growth are satisfactory. On the other hand, if the expected results are not met over a reasonable period of time, we sell the investment and redeploy the funds into more promising companies. Therefore, we believe the VBA Canadian Partners' Fund holds shares in financially sound companies led by outstanding management with attractive long-term growth fundamentals.



*Uni-Sélect Inc.* is an example of such a company. It has been a long-term investment at VBA and is also part of the VBA Canadian Partners' Fund. Under the leadership of its Chief Executive Officer, Jacques Landreville, *Uni-Sélect* has been a key consolidator of the automobile parts after-market across Canada. With 14 distribution centers currently, the company is either the market share leader or a strong number "2" player in all major markets in Canada. Since 1998, *Uni-Sélect* has operated in the U.S. following an acquisition in Minnesota. Several small acquisitions followed, but last fall *Uni-Sélect* acquired *MAWDI*, a network

of 31 warehouses generating sales in excess of US\$330 million located across the U.S., giving it a strong platform for significant future growth. The strong financial results achieved by the company have also been very rewarding for shareholders. Over the past five years, *Uni-Sélect's* return on equity has always been higher than 15%, its earnings per share growth rate of 12% and its stock price has more than doubled, it increased from \$13 in early 2000 to the current price of \$28 a share.

## The Fund's Performance and Review

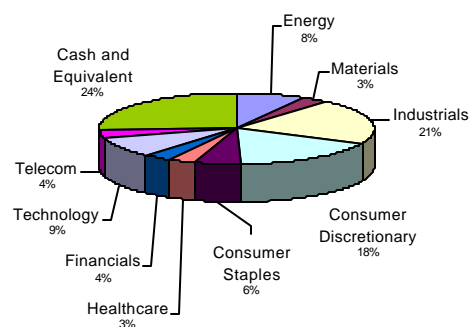
After a lackluster performance in the third quarter, the strong finish registered during the fourth quarter enabled equity markets in North America to post attractive returns for 2004. During the final quarter of the year, the BMO Nesbitt Burns Small Cap Index ("BMO") outperformed its larger cap comparable by advancing by 9.9% as compared to 7.2% for the S&P/TSX Composite Index and 6.7% for the S&P/TSX 60 Index. For 2004 as a whole, the BMO posted a total return of 14.1% in line with the 13.8% return of the S&P/TSX 60 and the 14.5% return of the S&P/TSX Composite.

From May 1, 2004 (the Fund's first full month of operation) to December 31, 2004, the Fund's Class A unit price increased from \$9.83 to \$10.45. Including the distribution reinvested in units on December 31, 2004, the total return for the Fund's Class A unit was 6.3% for the period, below the BMO benchmark performance of 10.3%. This underperformance is essentially the result of the negligible return earned on the higher-than-normal cash position held during this period of portfolio construction and our substantial underweighted position in the Energy sector. This sector performed extremely well in 2004 (up 64%) as a result of high oil prices and its impact on companies' results. Its impact on the performance of the BMO has also been significant: of the 14.1% return of BMO last year, 10.1% can be directly attributed to the Energy sector. Our underweighted position was and is predicated on our belief that a \$50-55 oil price is not sustainable long term and the unwarranted high valuations currently attributed to these stocks based on, what we perceive to be, peak earnings. As well, we ended the year with 25.7% in cash, which is 5% below the June 30, 2004 level. The strong equity markets prevented us from accumulating further shares in well-managed long-term growth companies at valuation levels that we consider attractive.

### Top Ten Holdings

Name	% of Net assets
Dorel Industries Inc., Class 'B'	4.9
Stratos Global Corporation	4.3
Gennum Corporation	4.1
Creo Inc.	3.2
MacDonald, Dettwiler & Associates Ltd.	3.2
Vincor International Inc.	3.1
Uni-Sélect Inc.	2.8
Groupe Laperrière & Verreault Inc., Class 'A'	2.7
ATS Automation Tooling Systems Inc.	2.6
Toromont Industries Ltd.	2.5
	<b>33.4</b>
Total Number of Holdings	<b>34</b>
Total Net Assets	<b>\$505,830</b>

### Asset Allocation



Notwithstanding our underweighted position in the sector during 2004, the following energy stocks contributed significantly to the Fund's performance: *Savanna* (+62%), *Zargon* (+37%), *Newalta* (+17%) reported strong financial results in response to very active industry activity and high oil prices. One disappointment was *Hawker* (-27%), which proves that even during outstanding industry conditions inadequate management can fail. *Hawker* has put all of its assets up for sale, and we expect this process to be finalized during the second quarter 2005. Other stocks which contributed strongly were: *Creo* (+82%), due to dissident shareholders' actions and rumors of a takeover, *Van Houtte* (+47%), following acknowledgement by investors that the company is back on a growth path and *Tesma* (+45%), after the announcement by *Magna*, its controlling shareholder, of a plan to privatize the company. A disappointing investment was *Cinram* (-35%), its reported earnings' have been lower than expected due to higher resin costs and its growth profile was revised lower due to competitive market conditions.

### Outlook for 2005

In terms of the stock market and the outlook for small-cap stocks, we were surprised by the extent of the strong stock market rally since August 2004 until now. As long as long-term interest rates are stable, we expect stock market participants to remain confident in the future. Even \$55 world oil prices recently have not dampened the outlook for economic growth and profits. The earnings of companies exporting to the U.S. face an added challenge with the increasing strength of the Canadian dollar against the U.S. currency on top of increasing input costs (for example: steel, energy or resin costs).



In spite of the short-term exuberance that we are witnessing, we believe that the current environment of easy money and 50-year low interest rate levels is unsustainable. As a result, we continue to focus on high-quality companies that are well managed and financed, and who can grow their earnings in a more difficult environment that we expect to see as the year progresses. Small-cap stocks are now valued in line with large-cap stocks, and we anticipate outperformance to continue primarily due to expected superior earnings growth.



*Benoît Durand*  
Vice-President, Canadian Small-Cap Equities

March 16, 2005

March 4, 2005

## AUDITORS' REPORT

To the unitholders of the WBA Canadian Partners' Fund

We have audited the statement of net assets of the above mentioned Fund and the statement of portfolio investments and other net assets at December 31, 2004, and the statements of operations and changes in net assets for the period from April 1, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the above mentioned Fund and its investments as at December 31, 2004, and the results of its operations and the changes in net assets for the period from April 1, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

# VBA Canadian Partners' Fund

Statement of Net Assets  
As at December 31, 2004

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\$

## Assets

Investments, at market value	475,570
Cash	30,093
Interest and dividends receivable	240
	<u>505,903</u>

## Liabilities

Accounts payable and accrued liabilities	<u>73</u>
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## Net assets

505,830

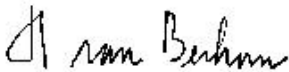
## Number of units outstanding (note 3)

Class A	500
Class B	47,565

## Net asset value per unit (note 2e))

Class A	10.45
Class B	10.52

Signed on behalf of Van Berkomp and Associates Inc., the Manager



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*J. Sebastian van Berkomp*  
President and Chief Executive Officer

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*Benoît Durand*  
Vice-President

*The accompanying notes are an integral part of these financial statements.*



# VBA Canadian Partners' Fund

Statement of Operations

For the period from April 1, 2004 to December 31, 2004

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	<u>\$</u>
<b>Investment Income</b>	
Interest	1,348
Dividends	<u>2,031</u>
	<u>3,379</u>
<b>Operating expenses</b>	
Management fees	<u>73</u>
<b>Net investment income</b>	<u>3,306</u>
<b>Realized and unrealized gain (loss) on investments</b>	
Net realized loss on sale of investments <sup>(1)</sup>	(3,343)
Net realized gain on foreign currencies	2
Change in unrealized appreciation in market value of investments and foreign currencies	<u>30,238</u>
<b>Net gain on investments</b>	<u>26,897</u>
<b>Increase in net assets from operations</b>	<u><u>30,203</u></u>
<b>Earnings per unit (note 2f)</b>	
Class A	0.70
Class B	0.84
<b>(1) Net realized loss on sale of investments</b>	
Proceeds from sale of investments	651,901
<b>Cost of investments sold</b>	
Investments at cost, beginning of period	-
Investments purchased during the period	1,100,575
Investments at cost, end of period	<u>(445,331)</u>
	<u>655,244</u>
<b>Net realized loss on sale of investments</b>	<u><u>(3,343)</u></u>

*The accompanying notes are an integral part of these financial statements.*



## VBA Canadian Partners' Fund

Statement of Changes in Net Assets

For the period from April 1, 2004 to December 31, 2004

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	<u>\$</u>
<b>Increase in net assets from operations</b>	<u>30,203</u>
<b>Distributions to unitholders</b>	
From net investment income	3,121
From capital gains	<u>50</u>
	<u>3,171</u>
<b>Capital transactions</b>	
Proceeds from sale of units	475,627
Reinvestment of distributions	<u>3,171</u>
	<u>478,798</u>
<b>Increase in net assets for the period</b>	505,830
<b>Net assets, beginning of period</b>	<u>-</u>
<b>Net assets, end of period</b>	<u><u>505,830</u></u>

*The accompanying notes are an integral part of these financial statements.*



## VBA Canadian Partners' Fund

Statement of Portfolio Investments and Other Net Assets  
As at December 31, 2004

	<u>Par value/ number of shares</u>	<u>Average cost \$</u>	<u>Market value \$</u>	<u>%</u>
<b>SHORT-TERM NOTES</b>				
Export Development Corporation 2.27% due February 2, 2005	100,000	99,746	99,746	19.7
<b>Total short-term notes</b>		<u>99,746</u>	<u>99,746</u>	<u>19.7</u>
<b>CANADIAN EQUITIES</b>				
<b>Energy</b>				
Hawker Resources Inc.	2,375	10,168	8,788	1.7
Savanna Energy Services Corp.	730	7,952	12,541	2.5
ShawCor Ltd., Class 'A'	800	10,500	9,608	1.9
Zargon Oil & Gas Ltd.	410	7,870	9,779	1.9
		<u>36,490</u>	<u>40,716</u>	<u>8.0</u>
<b>Materials</b>				
Cascades Inc.	700	9,736	9,380	1.9
Winpak Ltd.	50	4,754	5,150	1.0
		<u>14,490</u>	<u>14,530</u>	<u>2.9</u>
<b>Industrials</b>				
ATS Automation Tooling Systems Inc.	1,200	12,860	12,900	2.6
Garda World Security Corporation	100	656	836	0.2
Groupe Laperrière & Verreault Inc., Class 'A'	600	11,436	13,410	2.7
Exco Technologies Limited	965	6,975	7,257	1.4
MacDonald, Dettwiler & Associates Ltd.	600	15,365	16,128	3.2
Ritchie Bros. Auctioneers Incorporated	120	4,671	4,746	0.9
Richelieu Hardware Ltd.	460	9,035	10,106	2.0
Stantec Inc.	400	9,642	10,592	2.1
Teknion Corporation	1,800	9,990	10,197	2.0
Toromont Industries Ltd.	620	12,085	12,846	2.5
Vitran Corporation Inc.	250	5,106	5,095	1.0
		<u>97,821</u>	<u>104,113</u>	<u>20.6</u>
<b>Consumer Discretionary</b>				
Cinram International Inc.	500	12,219	11,065	2.2
Dorel Industries Inc., Class 'B'	600	25,310	24,798	4.9
easyhome Ltd.	400	5,960	7,600	1.5
Mega Bloks Inc.	450	8,872	8,573	1.7
Rona Inc.	280	8,752	11,424	2.3
Tesma International Inc.	250	8,173	10,875	2.1
Uni-Sélect Inc.	500	11,925	14,200	2.8
		<u>81,211</u>	<u>88,535</u>	<u>17.5</u>



## VBA Canadian Partners' Fund

Statement of Portfolio Investments and Other Net Assets  
As at December 31, 2004

	Number of shares	Average cost \$	Market value \$	%
<b>Consumer Staples</b>				
Van Houtte Inc.	590	9,037	12,125	2.4
Vincor International Inc.	450	13,958	15,809	3.1
		<u>22,995</u>	<u>27,934</u>	<u>5.5</u>
<b>Healthcare</b>				
Axcan Pharma Inc.	240	5,265	5,587	1.1
Cangene Corporation	980	10,088	10,927	2.2
		<u>15,353</u>	<u>16,514</u>	<u>3.3</u>
<b>Financials</b>				
C.I. Fund Management Inc.	400	6,328	7,204	1.4
Oppenheimer Holdings Inc.	340	10,491	10,523	2.1
		<u>16,819</u>	<u>17,727</u>	<u>3.5</u>
<b>Information Technology</b>				
Creo Inc.	900	10,190	16,200	3.2
Gennum Corporation	1,500	22,626	20,715	4.1
Matrikon Inc.	2,400	6,995	7,200	1.4
		<u>39,811</u>	<u>44,115</u>	<u>8.7</u>
<b>Telecommunication Services</b>				
Stratos Global Corporation	2,000	20,595	21,640	4.3
<b>Total Canadian Equities</b>		<u>345,585</u>	<u>375,824</u>	<u>74.3</u>
<b>Total Investments</b>		<u>445,331</u>	<u>475,570</u>	<u>94.0</u>
<b>Cash and Other Net Assets</b>			<u>30,260</u>	<u>6.0</u>
<b>Total Net Assets</b>			<u><u>505,830</u></u>	<u><u>100.0</u></u>



# VBA Canadian Partners' Fund

Notes to Financial Statements  
As at December 31, 2004

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## 1. ORGANIZATION OF THE FUND

VBA Canadian Partners' Fund (the "Fund") was established under the laws of the Province of Quebec by a Declaration of Trust dated April 1, 2004.

Van Berkomp and Associates Inc. is the investment manager ("the Manager") and Royal Trust Company is the Trustee of the Fund.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The financial statements include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the period. The following is a summary of significant accounting policies.

### a) Valuation of investments

Investments are recorded at market value which is determined as follows:

Short-term notes are recorded and valued at original cost plus accrued interest, which approximates their market value.

Securities listed on a recognized public securities exchange are valued at their closing sale price. Securities not traded on the valuation date are valued at the average of the closing bid-and-ask price on that date.

Cost is determined according to the average cost method.

The difference between the market value of portfolio securities and their average cost represents an unrealized appreciation (depreciation) in market value of investments and foreign currencies.

### b) Other assets and liabilities

Other assets and liabilities recorded at cost are short term in nature and, therefore, their carrying value approximates their fair value.

# VBA Canadian Partners' Fund

Notes to Financial Statements  
As at December 31, 2004

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### c) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Realized gains or losses arising from the sale of investments are calculated using the average cost basis.

### d) Distributions to unitholders

Net investment income and net realized gains of the Fund are distributed on the distribution date as determined by the trustee. Distributions to unitholders are based on the number of units of each class on the record date for each distribution.

### e) Net asset value per unit

The net asset value per unit of a class is calculated on a monthly basis by dividing the net asset value for that class by the number of units of that class then outstanding. The net asset value of a particular class of units equals the value of the class' proportionate share of the assets and liabilities of the Fund common to all classes less the liabilities of the Fund attributable only to that class.

### f) Earnings per unit

The earnings per unit is calculated by dividing the increase in net assets from operations by class by the monthly average number of units of that class outstanding for the period.

### g) Foreign currency translation

Investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the valuation date. Purchases and sales of investments, as well as the related income and expenses denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.

# VBA Canadian Partners' Fund

Notes to Financial Statements  
As at December 31, 2004

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## 3. CAPITAL TRANSACTIONS

### Issuance and redemption of units

Units of a class are issued or redeemed at their net asset value on the last business day of each month during which the deposit for the purchase of units was received or the redemption of units form was received by the trustee within the deadlines stipulated in the Declaration of Trust agreement. These financial statements pertain to Class A and B units.

	December 31, 2004	
	Class A	Class B
Units outstanding, beginning of period	—	—
Issued for cash	500	47,565
Issued on reinvestment of distributions	—	—
Redeemed	—	—
Units outstanding, end of period	<u>500</u>	<u>47,565</u>

The Fund is authorized to issue an unlimited number of units of each class which rank equally in all respects to a pro rata interest in the net assets of each class of the Fund.

## 4. INCOME TAXES

The Fund is considered a unit trust under the provisions of the Income Tax Act (Canada) and, accordingly, is not subject to income tax on such part of its net investment income and net realized taxable capital gain that is distributed to its unitholders as at the end of the year. It is the intention of the Fund to declare sufficient distribution to minimize its tax burden. Net income and capital gains distributed to the unitholders are taxable in their hands under the federal and provincial income tax acts.

## 5. OPERATING EXPENSES

### a) Management fees

Van Berkom and Associates Inc. is entitled to receive from Class A units a management fee representing 2% of the daily average Class A net asset value.

For the period from April 1, 2004 to December 31, 2004, the Manager has absorbed all operating expenses of the Fund including audit, legal, recordkeeping and trustee fees. The Manager has the option to discontinue this practice at any time; however, it is the Manager's intention to continue this practice.

# VBA Canadian Partners' Fund

Notes to Financial Statements  
As at December 31, 2004

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## 5. OPERATING EXPENSES (continued)

The ratio of expense to average monthly net assets is based on the total expenses for the period and annualized for periods of less than one year.

	For the period from April 1, 2004 to <u>December 31, 2004</u>
Ratio of expenses to average monthly net assets	2%

For Class B units, management fees are not charged within the Fund.

### b) Brokerage commissions

During the period from April 1, 2004 to December 31, 2004, the brokerage commissions paid for the portfolio transactions amounted to \$2,188.

## 6. STATEMENT OF PORTFOLIO TRANSACTIONS

An unaudited statement of portfolio transactions of the Fund for the period from April 1, 2004 to December 31, 2004 will be provided without charge by writing to:

**Royal Trust Company**  
1 Place Ville-Marie  
5<sup>th</sup> Floor, East Wing  
Montréal, Quebec  
H3B 1Z3