VALUE CONTRARIAN ASSET MANAGEMENT

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2005 First Quarter
Value Contrarian Canadian Equity

Dear Investors,

> ***Oil is a commodity…It's hard to identify a single commodity that has maintained a very high price over a very long period of time.***
>
> ***Lee Raymond***
> ***Chairman - Exxon***

> ***About two-thirds of the world's proven oil reserves lie in the hands of just five Persian Gulf countries. As the market share of those regimes soars, so too will the chance of disruption, embargo or worse.***
>
> ***The Economist***
> ***August 30, 2005***

High oil prices have not yet produced a global recession, but we would agree that further rises, especially sharp ones within a short period, would inevitably push the economies of consuming nations over the edge.

Today's sky high prices have resulted from increased demand and refining shortages, not as yet from supply disruptions. According to one Saudi expert, "It would not make a difference if Saudi Arabia ships an extra one million or two million barrels of crude to the United States….If you cannot refine it, it will not turn into gasoline and that will not turn to lower prices."

World oil production was 82.5 million barrels a day in 2004, when world oil producers were running flat out and used up almost all excess capacity. Yet with oil fields declining by 5% a year, half of oil demand in 20 years will have to come from new sources according to Jim Buckee (CEO of Talisman Energy). Yet Mr. Buckee thinks it would be difficult to increase world oil production to a mere 90 million barrels a day. The International Energy Agency has projected world demand will rise to 121 million barrels a day over the next 25 years. Nonetheless, projections are notoriously inaccurate.

It is interesting to note that in 1980 oil rose to $40 a barrel in the wake of the Iraq – Iran war. The conflict led to a sharp decline in production by both countries and sent prices skyrocketing. This price rise (along with high interest rates) triggered the global recession of the early 1980s.

Today, while demand has not responded adversely to high oil prices, eventually as oil creeps (or leaps) higher, consumers will ration energy use. It is our assumption that eventually a major recession will bite heavily into rising oil demand. And what would very likely be a major factor contributing to a future recession – unsustainable high oil prices resulting from a major supply disruption. Where and when that disruption occurs, only a quality "crystal ball" can predict!

On a final note, investors recently pushed the Shanghai stock market to a six year low as China announced its planned sell-off of state companies. Why can't investors make money with the extraordinary growth China is experiencing? Let's call this the "growth trap". It's a classic situation whereby investors ignore the lack of beef (profits), while overpaying for the business (stocks) and its prospects.

Experience has demonstrated that buying stocks with proven long-term growth potential at moderate valuations is a winning strategy. The key is to find stocks whose growth will be high relative to expectations.

Eventually China will endure political turmoil or an economic crisis, just as most emerging markets have (think Russia, Argentina, Brazil, Korea, etc..). During these periods of "unrest", stock prices fall, expectations are low, and valuations reasonable. Then it's time to buy China. According to Buffett's views, "If I had to bet, the best (future economic) percentage gains per annum would be in Asia".

First Quarter Performance

Your fund ended the first quarter with a net asset value of $2,105.77 per unit, an increase of $38.30 from the December 31, 2004 asset value of $2,067.47 per unit.

The market's advance during the first quarter was extremely narrow. Nine TSX companies reportedly accounted for most of the market's rise, eight of which were oil companies. A small number of stocks in one sector driving the entire stock market is not a positive signal.

High flying energy stocks would be especially vulnerable if a hard recession took hold, and an oil supply disruption scenario failed to materialize. Simply stated, lower global economic activity translates into reduced energy demand.

During the quarter we initiated a few "look-see" positions. These included Cogeco Cable, (eventual takeover), Glacier Ventures (Saskatewan publisher), and Lassonde Industries (Rougemont/Allen's/Oasis brands).

On the American side we picked up opening positions in Citigroup, J.P. Morgan Chase, Comcast (largest US Cable company) and AIG (the large American Insurance company under siege by the N.Y. Attorney Generals Office). All these companies represent excellent value with good long-term growth prospects. In any major market sell-off we would be adding to these positions.

Closer to home (Quebec) we reversed course and added to our position in Emergis (please see attached article on dangers of "copy cat" trades). After reading the company's annual report we were impressed with managements focus on creating shareholder value through share buybacks, divestiture of E-finance divisions and a clear focus on E-health growth initiatives.

With recent divestitures, Emergis has over $1.70 a share in cash ($3.00 stock price) and $240 million of tax loss carryforwards. The risks are twofold – a recently instituted $64 million U.S. lawsuit and bum/overpriced acquisitions.

Finally, another undervalued Quebec gem added to the portfolio was Logistec. This is a small-cap (illiquid) stock in three main businesses:

1. Cargo handling at 23 ports in Eastern Canada;
2. Marine transportation to artic ports; and
3. Environmental services and rehabilitation of underground pipes through its 71% owned Sanexen subsidiary.

With a tangible book value of $11.00 and trading at under 9x earnings based on our cost, Logistic represents solid value. We estimate the company has a private market value of $16-$18.

With a cash position of nearly 30% your fund is well positioned to take advantage of choppy markets and future bargains.

Outlook

If you had to make a choice between long-term bonds at around 4.5 percent or equities for the next 20 years, I would certainly prefer equities. But if people think they can earn more than 6-7 percent a year, they're making a big mistake.

Warren Buffett
Berkshire Hathaway

We should all be in the business of welcoming cheap asset prices so that we can compound our wealth in the long run…I don't know why stock investors don't get it that expensive is bad and cheap is good.

Hersh Cohen
Citigroup Asset Management

Three things determine the direction of the stock market: earnings, interest rates, and psychology. Psychology is important only during periods of extremes (i.e., panic selling or buying).

We expect there to be increased volatility in the financial markets for the remainder of the year, as interest rates continue to rise and corporate earnings slow. And while there is always a list of "negatives" why things don't look good, opportunities eventually arise.

Stated diplomatically, a "patch of unpleasantness" would create many more opportunities to do something intelligent with your money. We remain cautious and very price sensitive when it comes to making any buys. Capital preservation remains foremost in our investment strategy.

Respectfully Yours,**

Benjamin D. Horwood
Portfolio Manager
May 15, 2005

P.S. Do visit us at our web site: ***www.valuecontrarian.com***

** We're often asked: "When is the best time to invest in the Value Contrarian?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite. **Pity.**