BACKGROUNDER – FPI INCOME TRUST TRANSACTION

1. Fisheries Products International (FPI) Limited was established under the FPI Act to ensure long-term stability in the province's fishing sector by combining a number of companies into a single large, modern, competitive, and profitable company.

In the early 1980's, Newfoundland and Labrador's fishing industry was experiencing financial difficulty. The federal and provincial governments provided funding to create a new fish processing company from the assets of some of the companies under financial distress. FPI was privatized and is now owned by thousands of investors throughout the world. However, its business activities are partially governed by Newfoundland and Labrador's Act Respecting the Return of the Business of Fishery Products International Limited to Private Investors ("FPI Act"). The Act is available online at **www.gov.nf.ca/hoa/statutes/f15.htm**

In 2004, FPI publicly announced a proposed transaction that would restructure its North American seafood and marketing business (its Marketing and Value-Added group, or MVA). FPI would initially retain a 60 percent interest in the new U.S. marketing company. By establishing an Income Trust, the company expects to receive cash proceeds of up to $100 million from the initial sale. (In the future, FPI's stake in the MVA could be diluted through the issuance of additional trust units or by the further sale of FPI's share of the company.) It had originally stated that the transaction would provide proceeds to pay down $30 million of existing debt, with the remainder of the monies used for working capital and investment purposes.

The provincial government has since sought specific commitments from the company that would benefit local operations in Newfoundland and Labrador. FPI is now committing that proceeds from the initial offering would be used to support and improve the company's primary harvesting, processing and marketing operations and business. FPI has also agreed to controls on the distribution of capital to shareholders which will ensure that the initial offer and future sales of interests in MVA are used to benefit FPI's business operations.

The company is making specific commitments not to close any of their existing fish plants for the next five years as long as the resource base is maintained and the operations are economically viable (the term " economically viable" is defined and can be arbitrated), with the only exception being that the Bonavista plant will either be replaced or combined with the Port Union plant. Local investments would be made to expand secondary production on the Burin Peninsula, to improve information technology (IT) capabilities, to provide income support in Harbour Breton, to provide marketing services to other operators, and for additional research and development (R&D). An important long-term consideration is the contractual commitment that FPI's valuable Enterprise Allocations (EAs) is landed in the province.

There is legal uncertainty as to whether FPI's proposed transaction is in breach of section 7 of the Act, which states that the company cannot sell "all or substantially all of its property or business which relates to the harvesting, processing and marketing of seafood." Consequently, the matter has been referred to the House of Assembly to express its will regarding the FPI transaction.

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