

CANADIAN Financials & Utilities Split Corp.
ANNUAL INFORMATION FORM

No securities regulatory authority has expressed an opinion about these Units and it is an offence to claim otherwise.

June 2011

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1 THE COMPANY

1.1 NAME AND INCORPORATION

CANADIAN Financials & Utilities Split Corp. (the “Company”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on October 26, 2006. The manager of the Company is Connor, Clark & Lunn Capital Markets Inc. (the “Manager”). The Manager was incorporated under the Business Corporations Act (Ontario) on January 15, 2001 and is wholly owned by Connor, Clark & Lunn Capital Markets Partnership.

The principal place of business and registered office of the Company and the registered office of the Manager is 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7.

1.2 STATUS OF THE COMPANY

While the Company is considered to be a mutual fund corporation under the securities legislation of certain provinces in Canada, the Company is not a conventional mutual fund and has obtained exemptive relief from certain requirements of NI 81-102 and NI 81-106.

The Company differs from conventional mutual funds in a number of respects, most notably as follows: (i) while the Preferred Shares and Class A Shares of the Company may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (ii) the Preferred Shares and Class A Shares of the Company are to have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (iii) unlike most conventional mutual funds, the Preferred Shares and Class A Shares will not be offered on a continuous basis.

If the Company does not qualify at all times as a “mutual fund corporation” within the meaning of the Tax Act, the tax considerations described under “Canadian Federal Income Tax Considerations” would in some respects be materially and adversely different.

1.3 RATIONALE FOR THE COMPANY

The Company has been created to provide investors with a low cost, diversified investment in a high quality portfolio comprised of Canadian banks, Canadian utilities and pipeline issuers and Canadian non-bank financial issuers, utilizing an innovative split share structure. The Manager has obtained a Pfd-1 rating on the Preferred Shares by Dominion Bond Rating Service Limited (“DBRS”) based on the securities included in the Portfolio and by introducing a unique leveraging and de-leveraging mechanism.

2 DESCRIPTION OF THE BUSINESS

2.1 INVESTMENT OBJECTIVES

Investment objectives for the Preferred Shares: (i) to provide their holders with quarterly fixed cumulative distributions equal to \$0.10625 per Preferred Share (\$0.425 per year or 4.25% of the Preferred Share offering price); and (ii) to repay the original issue price of \$10.00 per Preferred Share on redemption of the Preferred Shares on January 31, 2012.

Investment objectives for the Class A Shares: (i) to provide their holders with tax-efficient regular monthly distributions, expected to be primarily returns of capital; (ii) the opportunity for capital appreciation and dividend growth on a leveraged basis; and (iii) low management fees. The holders of Class A Shares will be entitled to all dividends and distributions received on the Portfolio (net of operating expenses and the Preferred Share distributions). On termination, the Class A Shares will be entitled to the value of the Company in excess of the value of the Preferred Shares.

2.2 INVESTMENT GUIDELINES

The net proceeds of the offering were invested in the equity securities of the six largest Canadian banks, in a selected Canadian utilities and pipeline issuers and in a selected Canadian non-bank financial issuers (the “Portfolio Securities”). It is intended that rebalancing of the portfolio occurs only as described under “Rebalancing Criteria”, below.

The Company may from time to time hold cash and cash equivalents.

2.3 ACTIVE LEVERAGE MANAGEMENT

RBC Dominion Securities Inc. is acting as the Leverage Agent for the Company (the “Leverage Agent”) pursuant to a leverage management agreement (the “Leverage Management Agreement”) dated February 6, 2007.

Additional Leverage: In a typical split share structure, including this structure, initial leverage is provided through the issuance of the Preferred Shares. Further, in a typical split share structure, as the value of the fund's assets increases, the level of leverage as a percentage of the fund's assets decreases. In order to maintain the benefits of leverage, the Company has the ability to add additional leverage to restore the leverage to its inception level of 40% of total assets, subject to confirmation at the time from DBRS that the Pfd-1 rating of the Preferred Shares will not be impacted. The Company may establish a credit facility for the sole purpose of providing the Company with the ability to add additional leverage to restore leverage to its inception level of 40% of total assets (the "Additional Leverage Credit Facility"). The total amount borrowed by the Company under the Additional Leverage Credit Facility and the Working Capital Credit Facility will be limited to 20% of the net assets of the Company at all times.

De-Leveraging: If the value of the Portfolio declines such that the loan to value ratio ("LTV Ratio") of the Company surpasses 65%, the Leverage Agent, on behalf of the Company, will sell Portfolio Securities having a minimum value equal to the sum of the subscription amount of the Preferred Shares and the amount owed by the Company in respect of any loan outstanding. Such amount will be used to repay any loan outstanding, with the balance invested in cash and cash equivalents until the earlier of:

- (a) the Maturity Date; and
- (b) the occurrence of a Re-Leveraging Event

LTV Ratio is the quotient obtained by dividing (i) the sum of the gross proceeds received from the sale of Preferred Shares and the outstanding balance owed by the Company in respect of any loan facility by (ii) the aggregate value of the Portfolio Securities, expressed as a percentage.

Following the occurrence of a de-leveraging event, the Class A Shares will continue to have exposure to the Portfolio on a non-leveraged basis. If the remaining Portfolio increases in value by the same percentage by which the value of the Portfolio decreased from the inception value (a "Re-Leveraging Event"), the Leverage Agent will, upon instructions from the Manager, sell cash and cash equivalents and the Manager will purchase Portfolio Securities. Thereafter, a de-leveraging event shall occur if the LTV Ratio surpasses 65%. For example, if the value of the Portfolio were to fall to approximately \$15.50 per Unit (based on a combined issued price of \$25.00 per Unit), the Leverage Agent would proceed to sell Portfolio Securities having a value of \$10 (for each Unit) and would invest the proceeds in cash and cash equivalents. At such time, the aggregate NAV of the Class A Shares (approximately \$5.50 per Class A Share) would continue to be fully invested in the Portfolio. If the NAV per Class A Share thereafter grew to approximately \$7.37, the Leverage Agent would, upon instructions from the Manager, sell the cash equivalents and the Manager would re-invest the cash and proceeds from the sale of cash equivalents in securities of the Portfolio.

The loan to value ratio at March 31, 2011 was 62.9% (2010 - 64.5%).

A de-leveraging event will also occur in the event that the Interest Coverage Ratio (means the quotient obtained by dividing the Net Cash Flow for Distributions received by the Company in any calendar quarter by the aggregate amount of the distributions payable on the Preferred Shares in such quarter) is less than 1.5 for any calendar quarter. The estimated Interest Coverage Ratio at inception was approximately 1.64 and at March 31, 2011 was approximately 0.35 times (2010 - 0.4 times).

Benefits of Active Leverage Management: The Manager believes that the de-leveraging mechanism offers benefits to holders of both of the Preferred Shares and Class A Shares.

Preferred Shares: Preferred Shareholders are expected to benefit from (i) a continued high rating and (ii) having the subscription price of their Shares placed in cash and cash equivalents if the Net Asset Value per Unit declines such that the LTV ratio exceeds 65%, resulting in enhanced assurance that the Company's objectives with respect to the Preferred Shares will be met.

Class A Shares: The Class A Shareholders are expected to benefit from: (i) the ability to increase leverage after Portfolio appreciation, (ii) the economic advantage of lower cost leverage through the issue of Preferred Shares with a rating of Pfd-1, (iii) the removal of leverage which would lessen the impact of any further decline in value of the Portfolio should the value of the Portfolio decline such that the LTV Ratio exceeds 65%, and (iv) the ability to re-establish leverage after a de-leveraging event as the Portfolio's value increases.

2.4 DE-LEVERAGING EVENT

The value of the Company's portfolio declined significantly after the economic crises in late 2008; a period characterized by extreme and unprecedented market conditions and economic weakness, and has declined by more than 34% since its inception. As a result, under the terms of the prospectus, on November 20, 2008 the Leverage Agent was required to sell portfolio securities and invest the proceeds in cash or cash equivalents in order to provide additional assurance that the Company's objective to repay the \$10.00 issue price of the Preferred Shares at maturity will be met and that the Preferred Shares continue to have a high rating from DBRS. Following the sale of portfolio securities, the Class A Shares continue to have exposure to the portfolio on a non-leveraged basis and distributions on the Class A Shares were suspended beginning in December 2009. Should the portfolio continue to decline in value, the removal of leverage will lessen the impact of any further decline on the performance of the Class A Shares.

The Company has the ability to re-establish leverage as the portfolio's value increases. If the remaining portfolio subsequently appreciates in value and the net asset value per Class A Share grows to approximately \$7.37, the cash raised will be re-invested in securities of the portfolio which will restore leverage on the Class A Shares and may result in the resumption of distributions to holders of Class A Shares.

2.5 REBALANCING CRITERIA

The Portfolio is rebalanced (i) at least annually, to adjust for changes in the market value of investments, (ii) to reflect the impact of a merger, acquisition or other significant corporate action or event affecting one or more of the Portfolio Securities, and (iii) in order to maintain the Interest Coverage Ratio at greater than 1.5. Trades affected to rebalance the Portfolio are subject to the confirmation by DBRS that they will not result in a reduction in the rating of the Preferred Shares. In addition, between the rebalancing dates, the Company may sell Portfolio Securities for working capital purposes. In order to rebalance the Portfolio, the Manager at the time of rebalancing, calculates the market value of the Portfolio and determines whether the weighting of each issuer in the Portfolio is approximately equal to its initial weighting. The Manager then invests in order to (a) bring each of the groups of banks, utilities and pipelines and Canadian non-bank financial issuers to approximately its initial weighting and (b) to bring the weighting of each individual issuer in the Portfolio to approximately its initial weighting, subject to any adjustments that have been made pursuant to (ii) and (iii) above or are required to comply with the investment restrictions set out below. As a result of changes in market prices of the Portfolio Securities between rebalancing dates, it is not expected that the issuers included in the Portfolio is exactly weighted in accordance with their initial weights at any given time.

The Portfolio may also be rebalanced in the event of any future offering of Shares by the Company. New Preferred Shares and Class A Shares may not be issued for net proceeds per Unit less than the most recently calculated Net Asset Value per Unit prior to the date of the settling of the subscription price by the Company.

2.6 SECURITIES LENDING

In order to generate additional returns, the Company may lend Portfolio Securities to securities borrowers acceptable to the Company pursuant to the terms of a securities lending arrangement under which: (i) the borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Company will receive collateral security. The securities lending agent for the Company will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis.

All securities lending arrangements will comply with the provisions of NI 81-102 and such other conditions as the Company may require.

3 INVESTMENT RESTRICTIONS

The Company is subject to certain investment restrictions that, among other things, limit the equity securities and other securities that the Company may acquire for the Portfolio. The Company's investment restrictions may not be changed without the approval of the holders of the Preferred Shares and Class A Shares by a two-thirds majority vote of such holders who attend and vote at a meeting called for such purpose. See "Shareholder Matters — Acts Requiring Shareholder Approval". The Company's investment restrictions provide that the Company may:

- (a) only purchase equity securities if such securities are issued by one of the six largest Canadian banks, one of the Canadian utilities or pipeline issuers included in the S&P/TSX Composite Index or a Canadian non-bank financial issuer;
- (b) purchase debt securities only if such securities are cash and cash equivalents;
- (c) not reduce the total amount of cash and cash equivalents held by the Company following a de-leveraging event to an amount having a value less than the subscription amount of the Preferred Shares unless a Re-Leveraging Event has occurred;
- (d) not acquire or continue to hold any security that is a "specified property" as defined in the proposals to amend subsection 132(4) of the Tax Act if the total of all amounts each of which is the fair market value of a specified property would exceed 10% of the total of all amounts each of which is the fair market value of a property of the Company;
- (e) not enter into any arrangement where the result is a dividend rental arrangement for the purposes of the Tax Act; and
- (f) purchase derivatives and enter into derivative or other transactions only as specifically permitted under NI 81-102 or as permitted by the Canadian Securities Administrators.

In addition, but subject to these investment restrictions, the Company has adopted the standard investment restrictions and practices set forth in NI 81-102 (as it may be amended from time to time), other than the restriction on investing more than 10% of the

Company's assets in the securities of any one issuer at the time of investment. A copy of such standard investment restrictions and practices will be provided by the Manager to any person upon request.

4 RESPONSIBILITY FOR OPERATIONS

4.1 MANAGEMENT OF THE COMPANY

4.1.1 Directors and Officers

The name, municipality of residence, position with the Company and principal occupation of each of the directors and officers of the Company are:

Name and Municipality	Position with the Manager	Principal Occupation
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer and Chairman	Director, President and Chief Executive Officer and Chairman, Connor, Clark & Lunn Capital Markets Inc.
Philip K. Gow Lunenburg, Nova Scotia	Director	Corporate Director
Arthur Donner Toronto, Ontario	Director	Economic Consultant
Frank Santangeli Toronto, Ontario	Director	Financial Consultant

The following is a brief description of the backgrounds of the directors of the Company not otherwise described below under "The Manager — Directors and Officers of the Manager".

Arthur Donner is a Toronto based economic consultant who has been active in the financial community for many years. His research and consulting have ranged widely in the field of economics and public policy — macroeconomics, finance, pension issues, labour economics, environmental issues, industrial policy and communications policy. Dr. Donner has served on a number of investment committees and boards, including the First Ontario Fund and the Social Housing Services Corporation Financial Inc. He is a member of the Investment Advisory Committee of the Nunavut Trust and of the Investment Committee of the Atkinson Charitable Foundation. Between July and October 2005, Dr. Donner was a special advisor to the Federal Minister of Housing, Joe Fontana, on the development of new aboriginal housing institutions.

Philip K. Gow CFA, BA, Dalhousie University; MBA, Saint Mary's University. Mr. Gow has worked in the financial services sector since 1992. He was a managing director of Brenton Reef Capital Inc. (which was acquired by CC&L Capital Markets Partnership in April 2001) from 1997 to April 2001 and a director and Chief Financial Officer of Connor, Clark & Lunn Capital Markets Inc. until June, 2008. He is a consultant with projects in the financial services and renewable energy industries, and is Chair of the Canadian Sailing Team.

Frank Santangeli has worked in the financial services industry since 1960. Positions he has held include Vice President of Sunlife Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

4.1.2 Remuneration of Directors and Officers

Directors of the Company, other than employees of the Manager, receive remuneration for their services as directors. Compensation for the non-management directors of the Company is currently \$10,000 per director per year. The amount of directors' fees charged to the Company was \$23,360 during the year ended March 31, 2011 (\$20,093 for the year ended March 31, 2010).

The fees of the non-management directors of the Company, expenses of the directors of the Company and the premiums for directors' and officers' insurance coverage for the directors and officers of the Company are paid by the Company.

4.2 THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. performs management services for the Company pursuant to the management agreement (the "Management Agreement") dated January 30, 2007. The Manager is entitled to receive fees as compensation for

management services rendered to the Company. See ‘‘Fees and Expenses’’.

The Manager is part of the Connor, Clark & Lunn Financial Group (collectively, the ‘‘CC&L Group’’). The CC&L Group offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

4.2.1 Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

Name and Municipality	Position with the Manager	Principal Occupation
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	Director, Vice-President and Chief Financial Officer	Vice-President, Connor, Clark & Lunn Capital Markets Inc.

W. Neil Murdoch: CFA; BComm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management. Mr. Murdoch joined Connor, Clark & Lunn Capital Markets Inc. in December 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds.

Michael W. Freund: B.Bus.Sci., University of Capetown. Mr. Freund has held various management positions within the CC&L Group of companies since 1997. Mr. Freund’s current principal occupation is managing partner of the Connor, Clark & Lunn Financial Group.

Darren N. Cabral: CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined Connor, Clark & Lunn Capital Markets Inc. in May 2007. Prior thereto, Mr. Cabral held various positions with affiliates of Middlefield Group Limited from September 2001 to April 2007, including Executive Director of Research at Middlefield Capital Corporation and Managing Director of Middlefield International Limited.

4.2.2 Management Agreement

Pursuant to the Management Agreement, the Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Shareholders of the Company, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign as manager of the Company upon 60 days’ notice to the Company or upon such lesser notice period as the Company may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by Shareholders. If the Manager is in material default of its obligations under the Management Agreement and such default has not been cured within 20 business days after notice of same has been given to the Manager, the Company shall give notice thereof to the Shareholders and the Shareholders may remove the Manager and appoint a successor manager of the Company.

The Manager is entitled to fees for its services under the Management Agreement as described under ‘‘Fees and Expenses’’ and is reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Company. In addition, the Manager and each of its directors, officers, employees and agents will be indemnified by the Company for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from the Manager’s willful misconduct, bad faith or negligence or willful disregard by the Manager of the Manager’s duties or standard of care, diligence and skill set forth above or a material breach or default of the Manager’s obligations under the Management Agreement.

The services of the Manager and the officers and directors of the Manager are not exclusive to the Company. The Manager and its affiliates and associates (as defined in the Securities Act (Ontario)) may, at any time, engage in any other activity including the administration of any other company or trust.

4.3 INDEPENDENT REVIEW COMMITTEE

National Instrument 81-107 Independent Review Committee for Investment Funds (“NI 81-107”) which came into force on November 1, 2006 requires all publicly offered investment funds to establish an Independent Review Committee to whom the Manager must refer all conflict of interest matters for review or approval. NI 81-107 imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters maintain records in respect of these matters and provide assistance to the Independent Review Committee in carrying out its functions. The Independent Review Committee must be comprised of a minimum of three independent members and is subject to requirements to conduct regular assessments and provide reports to the Manager and to Limited Partners in respect of its functions. The members of the Independent Review Committee are Fred Lazar, Frank Santangeli and Joseph Wright. The Independent Review Committee acts as a review committee for a number of investment funds managed by the Manager.

The principal occupations and biographies of the Independent Review Committee members are set out below.

Fred Lazar is a Professor of Economics at York University’s Schulich School of Business. In addition to a distinguished academic career, Mr. Lazar has served as a senior advisor to the governments of Canada and Ontario and to a number of national and international companies.

Frank Santangeli has worked in the financial services industry since 1960. Positions he has held include Vice-President of Sunlife Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

Joseph Wright currently serves on the board of directors of several public companies and private organizations, including IESI-BFC Ltd. His former positions include the Chief Executive Officer of Swiss Bank Corporation (Canada) and Vice-Chairman and Director of Burns Fry Limited.

The Independent Review committee fees paid by the Company during the year ended March 31, 2011 were \$2,422 (\$1,893 during year ended March 31, 2010).

4.4 THE LEVERAGE AGENT

RBC DS will perform services for the Company pursuant to the Leverage Management Agreement. The Leverage Agent will be entitled to receive fees as compensation for services rendered to the Company. See “Fees and Expenses” and “Investments of the Company — Active Leverage Management”.

4.4.1 Leverage Management Agreement

The Leverage Agent, on behalf of the Company, monitors the Portfolio and will sell Portfolio Securities, repay any loan outstanding and purchase cash and cash equivalents upon the occurrence of a de-leveraging event pursuant to standing instructions from the Manager.

Pursuant to the Leverage Management Agreement, the Leverage Agent shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Shareholders of the Company, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent leverage agent would exercise in similar circumstances.

The Leverage Agent may resign as leverage agent of the Company upon 60 days’ notice to the Company or upon such lesser notice period as the Company may accept. If the Leverage Agent resigns, the Manager may appoint its successor. If the Leverage Agent is in material default of its obligations under the Leverage Management Agreement and such default has not been cured within 20 business days after notice of same has been given to the Leverage Agent, the Company shall give notice thereof to the Shareholders and the Shareholders may remove the Leverage Agent and appoint a successor leverage agent of the Company.

The Leverage Agent is entitled to fees for its services under the Leverage Management Agreement as described under “Fees and Expenses” and will be reimbursed for all reasonable costs and expenses incurred by the Leverage Agent on behalf of the Company. In addition, the Leverage Agent and each of its directors, officers, employees and agents will be indemnified by the Company for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Leverage Agent or any of its officers, directors, employees or agents in the exercise of its duties as leverage agent, except those resulting from the Leverage Agent’s willful misconduct, bad faith or negligence or willful disregard by the Leverage Agent of the Leverage Agent’s duties or standard of care, diligence and skill set forth above or a material breach or default of the Leverage Agent’s obligations under the Leverage Management Agreement.

4.5 POTENTIAL CONFLICTS OF INTEREST

The directors and officers of the Manager may be directors, officers, shareholders or unitholders of one or more issuers in which the

Company may acquire securities. The Manager and its affiliates may be managers or portfolio managers of one or more issuers in which the Company may acquire securities and may be managers or portfolio managers of funds that invest in the same securities as the Company. The Manager invests in diversified portfolios consisting of units of income funds, high yield debt, investment grade debt and/or common shares. The services of the Manager are not exclusive to the Company. The Manager may in the future act as the investment advisor to other funds and companies and may in the future act as the investment advisor to other funds which invest in equity securities and which are considered competitors of the Company.

In addition, RBC DS was engaged as lead Agent in connection with the original offering and as Leverage Agent in connection with the Portfolio. The services of RBC DS under the Leverage Management Agreement are not exclusive and nothing in the Leverage Management Agreement prevents RBC DS or any of its affiliates from providing similar services to other investment funds or clients (whether or not their investment objectives, strategies and criteria are similar to those of the Company) or from engaging in other activities. RBC DS' decisions for the Company as the Leverage Agent will be made independently of those made on behalf of its other clients or for its own investments. On occasion, however, RBC DS may make the same investment for the Company and for one or more of its other clients. If the Company and one or more of the other clients of RBC DS are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis. In this regard, RBC DS will endeavour to allocate investment opportunities to the Company on a pro rata basis.

5 DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Preferred Shares, Class A Shares and Class J Shares.

The holders of Class J Shares are not entitled to receive distributions. The holders of the Class J Shares are entitled to one vote per share. The Class J Shares are redeemable and retractable at a price of \$1.00 per share. Holders of Class J Shares are not entitled to distributions (other than returns of capital) on the dissolution, liquidation or winding-up of the Company. There are 100 Class J Shares issued and outstanding as at March 31, 2011.

A trust established for the benefit of the holders of the Preferred Shares and the Class A Shares owns all of the issued and outstanding Class J Shares.

The following is a summary of certain provisions of the Preferred Shares and Class A Shares offered hereby.

5.1 CERTAIN PROVISIONS OF THE PREFERRED SHARES

5.1.1 Distributions

Holders of record of Preferred Shares on the last business day of December, March, June and September are entitled to receive fixed cumulative preferential quarterly distributions of \$0.10625 per share to yield 4.25% per annum on the issue price of Preferred Shares and are paid on or before the 15th day of the month following the end of the period for which the distribution is payable. Such distributions may consist of ordinary dividends, capital gains dividends or returns of capital. The Company maintains at all times, in a separate account for the benefit of the Preferred Shareholders, cash or cash equivalents in an amount equal to at least one quarter's dividends on the Preferred Shares.

All distributions are paid through CDS' book-entry only system or paid in such other manner as may be determined by the Company. Each holder of Preferred Shares will be mailed annually, no later than February 28, information necessary to enable such Shareholder to complete an income tax return with respect to amounts paid or payable by the Company in respect of the preceding calendar year.

The Company has made all its scheduled quarterly distributions to Preferred Share holders of \$0.10625 per Preferred Share totaling \$0.425 for the year ended March 31, 2011 (\$0.425 during the year ended March 31, 2010).

5.1.2 Redemptions

The Preferred Shares will be redeemed by the Company on January 31, 2012. The redemption price payable by the Company for a Preferred Share on that date will be equal to the lesser of (i) \$10.00 plus any accrued and unpaid distributions in respect of the Preferred Shares, and (ii) the NAV of the Company on that date divided by the number of Preferred Shares then outstanding. The Preferred Shares will be redeemed by the Company in the event that the Net Cash Flow for Distributions in a calendar quarter is insufficient to fund the distributions payable on the Preferred Shares for the calendar quarter and such insufficiency is not cured by the end of the next succeeding calendar quarter. Such redemption will be effected forthwith following the end of such next succeeding calendar quarter.

Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior the Maturity Date.

5.1.3 Retraction Privileges

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Company's registrar and transfer agent, but will be retracted only on the monthly Retraction Date. Preferred Shares surrendered for retraction by a Shareholder at least 10 business days prior to the Retraction Date will be retracted on such Retraction Date and the Shareholder will be paid on the Retraction Payment Date. If a Shareholder makes such surrender after 5:00 p.m. (Toronto time) on the 10th business day immediately preceding a Retraction Date, the Shares will be retracted on the Retraction Date in the following month and the Shareholder will receive payment for the retracted Shares on the Retraction Payment Date in respect of such Retraction Date.

Except as noted below, holders of Preferred Shares whose Preferred Shares are surrendered for retraction will be entitled to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. For this purpose, the cost of the purchase of a Class A Share will include the purchase price of the Class A Share, and commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A Share and the redemption of the Preferred Share. Any declared and unpaid distributions payable on or before a Retraction Date in respect of Preferred Shares tendered for retraction on such Retraction Date will also be paid on the Retraction Payment Date.

A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Retraction Date of each year, commencing in January 2008, at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction. The Preferred Shares and Class A Shares must both be surrendered for retraction at least 10 business days prior to the Annual Retraction Date. Payment of the proceeds of retraction will be made on or before the 15th day of the following month.

Any and all Preferred Shares which have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the retraction price is not paid on the Retraction Payment Date, in which event such Preferred Shares will remain outstanding.

The retraction right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under "Description of Share Capital — Book Entry Only System". Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Preferred Shares which are not retracted by the Company on the relevant Retraction Payment Date.

The retractions during the year ended March 31, 2011 were \$1,658,440 for 165,844 of Preferred Shares (part of this amount is due to purchases for cancellation, see "5.5 Purchase for Cancellation") (\$1,725,590 for 172,559 of Preferred Shares during the year ended March 31, 2010).

5.1.4 Priority

The Manager and the Leverage Agent have agreed that the payment to them of their fees under the Management Agreement and the Leverage Management Agreement, respectively, will be subordinated to the payment of distributions on the Preferred Shares. The payment of principal and interest on any amounts owing under any loan facility established by the Company will rank in priority to the payment of distributions and the redemption amount of the Preferred Shares.

The Preferred Shares rank in priority to the Class A Shares and the Class J Shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding up of the Company.

5.2 CERTAIN PROVISIONS OF THE CLASS A SHARES

5.2.1 Distributions

Distributions to Class A Shareholders have been suspended beginning December 2008 (see "De-Leveraging Event" section above).

5.2.2 Redemptions

All Class A Shares outstanding on the Maturity Date will be redeemed by the Company on such date. The redemption price payable by the Company for a Class A Share on that date will be equal to the greater of (i) the NAV per Unit on that date minus the sum of \$10.00 plus any accrued and unpaid distributions on the Preferred Shares, and (ii) nil. The Class A Shares will be redeemed by the Company in the event that the Net Cash Flow for Distributions is insufficient to fund the distributions payable on the Preferred Shares and such insufficiency is not cured within one calendar quarter.

Notice of redemption will be given to CDS Participants holding Class A Shares on behalf of the beneficial owners thereof at least 30

days prior to the Maturity Date.

5.2.3 Retraction Privileges

Class A Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Company's registrar and transfer agent, but will be retracted only on the monthly Retraction Date. Class A Shares surrendered for retraction by a Shareholder at least 10 business days prior to the monthly Retraction Date will be retracted on such Retraction Date and the Shareholder will be paid on or before the 15th day of the following month ("Retraction Payment Date"). If a Shareholder makes such surrender after 5:00 p.m. (Toronto time) on the 10th business day immediately preceding a Retraction Date, the Class A Shares will be retracted on the Retraction Date in the following month and the Shareholder will receive payment for the retracted Shares on the Retraction Payment Date in respect of such Retraction Date.

Except as noted below, holders of Class A Shares whose Class A Shares are surrendered for retraction will be entitled to receive a retraction price per Class A Share equal to 96% of the difference between (i) the NAV per Unit determined as of such Retraction Date, and (ii) the cost to the Company of the purchase of a Preferred Share for cancellation. For this purpose, the cost of the purchase of a Preferred Share will include the purchase price of the Preferred Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Preferred Share and the redemption of the Class A Share. If the NAV per Unit is less than \$10.00, plus any accrued and unpaid distributions on a Preferred Share, the retraction price of a Class A Share will be nil. Any declared and unpaid distributions payable on or before a Retraction Date in respect of Class A Shares tendered for retraction on such Retraction Date will also be paid on the Retraction Payment Date.

A holder of Class A Shares may concurrently retract an equal number of Class A Shares and Preferred Shares on the Annual Retraction Date of each year, commencing in January 2008 at a retraction price per Unit equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.

For the purpose of calculating the Net Asset Value per Unit, the value of securities comprising the Portfolio will be equal to the weighted average trading price of such securities over the last 3 business days of the relevant month as described under "Net Asset Value and NAV per Unit". The Class A Shares and the Preferred Shares must both be surrendered at least 10 business days prior to the Annual Retraction Date. Payment of the proceeds will be made on or before the 15th day of the following month subject to the Manager's right to suspend retractions in certain circumstances.

Any and all Class A Shares that have been surrendered to the Company for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Date, unless the retraction price is not paid on the Retraction Payment Date, in which event such Class A Shares will remain outstanding.

The retraction right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under "Book Entry Only System" below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Class A Shares which are not retracted by the Company on the relevant Retraction Payment Date.

The retractions during the year ended March 31, 2011 were \$892,607 for 165,844 of Class A shares (\$881,789 for 172,559 of Class A shares during the year ended March 31, 2010).

5.2.4 Priority

The Class A Shares rank subsequent to the Preferred Shares but in priority to the Class J Shares with respect to the payment of distributions and the repayment of capital out of the Portfolio on the dissolution, liquidation or winding up of the Company.

5.3 BOOK ENTRY ONLY SYSTEM

Registration of interests in and transfers of the Preferred Shares and Class A Shares will be made only through the book-entry only system. The Company delivered to CDS certificates evidencing the aggregate number of Preferred Shares and Class A Shares subscribed for under the original offering. Preferred Shares and Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Preferred Shares or Class A Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Preferred Shares or Class A Shares. Upon purchase of any Preferred Shares or Class A Shares, the owner will receive only the customary confirmation. References in this Annual Information Form to a holder of Preferred Shares or Class A Shares means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

The ability of a beneficial owner of Preferred Shares or Class A Shares to pledge such Shares or otherwise take action with respect to such owner's interest in such Shares (other than through a CDS Participant) may be limited due to the lack of a physical

certificate.

An owner of such Preferred Shares or Class A Shares who desires to exercise retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to retract such Shares, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to retract Preferred Shares or Class A Shares should ensure that the CDS Participant is provided with a Retraction Notice sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare Investor Services Inc., the registrar and transfer agent of the Company. Any expense associated with the preparation and delivery of Retraction Notices will be for the account of the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Preferred Shares or Class A Shares, an owner shall be deemed to have irrevocably surrendered such Shares for retraction and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the retraction privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or to the owner.

The Company has the option to terminate registration of the Preferred Shares or Class A Shares through the book-entry only system in which case certificates for Preferred Shares or Class A Shares in fully registered form would be issued to beneficial owners of such Shares or to their nominees.

5.4 SUSPENSION OF REDEMPTIONS AND RETRACTIONS

The Manager may suspend the redemption and/or retraction of Preferred Shares or Class A Shares or payment of redemption or retraction proceeds (i) during any period when normal trading in securities owned by the Company is suspended on the TSX and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Company to execute trades in such securities, or (ii) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Company or which impair the ability of the Company to determine the value of its assets, only with the prior approval of the securities regulatory authorities. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Preferred Shares and Class A Shares making such requests shall be advised by Manager of the suspension and that the retraction will be effected at a price determined on the first Retraction Date following the termination of the suspension. All such Shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first day on which the condition-giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Company, any declaration of suspension made by Manager shall be conclusive.

5.5 PURCHASE FOR CANCELLATION

Subject to applicable law, the Company may at any time or times purchase Preferred Shares and Class A Shares for cancellation at prices per Unit not exceeding the NAV per Unit on the business day immediately prior to such purchase up to a maximum in any 12-month period of 10% of the outstanding public float of Preferred Shares and Class A Shares.

During the year ended March 31, 2011, the Company purchased and subsequently redeemed 21,000 Preferred Shares for a total cost of \$224,613 (4,700 of Class A Shares for a total cost of \$49,361 and 4,700 of Preferred Shares for \$47,000 during the year ended March 31, 2010). All Shares purchased by the Company either were or are in the process of being cancelled.

5.6 SHAREHOLDER MATTERS

5.6.1 Meetings of Shareholders

Except as required by law or set out below, holders of Preferred Shares and Class A Shares will not be entitled to receive notice of, to attend or to vote at any meeting of Shareholders of the Company.

5.6.2 Acts Requiring Shareholder Approval

The following may only be undertaken with the approval of the holders of Preferred Shares and Class A Shares, each voting separately as a class, by an Ordinary Resolution, unless a greater majority is required by law, passed at a meeting called for the purpose of considering such Ordinary Resolution, provided that holders of Preferred Shares and Class A Shares holding at least 10% of the Shares outstanding on the record date of the meeting vote in favour of such Ordinary Resolution:

- (a) a change of the auditors of the Company;
- (b) a reorganization with, or transfer of assets to, another mutual fund corporation, if
 - (i) the Company ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in Shareholders becoming securityholders in the other mutual fund corporation; and
- (c) a reorganization with, or acquisition of assets of, another mutual fund corporation, if
 - (i) the Company continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the other mutual fund corporation becoming Shareholders of the Company; and
 - (iii) the transaction would be a significant change to the Company; and
- (d) except as described herein, a change of the Manager or of the Leverage Agent, other than a change resulting in an affiliate of such person assuming such position.

The following may only be undertaken with the approval of holders of Preferred Shares and Class A Shares, each voting separately as a class, by an Extraordinary Resolution:

- (a) a change in the fundamental investment objectives, investment guidelines, rebalancing criteria or investment restrictions of the Company as described under “Investments of the Company”, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) a change of the Maturity Date;
- (c) any change in the basis of calculating fees or other expenses that are charged to the Company that could result in an increase in charges to the Company;
- (d) any change in the frequency of calculating the NAV per Unit, NAV per Preferred Share or NAV per Class A Share to less often than weekly;
- (e) any issue of Units for net proceeds per Unit less than the most recently calculated Net Asset Value per Unit prior to the date of the setting of the subscription price by the Company;
- (f) any material change in the Management Agreement, other than its termination;
- (g) any amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class J Shares.

Each Preferred Share and each Class A Share will have one vote at such a meeting. 10% of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Preferred Shares and Class A Shares then present will constitute a quorum at an adjourned meeting.

5.6.3 Reporting to Shareholders

The Company furnishes to Shareholders such financial statements (including interim unaudited and annual audited financial statements) and other reports as are from time to time required by applicable law to be furnished by the Manager, including prescribed forms needed for the completion of Shareholders’ tax returns under the Tax Act and equivalent provincial legislation.

6 NET ASSET VALUE AND NAV PER UNIT

The Net Asset Value of the Company on a particular date is equal to (i) the aggregate value of the assets of the Company, less (ii) the aggregate value of the liabilities of the Company, including any distributions declared and not paid that are payable to Shareholders on or before such date, less (iii) the stated capital of the Class J Shares (\$100). For the avoidance of doubt, the Preferred Shares will not be treated as liabilities for these purposes.

The NAV per Unit, the NAV per Preferred Share and the NAV per Class A Share, are, at a minimum calculated on Friday of each week at 4:00 p.m. (Toronto time), or if any Friday is not a business day, the immediately preceding business day, and on any redemption or retraction date for the Company's shares and includes any other date on which the Manager elects, in its discretion, to calculate the NAV per Unit, per Preferred Share and per Class A Share. The Company will make available to the financial press for publication on a weekly basis the NAV per Preferred Share and the NAV per Class A Share, as well as through the Internet at www.cclcapitalmarkets.com and upon request to the Manager.

In determining the NAV of the Company at any time:

- (a) the value of any cash on hand or on deposit, bill, demand note and account receivable, prepaid expense, dividend, distribution or other amount received (or declared to holders of record of securities owned by the Company on a date before the NAV Valuation Date as of which the NAV of the Company is being determined, and to be received) and interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Manager has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Company on a date before the NAV Valuation Date as of which the NAV of the Company is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair market value thereof;
- (b) the value of any security, that is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager) is determined by taking the latest available bid price as at the NAV Valuation Date on which the NAV of the Company is being determined, all as reported by any means in common use;
- (c) the value of any security, that is traded over-the-counter is priced at the latest available bid price quoted by a major dealer or recognized information provider in such securities;
- (d) the value of any security, or other asset for which a market quotation is not readily available will be its fair market value on the NAV Valuation Date on which the NAV of the Company is being determined as determined by the Manager;
- (e) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the rate of exchange available to the Company from the Custodian on the NAV Valuation Date on which NAV of the Company is being determined;
- (f) listed securities subject to a hold period are valued as described above with an appropriate discount as determined by the Manager and investments in private companies and other assets for which no published market exists are valued at fair market value as determined by the Manager; and
- (g) the value of any security or property to which, in the opinion of the Manager, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Manager from time to time adopts.

The NAV and NAV per Unit, NAV per Preferred Share and NAV per Class A Share are calculated in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Company may obtain. The NAV and NAV per Unit, NAV per Preferred Share and NAV per Class A Share are calculated in Canadian dollars.

7 EXEMPTIONS

The Company obtained exemptions from the following requirements of NI 81-102:

- (a) section 2.1(1) – to permit the Company to hold more than 10% of its NAV in one single investment;
- (b) section 2.6(a) – to permit the Company to (i) borrow money to finance amounts required for working capital purposes; and (ii) establish a credit facility for the purpose of providing additional leverage to restore leverage to its inception level at 40% ;
- (c) section 3.3 – so that the organizational costs and expenses of the initial public offering could be borne by the Company;
- (d) section 10.3 – to permit the Company to calculate the retraction price of the Class A and the Preferred Shares in accordance with their terms, following the surrender of Class A or Preferred Shares for retraction;
- (e) section 10.4 – to permit the Company to pay the retraction price of the Class A and the Preferred Shares on the Retraction Payment Date;

- (f) section 12.1 – to relieve the Company from the requirement to file the prescribed compliance report;
- (g) section 14.1 – to relieve the Company from the requirement related to the record date for payment of dividends or other distributions of the Company, provided that it complies with the applicable requirements of the TSX.

The Company also obtained exemptions from the following requirements of NI 81-106:

- (a) section 14.2(3) – to permit the Company to calculate its NAV on a weekly basis when holding specified derivatives.

8 PORTFOLIO TRANSACTIONS AND BROKERAGE

The Manager is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Company's investments and, when applicable, the negotiation of commissions in connection therewith. The Company is responsible for paying those commissions.

9 CUSTODIAN

Pursuant to a custodian agreement (the "Custodian Agreement"), the Company has retained RBC Dexia Investor Services ("the Custodian") to act as custodian of the assets of the Company. The principal office of the custodian is located at The Royal Trust Tower, 12th Floor, P.O.Box 7500, Station "A", 77 King Street West, Toronto, Ontario M5W 1P9.

The Custodian is also responsible for certain aspects of the Company's day-to-day operations. In consideration for these services, the Company will pay a fee to the Custodian.

10 AUDITORS

The auditors of the Company are PricewaterhouseCoopers LLP. The principal office of the auditor is located at The Royal Trust Tower, Suite 3000, 77 King Street West, Toronto, Ontario M5K 1G8.

11 REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT

The registrar, transfer agent and distribution agent is Computershare Investor Services Inc. The principal office of the registrar and the place where the securities register for the Preferred Shares is kept is located at 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

12 FEES AND EXPENSES

12.1 INITIAL FEES AND EXPENSES

The expenses of the initial public offering (including the costs of creating and organizing the Company, the costs of printing and preparing this prospectus, legal expenses of the Company, marketing expenses and legal and other out-of-pocket expenses incurred by the Agents and certain other expenses) were, together with the Agents' fees, paid by the Company from the gross proceeds of the offering. The initial expenses were \$635,000 and the agents' fees were \$1,932,000.

12.2 MANAGEMENT FEE

The Manager receives a Management Fee equal to 0.50% per annum of the Company's NAV calculated and payable monthly in arrears, plus applicable taxes. The Management Fee may be paid in cash or Units, at the option of the Manager. To the extent that additional Shares are issued by the Company for this purpose, Units will be issued at the NAV per Unit. The distribution of Units to the Manager as payment of the Management Fee have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Manager as payment of the Management Fee. During January 2009, the manager redeemed all units issued to them by the Company for the payment of management fees. There were nil units held by the Manager at year ended March 31, 2011 and 2010.

The total Management Fees including taxes charged to the Company for the year ended March 31, 2011 were \$82,858 (\$83,605 during the year ended March 31, 2010).

12.3 LEVERAGE AGENT FEE

The Leverage Agent receives a Leverage Agent Fee equal to 0.15% per annum of the Company's NAV calculated and payable monthly in arrears, plus applicable taxes. Following the closing, the Leverage Agent Fee may be paid in cash or Units, at the option

of the Leverage Agent. To the extent that additional Shares are issued by the Company for this purpose, Units will be issued at the Net Asset Value per Unit. The distribution of Units to the Leverage Agent as payment of the Leverage Agent Fee have the effect of providing additional cash flow for distributions to Shareholders of the Company, while increasing the number of issued and outstanding Units once the distribution is made. The Company has reserved 300,000 Units to be issued to the Leverage Agent as payment of the Leverage Agent Fee.

The total Leverage Agent Fees charged to the Company for the year ended March 31, 2011 (payable in Units) were \$27,692 (\$27,818 for the year ended March 31, 2010).

12.4 SERVICE FEE

The Company pays to the Manager a Service Fee at the end of each calendar quarter equal to 0.40% per annum plus applicable taxes of the value of Class A Shares. The Service Fee is applied by the Manager to pay a Service Fee in an equivalent aggregate amount, plus any applicable taxes to dealers based on the number of Class A Shares held by clients of each such dealer at the end of the relevant quarter. For these purposes, the value of a Class A Share is the NAV per Unit less \$10.00 plus any accrued and unpaid distributions on the Preferred Shares.

The service fees charged to the Company during the year ended March 31, 2011 were \$23,874 (\$23,396 during the year ended March 31, 2010).

12.5 ONGOING EXPENSES

The Company also pays for all expenses incurred in connection with its operation and administration, including, without limitation, all costs of Portfolio transactions, fees payable to the Manager, and the Leverage Agent, debt service costs, the Service Fee, custodial fees, legal, audit and valuation fees and expenses, fees and expenses of the non-management directors of the Company, fees of the members of the independent review committee, expenses related to compliance with NI 81-107, reasonable fees and expenses relating to the voting of proxies by a third party, premiums for directors' and officers' insurance coverage for the directors and officers of the Manager and the Company, costs of reporting to Shareholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees (as applicable) and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements of the Company and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Shares, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Company may incur and all amounts paid on account of indebtedness of the Company. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Leverage Agent, the Custodian and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Company. The Company will also pay for all expenses incurred in connection with its termination on or about the Maturity Date.

The ongoing expenses, exclusive of the Management Fee, the Leverage Agent Fee, the Service Fee, debt service and other costs and brokerage expenses related to Portfolio transactions were \$181,605 for the year ended March 31, 2011 (\$153,814 for the year ended March 31, 2010).

13 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

13.1 TAXATION OF THE COMPANY

This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

The Company qualifies as a mutual fund corporation under the Tax Act. As a mutual fund corporation, the Company is entitled to maintain a capital gains dividend account in respect of its realized net capital gains and from which it may elect to pay dividends ("Capital Gains Dividends") which are treated as capital gains in the hands of the Shareholders of the Company (see "Tax Treatment of Shareholders" below). In certain circumstances where the Company has recognized a capital gain in a taxation year, it may elect not to pay Capital Gains Dividends in that taxation year in respect thereof and instead pay refundable capital gains tax, which may in the future be fully or partially refundable upon the payment of sufficient Capital Gains Dividends and/or capital gains redemptions.

In computing income for a taxation year, the Company is required to include in income all dividends received by the Company in the year and is generally permitted to deduct all dividends received by it from taxable Canadian corporations. The Company is generally not permitted a deduction in computing taxable income for dividends received by it from other corporations.

With respect to an issuer included in the Portfolio that is a trust, the Company is required to include in its income such portion of the

net income and the taxable portion of net realized capital gains of such issuer as is paid or becomes payable to the Company in the year. Provided appropriate designations are made by the issuer, any net taxable capital gains realized by the issuer and taxable dividends received by the issuer from taxable Canadian corporations that are paid or become payable to the Company and are designated by the issuer in respect of the Company will effectively retain their character as such in the hands of the Company. The Company is generally required to reduce the adjusted cost base of the units of such issuer to the extent that all amounts paid or payable in a year by the issuer to the Company exceed the sum of the amounts included in the income of the Company for the year and the Company's share of the non-taxable portion of capital gains of such issuer for the year. To the extent that the adjusted cost base to the Company of the unit of such an issuer would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Company and the Company's adjusted cost base of such unit will be increased by the amount of such deemed capital gain.

With respect to an issuer included in the Portfolio that is a limited partnership, the Company is required to include or, subject to certain restrictions, is entitled to deduct, in computing its income, its share of the net income or loss for tax purposes of the issuer allocated to the Company for the fiscal period of the issuer ending in the Company's taxation year, whether or not a distribution is received. In general, the adjusted cost base to the Company of the interest in such an issuer at a particular time will be equal to the actual cost of such interest plus the share of the income and capital gains of the issuer allocated to the Company for fiscal periods of the issuer ending before the particular time less the share of losses and capital losses of the issuer allocated to the Company for fiscal periods of the issuer ending before the particular time, and less the Company's share of any distributions received from the issuer before the particular time. If the adjusted cost base to the Company of the interest in such an issuer would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Company and the Company's adjusted cost base of such interest will be increased by the amount of such deemed capital gain.

The Company elected in accordance with the Tax Act to have each of its "Canadian securities" treated as capital property. Such an election will ensure that gains or losses realized by the Company on Canadian securities are treated as capital gains or capital losses.

The Company purchased the Portfolio with the objective of earning income thereon over the life of the Company. Thus, having regard to the foregoing and in accordance with the CRA's published administrative practices, transactions undertaken by the Company in respect of shares comprising the Portfolio will be treated and reported by the Company as arising on capital account.

The Company qualifies as a "financial intermediary corporation" (as defined in the Tax Act) and, thus, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Company and is not generally liable to tax under Part VI.1 of the Tax Act on dividends paid by the Company on "taxable preferred shares" (as defined in the Tax Act). As a mutual fund corporation (which is not an "investment corporation" as defined in the Tax Act), the Company is generally subject to a refundable tax of 33 1/3% under Part IV of the Tax Act on taxable dividends received by the Company during the year to the extent that such dividends were deductible in computing the Company's taxable income for the year. This tax is refundable upon payment by the Company of sufficient dividends other than Capital Gains Dividends ("Ordinary Dividends").

To the extent that the Company earns income (other than dividends from taxable Canadian corporations and taxable capital gains), the Company is subject to income tax on such income and no refund will be available in respect thereof. Given the investment and dividend policy of the Company and taking into account the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Company does not expect to be subject to any significant amount of non-refundable Canadian income tax.

13.2 TAXATION OF HOLDERS

Shareholders must include in income Ordinary Dividends paid to them by the Company. For individual Shareholders, Ordinary Dividends are subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations. For corporate Shareholders, other than "specified financial institutions" (as defined in the Tax Act), Ordinary Dividends are normally deductible in computing the taxable income of the corporation.

In the case of a Shareholder that is a specified financial institution, Ordinary Dividends received on a particular class of shares are deductible in computing its taxable income only if either (a) the specified financial institution did not acquire the shares in the ordinary course of its business; or (b) at the time of the receipt of the dividends by the specified financial institution the shares of that class are listed on a prescribed stock exchange in Canada, and dividends are received in respect of not more than 10% of the issued and outstanding shares of that class by (i) the specified financial institution, or (ii) the specified financial institution and persons with whom it does not deal at arm's length (within the meaning of the Tax Act). For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

Ordinary Dividends received by a corporation (other than a "private corporation" or a "financial intermediary corporation", as

defined in the Tax Act) on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act to the extent that such dividends are deductible in computing the corporation's taxable income.

A Shareholder that is a private corporation or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) is generally liable to pay a 33 1/3% refundable tax under Part IV of the Tax Act on Ordinary Dividends received on the Shares to the extent that such dividends are deductible in computing the Shareholder's taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a Shareholder, the rate of Part IV tax payable by the Shareholder is reduced to 23 1/3%.

The amount of any Capital Gains Dividend received by a Shareholder from the Company will be considered to be a capital gain of the Shareholder from the disposition of capital property in the taxation year of the Shareholder in which the capital gains dividend is received.

The amount of any payment received by a Shareholder from the Company as a return of capital on a Share will not be required to be included in computing income. Instead, such amount will reduce the adjusted cost base of the relevant Share to the Shareholder. To the extent that the adjusted cost base to the Shareholder would otherwise be a negative amount, the Shareholder will be considered to have realized a capital gain at that time and the Shareholder's adjusted cost base will be increased by the amount of such deemed capital gain.

Having regard to the dividend policy of the Company, a person acquiring Shares may become taxable on dividends or capital gains accrued or realized by the Company from the Portfolio Securities before such person acquired such Shares.

14 MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to purchasers of Preferred Shares and Class A Shares:

- (a) the Management Agreement;
- (b) the Leverage Management Agreement
- (c) the Agency Agreement; and
- (d) the Escrow Agreement.

Copies of the agreements referred to above may be inspected during business hours at the principal office of the Manager at 181 University Ave., Suite 300, Toronto, Ontario. They are also available on www.sedar.com.

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You can get copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager by:

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